6 March 2019

Secure Income REIT Plc
(the "Company" or the "Group")

Results for the year ended 31 December 2018

Secure Income REIT Plc (AIM: SIR), the specialist long term income UK REIT, today announces its results for the year ended 31 December 2018.

Highlights

	31 December 2018	31 December 2017	Change in year
Net assets	**£1,281.6m**	£860.6m	+48.9%
EPRA net assets	**£1,292.9m**	£870.8m	+48.5%
EPRA net assets per share	**400.5p**	370.4p	+8.1%
Net Loan To Value ratio	**43.0%**	49.6%	-13.4%
Adjusted EPRA earnings per share	**14.7p**	13.6p	+8.1%
Dividends per share	**13.9p**	13.6p	+2.2%
Latest dividend per share annualised, as a percentage of EPRA NAV	**3.9%**	3.8%	+2.6%
Annualised passing rent	**£125.0m**	£95.7m	+30.6%
Portfolio blended net initial valuation yield	**5.1%**	5.1%	-

- **EPRA NAV per share**
  - **up 8.1% to 400.5p** over the year to 31 December 2018
  - **up 130%** from placing price at IPO in June 2014
  - **Total Accounting Return of 20.9% per annum over the period since listing** in June 2014
- **Adjusted EPRA EPS up 8.1%** to 14.7p for the year
- **Total Accounting Return 11.9%; Total Shareholder Return 8.3%,** vs UK REIT sector return of minus 13%
- Fully covered **distributions:**
  - **currently yielding an annualised 3.9%** on 31 December 2018 EPRA NAV
  - **dividends paid in the year up 32.6%** and dividends per share up 2.2%
- **£436 million acquisition** of two off market portfolios:
  - £212 million hotels portfolio acquisition completed April 2018
  - £224 million leisure portfolio acquisition completed July 2018
  - £315.5 million (gross) equity issue and £128.7 million new secured debt facilities
- Portfolio externally valued at a **blended net initial yield of 5.1%** amounting to £2.3 billion at 31 December 2018:
  - **like for like portfolio valuation up 5.3%** over the year
  - **acquisitions valued at 2.4% above gross purchase cost** as at 31 December 2018
- 175 Key Operating Assets in defensive sectors producing **£125.0 million per annum** of passing rent at 31 December 2018, up from £95.7 million per annum at the prior year end:
  - like for like passing rents up **2.6%**
  - rents on portfolios acquired added £26.8 million per annum to portfolio income
- Weighted average unexpired lease term of **20.9 years with no breaks**
- **Net Loan To Value ratio further reduced** to 43.0%, down from 49.6% at 31 December 2017
- **Strong and predictable growth prospects** underpinned by fixed uplifts (48% of passing rents) and upwards only RPI-linked reviews (52% of passing rents)
- **Management team alignment with shareholders further underpinned by extension to management contract:**
  - management shareholding of 13.4% worth over £170 million at 31 December 2018 EPRA NAV
  - the Independent Directors have secured the Prestbury Management Team for a longer period by extending the management contract by 3.5 years to expire in December 2025 and simultaneously future management fees are to be reduced and an incentive fee cap introduced

Highlights continued

Martin Moore, Non-Executive Chairman of the Company, commented:
"2018 represented another step change in the growth of the Company. Not only did the existing portfolio meet its objectives of delivering capital growth and increasing rental income, we sourced two major off market transactions which met our strict acquisition requirements and which have already made a significant impact on the results of the Group. That our £315.5 million placing to part-fund the investment was so substantially over-subscribed reflects the strong investor appetite we are seeing for stable, long term secure income, particularly against the current global market backdrop. While political and economic uncertainty is elevated and volatility in financial markets on the rise, the fundamentals of our business remain unchanged and we continue to view its prospects with confidence."

For further information on the Company, please contact:

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Full Year Results Presentation

Secure Income REIT will be holding a presentation for analysts and investors today at 10.30am at FTI Consulting, 200 Aldersgate, Aldersgate Street, London, EC1A 4HD. If you would like to attend, please contact Alex King on 020 3727 1000, or email SecureIncomeREIT@fticonsulting.com.

The presentation will be on the Company's website www.SecureIncomeREIT.co.uk and a conference call facility will be available. The dial-in details are:

Participants, - Local, United Kingdom: +44 (0)330 336 9126
Confirmation code: 7135026

Webcast link: http://webcasting.brrmedia.co.uk/broadcast/5c6c0869e6e1d92d38f4edca

Highlights continued

About Secure Income REIT Plc
Secure Income REIT specialises in generating long term, inflation protected, secure income from real estate investments. Its investment strategy is designed to satisfy investors' growing requirements for high quality, safe, inflation protected income flows.

At 31 December 2018, the Group's investment property portfolio was valued at £2.3 billion, producing £125 million per annum of rental income from long term leases with a weighted average unexpired term to expiry of 20.9 years with no breaks. All rental income is subject to fixed uplifts or RPI upwards only rent reviews. The Group's portfolio comprises key operating assets let to strong businesses in defensive sectors with high barriers to entry. The RPI-linked rent reviews and fixed rental uplifts combine with fixed cost debt to drive healthy dividend growth, creating attractive and predictable returns.

The Company is advised by Prestbury Investments LLP which was adviser to Max Property Group plc until August 2014, when all of the assets of Max Property Group plc were sold to Blackstone Group. Prestbury Investments LLP is a partnership of real estate and finance professionals including Nick Leslau, Mike Brown, Tim Evans, Ben Walford and Sandy Gumm.

The Company's Board is chaired by Martin Moore together with three further independent Directors: Leslie Ferrar, Jonathan Lane and Ian Marcus, as well as three members of the Prestbury Team: Nick Leslau, Mike Brown and Sandy Gumm.

The Company is a UK REIT which floated on the AIM market of the London Stock Exchange in June 2014.

The Company's LEI is 213800M1VI451RU17H40

Further information on Secure Income REIT is available at www.SecureIncomeREIT.co.uk.

Forward looking statements
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 the date of this document.

Chairman's Statement

Dear Shareholder,
We are pleased to report the results of the Company for a year that delivered another step change in the growth of the business. In these results we report continued strong growth from the portfolio held throughout the year, together with the positive contribution from our two portfolio acquisitions totalling £435.5 million, part financed by the oversubscribed £315.5 million share placing in March 2018.

Results and financial position
The Group's EPRA NAV at 31 December 2018 was 400.5 pence per share, an increase of 8.1% over the year. Our primary focus remains on overall returns delivered to shareholders including capital and income growth, and performance in this regard was once again satisfying with a Total Accounting Return for the year of 11.9%.

	£m	**Pence per share**
EPRA NAV at 1 January 2018	870.8	370.4
Share placing, net of costs, to finance portfolio acquisitions	309.8	(3.2)
Investment property revaluation	109.1	33.9
Other retained earnings	44.6	13.3
Dividends paid	(41.4)	(13.9)
EPRA NAV at 31 December 2018	**1,292.9**	**400.5**

The increase in EPRA NAV per share over the year was driven by a 5.3% like for like valuation increase as a result of rents on the portfolio held throughout the year increasing by 2.6% together with a 12 basis point improvement in the external valuers' assessment of valuation yield on the existing portfolio. The portfolios acquired in the year were valued at 2.4% above their gross purchase cost at the balance sheet date. The blended Net Initial Yield of 5.1% at 31 December 2018 is expected to rise to 5.2% by July 2019 on completion of the next round of annual rental uplifts.

The Group's Adjusted EPRA EPS has increased by 8.1%, to 14.7p in 2018 from 13.6p in 2017, which reflects the positive impact of the two portfolio acquisitions and the increase in like for like passing rents over the year. This growth in earnings has resulted in the substantially increased dividend payments in the year, with the annualised dividend per share of 15.7 pence per share at the end of 2018 showing an increase of 12.4% over the prior year.

The Net Loan To Value ratio at 31 December 2018 was 43.0%, down from 49.6% at the end of 2017 and continuing its downwards trajectory in line with our strategy. Our expectation is that this ratio will continue to fall, with the decline enhanced by any future earnings and dividend accretive acquisitions which would be expected to be financed at lower than the Group's current Net LTV ratio.

Management agreement
The management agreement between the Company and Prestbury Investments LLP ("Prestbury"), entered into when the Company listed, had an eight year term to June 2022 with no renewal rights or extension rights on either side at expiry. In light of the strong historic returns of the Company, the significant increase in its size and the approximately three year term to expiry of the current agreement, the Board sought to secure the services of Prestbury for a longer period and, in doing so, conducted a review to ensure that the terms of the agreement remain appropriate, in particular in ensuring the continued alignment of interests between the Company and Prestbury. The Remuneration Committee engaged specialist independent consultants in AON's compensation practice to assist with the process and make recommendations. Following completion of this review, which included independent benchmarking of shareholder returns against those of the peer group, the Independent Directors and Prestbury have agreed to the following package of amendments which will take effect from 1 April 2019:

- the term of the agreement will be extended by three and a half years, to expire in December 2025;
- advisory fees payable on EPRA NAV above £1.5 billion will reduce from 0.75% per annum to 0.5% per annum;
- incentive fees, save in the case of a sale of at least the majority of the business, will be capped at 5.0% of EPRA NAV, where previously there was no cap, and will continue to be payable in shares in the Company which are subject to lock-in periods; and
- the agreement will be subject to review again in December 2022 and would also be subject to review in the event that the Company proposes to move to the Main Market of the London Stock Exchange.

Net of all advisory and incentive fees, the Company's Total Shareholder Return in 2018 was 8.3% against a UK REIT sector return of minus 13% (according to the FTSE EPRA NAREIT UK index) and over three years its Total Shareholder Return was 66% against minus 10% for the sector. Prestbury is the Company's second largest shareholder, with a 13.4% shareholding worth over £170 million at 31 December 2018 EPRA NAV per share.

Investment Advisory Agreement (continued)
Under the AIM Rules for Companies, the Investment Adviser is deemed to be a related party of the Company and the changes to the Investment Advisory Agreement therefore represent a related party transaction pursuant to Rule 13 of the AIM Rules. The Independent Directors consider, having consulted with Stifel Nicolaus Europe Limited, the Company's nominated adviser, that the terms of the revised agreement are fair and reasonable insofar as its shareholders are concerned.

Outlook
2018 proved a challenging environment across the globe for investors with the value of most asset types falling together. Quantitative easing may have supported asset prices across the board for the last decade, but it has also upended the usual relationship between gilts and equities where their value has tended to move in opposite directions. The start of quantitative tightening in the US saw a similar process to QE operating in reverse gear, creating a headache for anyone trying to preserve wealth as diversification between gilts and equities proved unable to provide the usual protection.

This should have been an ideal opportunity for absolute return funds to demonstrate the value of their more exotic uncorrelated trading strategies, but many of these also failed to deliver a positive return. So, with few winners which assets managed to stand their ground? UK commercial property might not seem an obvious candidate given that REITs in aggregate delivered a miserable minus 13% total shareholder return according to the FTSE EPRA NAREIT UK index. This reflected the considerable headwinds facing the retail sector and concerns as to whether London offices are reaching the end of a cycle.

However, well-let property assets bucked the trend. The CBRE long income index for UK commercial property produced a 9.2% return in 2018 with capital growth of 4.4%, whilst Secure Income REIT achieved a total accounting return of 11.9%. Investors judge the prospects for inflation protected long-duration income streams underpinned by high quality tenants to be much more enticing than the property market in general – and we agree.

2019 has so far seen financial markets rebound but most of the risks remain. For now, the US and China edge towards averting a damaging trade war, but without resolving many of their fundamental differences and there is always a chance that a capricious US President may have a change of heart. Meanwhile, global growth is slowing – indeed we think the catalyst for the stock market recovery can be traced back to the Federal Reserve's decision to suspend further interest rate rises in light of increased global economic uncertainty. In turn we have seen Government bond yields fall, with 10 year gilts yielding 1.2%, and continuation of the challenge faced by UK savers to secure a reasonable income return without going materially up the risk curve. At the same time, inflation protection remains eye-wateringly expensive with the gross redemption yield on 20 year inflation-linked gilts at minus 1.8%.

Whilst the ultimate path of Brexit remains unknown, a delay now seems probable albeit a no-deal Brexit is yet to be ruled out either on 29 March or at some later point. Until agreement is reached uncertainty will prevail, which will continue to suppress economic growth and business investment. Assuming an agreement is eventually reached, we would expect any relief rally to be short-lived as the reality of the much more difficult phase of negotiating new trade terms sinks in and the next chapter in the battle for the Tory leadership commences. The turmoil within both the Conservative and Labour parties has the potential to yield unpredictable outcomes, ranging from an early general election to a much larger schism within either party. Although we can't know how events will unfold, we do hold a clear view that uncertainty is likely to persist in the UK well beyond 29 March and quite possibly for a number of years.

In our view this is likely to perpetuate the "lower for longer" interest rate environment in the UK and the search for yield that has helped underpin the demand for well-let index-linked property assets, even if the US resumes its quantitative tightening. This is reflected in the property market with the demand for well-let index-linked property in defensive sectors remaining intensely competitive with the volume of capital seeking deals well in excess of available investment stock. Indeed, it is not unusual to see investors joining a queue of a year or more to get into dedicated institutional long lease funds. This is at the opposite end of the spectrum from the commercial property retail funds where the liquidity concerns relate to getting money out rather than in, especially if another Brexit shock were to provide a repeat of the 2016 redemptions.

Against this backdrop, during 2018 we secured £436 million of properties off the market that were valued at 2.4% over gross purchase costs at the year end, and reduced our Net LTV from 50% to 43% whilst maintaining a valuation yield of 5.1% on a portfolio with a weighted average unexpired lease term of 21 years. 100% of our income has the benefit of contractual uplifts, roughly evenly split between being RPI-linked or fixed at an average growth of 2.8% per annum. This provides a beacon of stability in uncertain times, as an attractive level of income with guaranteed growth and inflation protection.

Chairman's Statement continued

Outlook (continued)
Our investment adviser, with its 13.4% stake in the Company, is totally aligned with all shareholders and we will only undertake future acquisitions that will enhance the intrinsic value of the business. All past acquisitions have enhanced earnings and dividend per share, reduced leverage and been part funded by non-dilutive equity issues. Whilst we remain ambitious to grow, our first duty is to preserve the value of the business that we have created and capital discipline is of paramount importance in a world where competing buyers are often financially incentivised merely to grow assets under management. Large deals are keenly fought over and rarely attractively priced in a highly competitive market.

Our solution remains only to raise equity in the event that the right deal can be been secured on the right terms. This has avoided any dilution of returns and enabled the portfolio to fully benefit from the growing popularity of well-let alternative assets. There are no signs of this investor appetite slowing. Property investors continue to recycle cash out of the structurally challenged retail sector whilst income investors continue to see the same considerable spread over savings rates and gilts. Despite elevated political and economic uncertainty and the rise in volatility in financial markets, the fundamentals of our business remain unchanged and we continue to view its prospects with confidence.

Martin Moore
Chairman
6 March 2019

Investment Adviser's Report

Prestbury Investments LLP is the investment adviser to Secure Income REIT Plc and is pleased to report on the operations of the Group for the year ended 31 December 2018.

In our reports, we focus on financial measures recommended by the European Public Real Estate Association ("EPRA") to facilitate comparison with other real estate investment companies. In all cases, EPRA measures are reconciled to the main financial information prepared under IFRS and calculations are shown in the supplementary information included with these reports.

Portfolio

Portfolio movements

The portfolio at 31 December 2018 is comprised of 175 properties with secure, long term income and contractual rental uplifts offering inflation protection. Annual passing rent at 31 December 2018 is £125.0 million, up 31% from £95.7 million at 31 December 2017, reflecting both like for like growth and the impact of the net portfolio acquisitions in the year.

	Number of properties	**Valuation £m**	**Passing rent £m**
At the start of the year	81	1,770.2	95.7
Increase in portfolio held throughout the year	-	93.3	2.6
Acquisitions:			
Hotel portfolio (completed April 2018)	59	217.2	12.9
Leisure portfolio (completed July 2018)	37	228.7	14.0
Disposal of non-core hotels	(2)	(2.7)	(0.2)
At the end of the year	**175**	**2,306.7**	**125.0**

Basis of review

The income arising on the portfolio benefits not only from an unusually long weighted average lease length of 20.9 years from 31 December 2018 with no break options, but also from fixed contractual rental uplifts averaging 2.8% per annum and upwards only RPI-linked rent reviews. The portfolio passing rents are subject to review on the following bases:

	Percentage of passing rents		
	Reviewed annually	**Reviewed three or five yearly**	**Total portfolio**
Fixed uplifts:			
Annual reviews	45%	-	45%
Five-yearly reviews	-	3%	3%
Total fixed uplifts	45%	3%	48%
Upwards only RPI:			
Uncapped	22%	25%	47%
Collared	3%	2%	5%
Total upwards only RPI linked reviews	25%	27%	52%
	70%	**30%**	**100%**

Lease lengths

The leases are very long with a weighted average lease length of 20.9 years from 31 December 2018 and with no material lease breaks or expiries before 2037.

Defensive qualities

Every property is a Key Operating Asset – one where the operations conducted at the property are integral to the tenant's business, where the tenant has invested heavily in the asset and is strongly motivated to continue to do so. This should ensure added income security. The majority of the rent is secured by tenants or guarantors whose businesses offer global spread and which have performed very well over many years, demonstrating strong defensive qualities.

The portfolio is fully let. All occupational leases are on full repairing and insuring terms, meaning that property running costs are low and there is no material capital expenditure requirement.

Investment Adviser's Report continued

Portfolio (continued)

Portfolio valuation

The portfolio is valued by qualified external valuers every six months. Movements in portfolio rents and valuation are shown below and are further explained in the following sections.

	Healthcare		Leisure		Hotels		**Total**		
	31 Dec 2018 £m	Change in year	31 Dec 2018 £m	Change in year	31 Dec 2018 £m	Change in year	**31 Dec 2018 £m**	31 Dec 2017 £m	**Change in year**
Passing rent:									
Like for like at constant currency	50.2	2.8%	33.7	3.6%	14.1	-	**98.0**	95.6	**2.7%**
Exchange rate movement	-	-	0.1	-	-	-	**0.1**	-	**-**
Like for like portfolio	50.2		33.8		14.1		**98.1**	95.6	**2.6%**
Acquisitions	-	-	11.9	-	15.0	-	**26.9**	-	**-**
Disposals	-	-	-	-	-	-	**-**	0.1	**-**
Total	50.2	2.8%	45.7	39.9%	29.1	105.0%	**125.0**	95.7	**30.6%**
Valuation:									
UK:									
Like for like Sterling assets	984.8	4.3%	522.2	7.1%	242.4	5.8%	**1,749.4**	1,660.9	**5.3%**
German assets at constant currency	-	-	111.4	3.3%	-	-	**111.4**	107.8	**3.3%**
Exchange rate movement	-	-	1.2	1.1%	-	-	**1.2**	-	**1.1%**
Like for like portfolio	984.8	4.3%	634.8		242.4	5.8%	**1,862.0**	1,660.9	
Acquisitions	-	-	191.9	-	252.8	-	**444.7**	-	**-**
Disposals	-	-	-	-	-	-	**-**	1.5	**-**
Total	984.8	4.3%	826.7	38.9%	495.2	114.8%	**2,306.7**	1,770.2	**30.3%**

Investment Adviser's Report continued

Portfolio (continued)
The movement in valuation in the year comprises:

	Year to 31 December 2018 £m	Year to 31 December 2017 £m
Investment properties at the start of the year	**1,770.2**	1,641.7
Portfolio held throughout the year:		
Revaluation movement at constant currency	**92.1**	124.9
Currency translation movements on Euro denominated investment properties	**1.2**	3.6
Like for like portfolio revaluation	**93.3**	128.5
Acquisitions:		
At cost	**435.5**	-
Revaluation movement	**10.7**	-
Portfolios acquired	**446.2**	-
Disposals	**(3.0)**	-
Net increase in portfolio valuation	**536.5**	128.5
Investment properties at the end of the year	**2,306.7**	1,770.2

Yields and unexpired lease terms

	Healthcare		Leisure		Hotels		**Total**	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	**31 Dec 2018**	31 Dec 2017
Net Initial Yield *	4.8%	4.9%	5.1%	5.1%	5.5%	5.7%	**5.1%**	5.1%
Like for like Net Initial Yield	4.8%	4.9%	5.0%	5.1%	5.5%	5.8%	**4.9%**	5.1%
Running Yield by following July †	4.9%	5.0%	5.3%	5.3%	5.5%	5.8%	**5.2%**	5.2%
Weighted average unexpired lease term (years)	18.6	19.6	21.7	24.5	23.4	25.4	**20.9**	22.2

* the healthcare yields take no account of any uplift from an outstanding May 2018 open market review on the Ramsay hospitals, which account for 96% of the healthcare rents at 31 December 2018

† the leisure and hotels Running Yields are calculated using the relevant external valuer's assessment of RPI at either 2.5% or 2.6%

Portfolio total rents
The Group's principal lease counterparties, analysed by passing rent as at 31 December 2018, are as follows:

	31 December 2018 £m	31 December 2017 £m
Ramsay Health Care Limited	**48.2**	46.9
Merlin Entertainments Plc *	**33.8**	32.7
Travelodge Hotels Limited †	**29.1**	14.0
SMG Europe Holdings Limited & SMG	**3.8**	-
The Brewery on Chiswell Street Limited	**3.4**	-
Orpea SA	**2.0**	2.0
Stonegate Pub Company Limited	**2.0**	-
Others (each below £1.25 million)	**2.7**	-
	125.0	95.6

* £6.6 million (2017 £6.3 million) of the Merlin rents are Euro denominated

† like for like excluding property sold during the year

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

Investment Adviser's Report continued

Portfolio (continued)

Healthcare assets (43% of portfolio value)

Passing rents	**31 December 2018 £m**	31 December 2017 £m
Ramsay private hospitals	**48.2**	46.9
London psychiatric hospital	**2.0**	2.0
	50.2	48.9

The healthcare assets comprise 20 private hospitals: a portfolio of 19 freehold assets located throughout England let to a subsidiary of Ramsay Health Care Limited, the listed Australian healthcare company, and a private psychiatric hospital in central London, held freehold and let to Groupe Sinoué, a French company specialising in mental health.

The Ramsay hospitals are let on full repairing and insuring leases with a term to expiry at 31 December 2018 of 18.4 years without break. The rent increases in May each year by a minimum of a fixed 2.75% per annum throughout the lease term and as a result will increase from £48.2 million to at least £49.5 million on 3 May 2019. The outstanding May 2017 site earnings based rent review on the Ramsay hospitals, which had been subject to determination by an independent expert, was settled during the year and resulted in the Group receiving back-rent of £7.3 million net of costs. In addition, there is an upwards only open market review as at 3 May 2018 and then in May 2022 and every five years thereafter. The May 2018 review remains outstanding and this financial information takes 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 a constituent of the ASX 50 index of Australia's largest companies, with a market capitalisation at 5 March 2019 of £6.9 billion.

The London psychiatric hospital is let on a full repairing and insuring lease with a term to expiry at 31 December 2018 of 25.6 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 will increase from £2.0 million to £2.1 million on 3 May 2019. 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 5 March 2019 of £3.7 billion.

Leisure assets (36% of portfolio value)

Passing rents	**31 December 2018 £m**	31 December 2017 £m
Assets held throughout the year		
UK assets	**27.2**	26.4
German assets at constant Euro exchange rate	**6.5**	6.3
Movement in Euro exchange rate	**0.1**	-
	33.8	32.7
Acquisition completed 2 July 2018	**11.9**	-
	45.7	32.7

The leisure properties held throughout the year comprise four well known visitor attractions, including two of the UK's top three theme parks, and two hotels. The UK assets are Alton Towers theme park and the Alton Towers hotel, Thorpe Park theme park and Warwick Castle. The German assets are Heide Park theme park (the largest in Northern Germany) and the Heide Park hotel, both located in Soltau, Saxony. These assets are all held freehold and are let to subsidiaries of Merlin Entertainments Plc, the guarantor of the leases. Merlin is a FTSE 250 company with a market capitalisation at 5 March 2019 of £5.7 billion. Measured by the number of visitors, it is Europe's largest and the world's second largest operator of leisure attractions.

Investment Adviser's Report continued

Portfolio (continued)
The average term to expiry of the Merlin leases is 23.5 years without break and the tenants have two successive rights to renew them 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 every June throughout the term (based on RPI over the twelve months to April each year) for the UK properties, which in 2018 resulted in a rental increase of 3.4%. 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 will increase from £6.6 million to £6.8 million on 29 July 2019 (translated at the 31 December 2018 exchange rate).

During the year, a further 20 leisure assets were acquired in an off market transaction which completed on 2 July 2018. The Key Operating Assets acquired were Manchester Arena, The Brewery events venue on Chiswell Street in the City of London and a portfolio of 18 freehold high street pubs located in England.

Manchester Arena is a strategic eight-acre leasehold site located on top of Manchester Victoria Railway and Metrolink station. It comprises the UK's largest indoor arena by capacity and 160,000 sq ft of additional office and leisure space, together with a 1,000 space multi-storey car park and advertising hoardings. The Arena is let to SMG and SMG Europe Holdings Limited, for a further 26.5 years from 31 December 2018 with annual RPI-linked rent reviews collared between 2% and 5%. SMG is the world's largest venue management company which operates c. 200 venues globally, hosting approximately 30,000 events each year, and it has achieved 25 years of uninterrupted annual EBITDA growth. SMG recently announced that it is to merge with AEG Facilities to create a global venue services company with 310 venues in five continents. The offices and ancillary leisure space are let to tenants including Serco, Manchester City Council, Unison, JCDecaux and go-karting operator TeamSport. The leases on the Manchester site as a whole have an average term to expiry of 17.2 years from 31 December 2018 and produce net passing rent of £5.9 million per annum as at 31 December 2018.

The Brewery on Chiswell Street is a predominantly freehold investment let to a specialist venue operator on a full repairing and insuring lease with a term to expiry of 12.5 years from 31 December 2018. It is the largest catered event space in the City of London and is located within five minutes' walk of the Moorgate entrance to the new Crossrail Station at Liverpool Street. The lease has five-yearly fixed uplifts of 2.5% per annum compounded and passing rent of £3.4 million per annum as at 31 December 2018, with the next uplift to £3.8 million taking effect in in July 2021.

The portfolio of 18 high street pubs is let on individual leases either to or guaranteed by Stonegate Pub Company Limited, one of the UK's largest private managed pub companies. The portfolio produces passing rent of £2.0 million per annum as at 31 December 2018 and has an average unexpired lease term of 21.1 years. Rents are subject to five-yearly RPI-linked increases collared at 1% to 4% per annum compounded, with the next reviews falling due in February 2020. As at 30 September 2018, Stonegate held 725 pubs and bars nationwide, up from 703 in the prior year, and reported like for like turnover up 4.7% to produce a 21% increase in EBITDA to £98.5 million.

Hotel assets (21% of portfolio value)

Passing rents	**31 December 2018 £m**	31 December 2017 £m
Assets held throughout the year	**14.1**	14.0
Acquisition completed 24 April	**12.9**	-
Acquisition completed 2 July	**2.1**	-
Non-core hotel assets sold in December	**-**	0.1
	29.1	14.1

The hotel assets comprise 129 Travelodge hotels, located in England 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 564 hotels and over 42,000 rooms as at 30 June 2018.

54 of the hotels were owned throughout the year. A further 59 were purchased in the £212 million acquisition that completed in April 2018 and the remaining 17 were purchased as part of the £224 million acquisition that completed in July 2018. Two hotels that were not considered core to the portfolio, including one that was acquired in April, were sold in December 2018 for net proceeds of £2.9 million and a gain of £0.2 million over book value.

The average unexpired lease term is 23.4 years from 31 December 2018 with no break clauses. The leases are on full repairing and insuring terms and Travelodge is also responsible for the cost of any headlease rentals and any other amounts owing to the superior landlords of the 55 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. 18 rent reviews fell due in the year, resulting in an uplift of £0.3 million in passing rent.

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 sub-group is self-contained, with no cross default provisions between the six of them. In all cases substantial financial covenant headroom has been negotiated into loan terms together with appropriate remedial 'cure' rights.

The Group's Net LTV ratio has reduced from 49.6% to 43.0% over the year and interest cover has increased from 2.0 times to 2.4 times. The Group's gross and net debt at 31 December 2018 is as follows:

	Secured amounts £m	Unsecured amounts £m	Regulatory capital £m	**Group total £m**
Gross debt	**1,092.5**	-	-	**1,092.5**
Secured cash	**(30.0)**	-	(0.6)	**(30.6)**
Free cash	**(4.0)**	(67.1)	-	**(71.1)**
Net debt	**1,058.5**	(67.1)	(0.6)	**990.8**
Property valuation	**2,306.7**			**2,306.7**
Net LTV	**47.4%**			**43.0%**
Interest cover *	**2.4 x**			

* interest cover for this purpose is measured as passing rent divided by annualised interest cost, both as at the balance sheet date

The weighted average interest cost is 4.8% per annum, down from 5.1% per annum at 31 December 2017 following drawing of £128.7 million of new debt facilities which part financed the acquisitions in the year. To reduce uncertainty over the Group's interest cost, rates are fixed or capped as follows, for the term of each loan:

	31 December 2018 Principal £m	**Interest rate**	31 December 2017 Principal £m	Interest rate
Fixed rate debt	**1,016.0**	**5.0%**	967.3	5.1%
Floating rate debt fixed by interest rate swaps	**50.0**	**3.1%**	-	-
Floating rate debt with interest capped*	**26.5**	**3.6%**	-	-
	1,092.5	**4.8%**	967.3	5.1%

* rate shown is maximum rate; actual rate on the facility in the period from debt drawdown to 31 December 2018 was 2.7%

The weighted average term to maturity of the Group's debt is 5.3 years at 31 December 2018 compared to 6.5 years at 31 December 2017. This reduction is in part attributable to the passing of time to expiry on the 88% of the Group's debt that was in place throughout the year, and in part as a result of the Group's new £128.7 million facilities having five year terms. The reduction in the weighted average term to maturity and the reduction in Net LTV is part of a strategy to afford the Group better access to a wider range of cheaper sources of capital at an earlier date than would be achieved if each new portfolio were financed for the long term at fixed rates.

Investment Adviser's Report continued

Financing (continued)
Key terms of the facilities are as follows:

	Principal £m	Number of properties securing loan	Maximum annual interest rate	Interest rate protection	Annual cash amortisation	Final repayment date
Merlin Leisure	381.1*	6	5.7%	Fixed	£3.8m from Oct 2020†	Oct 2022
Hotels loan 2	68.7	75	3.4%	76% fixed 24% capped	None	April 2023
Leisure loan 2	60.0	20	3.2%	83% fixed 17% capped	None	June 2023
Hotels loan 1	60.0	54	2.7%	Fixed	None	Oct 2023
Healthcare loan 1	216.8	9	4.3%	Fixed	£1.0m	Sept 2025
Healthcare loan 2	305.9	11	5.3%	Fixed	£3.2m	Oct 2025
	1,092.5	**175**	**4.8%**			

* £316.8 million of senior and mezzanine Sterling loans secured on UK assets and €71.8 million of senior and mezzanine Euro denominated loans secured on German assets (translated at the year end exchange rate of €1:£0.8846) with all loan tranches cross-collateralised.
† amortisation in each of the years ending October 2021 and October 2022 comprises £3.2 million on the Sterling facility and €0.7 million on the Euro facility.

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 business review on the following pages.

Business review
The Board monitors the following financial and non-financial key performance indicators which are further commented on in this report.

	Year to 31 December 2018	Year to 31 December 2017
Financial measures:		
Total Accounting Return	**11.9%**	18.7%
Total Shareholder Return	**8.3**%	18.7%
Adjusted EPRA Earnings per share	**14.7p**	13.6p
Net Loan To Value ratio	**43.0%**	49.6%
Uncommitted cash	**£66.4m**	£60.6m
Other measures:		
Headroom on debt covenants:		
Value fall to trigger tightest LTV default test	**32%**	30%
Rent fall to trigger tightest ICR default test	**32%**	28%

Investment Adviser's Report continued

Business review (continued)

Key performance indicator – Total Accounting Return

The principal financial outcome that the Board seeks to achieve is attractive growth in shareholder returns. The Board monitors both Total Accounting Return, which is the movement in EPRA NAV per share plus dividends, and Total Shareholder Return, which is the share price movement plus dividends. The principal focus for the Board is on Total Accounting Return as the Total Shareholder Return, while important, is also subject to wider market movements not necessarily related to the Group itself.

In assessing the Group's results and financial position, the Board's primary focus is on financial results, principally Net Asset Value per share and Earnings Per Share, adjusted to conform with the industry standard EPRA guidelines which it considers provide a better comparison with other real estate companies. The Board also considers the financial position and results prepared in accordance with accounting standards, without adjustment.

The movements in net asset value as reported under IFRS and shown in the consolidated balance sheet are as follows:

	Year to 31 December 2018		Year to 31 December 2017	
	£m	**Pence per share**	£m	Pence per share
NAV at the start of the year	**860.6**	**373.3**	737.4	324.5
March 2018 share placing	**309.8**	**(2.0)**	-	-
Investment property revaluation	**98.2**	**30.3**	113.4	49.2
Rental income less administrative expenses, finance costs and tax	**54.6**	**18.1**	41.4	18.0
Dividends paid	**(41.4)**	**(13.9)**	(31.2)	(13.6)
Incentive fee	**(0.4)**	**(0.1)**	(1.6)	(0.7)
Dilution from shares issued in settlement of previous year's incentive fee	**-**	**(7.3)**	-	(4.6)
Currency translation movements	**0.5**	**0.2**	1.2	0.5
NAV at the end of the year	**1,281.9**	**398.6**	860.6	373.3

EPRA NAV takes the balance sheet measure of net asset value and excludes items that are considered to have no relevance to the assessment of long term performance. Consequently, in accordance with the EPRA guidance, to calculate EPRA NAV the Group's reported NAV is adjusted to exclude deferred tax on investment property revaluations relating to the German assets and fair value movements on derivatives, and is also adjusted to include the dilutive impact of any shares to be issued in satisfaction of any incentive fee arising in the year. The latter adjustment arises because, despite any incentive fee being accounted for in the results for a period, basic net asset value per share does not include in the calculation of the number of shares in issue the impact of the shares to be issued in satisfaction of that fee until those shares are actually issued.

Investment Adviser's Report continued

Business review (continued)
The Group's EPRA NAV per share at 31 December 2018 of 400.5 pence represents an 8.1% increase over the year. The 30.1 pence per share uplift, together with dividends of 13.9 pence per share, results in an 11.9% Total Accounting Return over the year.

	Year to 31 December 2018		Year to 31 December 2017	
	£m	**Pence per share**	£m	Pence per share
EPRA NAV at the start of the year	**870.8**	**370.4**	745.9	323.6
March 2018 share placing:				
Gross proceeds	**315.5**	**(1.4)**	-	-
Costs	**(5.7)**	**(1.8)**	-	-
Investment property revaluation *	**109.1**	**33.9**	124.9	54.2
Rental income * and other income less administrative expenses, finance costs and current tax	**44.4**	**14.7**	31.4	13.7
Dividends paid	**(41.4)**	**(13.9)**	(31.2)	(13.6)
Incentive fee – 0.4% (2017: 2.2%) dilution from shares to be issued	**(0.4)**	**(1.6)**	(1.6)	(8.0)
Currency translation movements	**0.6**	**0.2**	1.4	0.5
EPRA NAV at the end of the year	**1,292.9**	**400.5**	870.8	370.4
Growth in EPRA NAV	**106.6**	**30.1**	124.9	46.8
Dividends paid	**41.4**	**13.9**	31.2	13.6
Total Accounting Return	**148.0**	**44.0**	156.1	60.4
Total Accounting Return – percentage		**11.9%**		18.7%

* adjusted by £10.9 million or 3.7 pence (2017: £11.5 million or 5.0 pence) of Rent Smoothing Adjustments

EPRA NAV is reconciled to the balance sheet net asset value measured in accordance with IFRS in note 24 to the financial information.

The calculation of Total Accounting Return and Total Shareholder Return is included in the Supplementary Information following the Financial Information.

Business review (continued)

Rent Smoothing Adjustments

Rent Smoothing Adjustments to investment property revaluations arise from the Group's accounting policy, in line with IFRS, to spread the impact of any fixed or minimum rental uplifts evenly over the term of each relevant lease. Consequently, there is a material mismatch between the rental cash flows and reported rental revenues. The adjustments relate to the 48% of portfolio rents that are subject to fixed uplifts and the 5% of rents with minimum uplifts on RPI-linked reviews.

The impact of this accounting treatment is to reflect a receivable, included in the book value of investment property, for the amount of rent included in the income statement ahead of actual cash receipts. This receivable increases over the first half of each lease term then unwinds to zero over the second half of each lease term. In order that the receivable does not overstate the value of the portfolio when included in the book value of the investment properties, any movement in the receivable is offset against property revaluation movements. Since this adjustment increases rental income and reduces property revaluation gains (and vice versa in the second half of each lease term) it does not change the Group's retained earnings or net assets.

The impact over time for each of the rental income flows subject to a Rent Smoothing Adjustment is as follows:

	Receivable at 31 December 2018 £m	Maximum receivable at at midway point £m	Midway point in lease term
Healthcare – Ramsay hospitals	**151.9**	165.2	May 2022
German leisure *	**34.3**	42.1	Jan 2025
Healthcare – Lisson Grove hospital	**9.9**	20.6	Nov 2029
Manchester Arena	**0.6**	8.9	Dec 2031
The Brewery	**0.3**	2.1	Jan 2025
Pubs	**0.1**	1.3	Apr 2029
	197.1	240.2	

* at the year end Euro conversion rate of €1:£0.8969

The annual impact of this adjustment would only change if there were acquisitions, disposals or lease variations of properties with fixed or minimum RPI-linked rental uplifts. Assuming no change in the portfolio, the adjustment that was recognised on the portfolio during the year and is expected for each of the next three financial years (with the German adjustment translated at the 2018 average Euro conversion rate of €1:£0.8846) is as follows:

	£m
2018	**10.9**
2019	**10.3**
2020	**8.4**
2021	**6.4**

Key performance indicator – Adjusted EPRA earnings per share

The Company's intention is to distribute its Adjusted EPRA earnings per share through payment of a fully covered cash dividend, paid quarterly.

The Group's basic and diluted EPS, calculated in accordance with accounting standards, not only include property valuation movements and Rent Smoothing Adjustments but are also required to be calculated on the assumption that any shares issued in settlement of an incentive fee are treated as having been issued on the first day of the year when in fact they are issued some three months after the end of the year in which they have been earned. As a result, basic EPS for 2018 is calculated on the basis that the 4.6 million shares in settlement of the 2017 incentive fee were in issue for the whole year although they were not in fact issued until March 2018, and the calculation for diluted EPS for 2018 also includes the 1.3 million shares not yet issued in settlement of the 2018 incentive fee. These factors have a distorting effect on the reported EPS.

Business review (continued)

Key performance indicator – Adjusted EPRA earnings per share (continued)

	Year to 31 December 2018		Year to 31 December 2017	
Basic and diluted EPS	**£m**	**Pence per share**	£m	Pence per share
Rental income net of property outgoings	**125.3**	**41.6**	106.6	46.3
Investment property revaluation	**98.2**	**32.6**	113.4	49.2
Net finance costs	**(54.5)**	**(18.1)**	(51.8)	(22.5)
Administrative expenses	**(15.3)**	**(5.1)**	(11.9)	(5.2)
Incentive fee and irrecoverable VAT thereon	**(5.3)**	**(1.8)**	(17.6)	(7.6)
Tax charge	**(1.1)**	**(0.4)**	(1.7)	(0.7)
Profit on disposal	**0.2**	**0.1**	-	-
Other income	**-**	**-**	0.2	-
Basic earnings	**147.5**	**48.9**	137.2	59.5
Diluted earnings		**48.7**		58.4

EPRA EPS excludes from basic EPS any investment property revaluations, profits on the sale of investment properties, fair value movements on derivatives and related deferred tax, to give a measure of underlying earnings from core operating activities. Calculations are based on the same share weightings as required for the calculation of basic earnings per share. Adjusted EPRA EPS takes EPRA EPS and removes the effect of Rent Smoothing Adjustments (in order not to artificially flatter Dividend Cover calculations) and any significant non-recurring costs. The measure also excludes any incentive fee and the associated irrecoverable VAT, which is considered to be linked to revaluation movements and therefore best treated consistently with revaluations. The Board considers this measure to be appropriate for comparison of the performance of the Group from year to year and with the peer group.

In calculating Adjusted EPRA EPS, the weighted average number of shares reflects the actual date on which shares are issued so as not to create a mismatch between the basis of calculating Adjusted EPRA EPS and dividends per share paid in the year. That is, since dividends are paid only on shares actually in issue Adjusted EPRA EPS uses the same weighting as dividends actually paid, for consistency.

EPRA EPS and Adjusted EPRA EPS are analysed as follows:

	Year to 31 December 2018		Year to 31 December 2017	
EPRA and Adjusted EPRA EPS	**£m**	**Pence per share**	£m	Pence per share
Rental income net of property outgoings:				
Portfolio owned throughout the year	**108.3**	**36.4**	105.9	45.9
Portfolios acquired in the year	**15.8**	**4.9**	-	-
Net finance costs:				
Facilities drawn throughout the year	**(51.0)**	**(16.9)**	(51.1)	(22.0)
Facilities drawn down in the year	**(2.7)**	**(0.8)**	-	-
Interest income	**0.4**	**0.1**	0.1	-
Administrative expenses	**(15.3)**	**(5.1)**	(11.9)	(5.2)
Incentive fee and irrecoverable VAT thereon	**(5.3)**	**(1.8)**	(17.6)	(7.6)
Tax charge	**(0.3)**	**(0.2)**	(0.3)	(0.2)
EPRA earnings	**49.9**	**16.6**	25.1	10.9
Rent Smoothing Adjustment	**(10.9)**	**(3.6)**	(11.5)	(5.0)
Incentive fee	**5.3**	**1.8**	17.6	7.6
Adjustment of weighted average number of shares	**-**	**(0.1)**	-	0.1
Adjusted EPRA earnings	**44.3**	**14.7**	31.2	13.6

The key components of the Group's earnings are its rental income, administrative expenses and finance costs. An analysis of the Group's rental income is included in the portfolio review earlier in this report and the other items are analysed below.

Investment Adviser's Report continued

Adjusted EPRA EPS: administrative expenses
The Group's administrative expenses for the year are the same under accounting standards and the EPRA measure, while Adjusted EPRA EPS excludes the performance linked incentive fees which are payable in shares.

	Year to 31 December 2018		Year to 31 December 2017	
	£m	**Pence per share**	£m	Pence per share
Advisory fees	**13.3**	**4.4**	10.1	4.4
Other recurring administrative expenses	**1.5**	**0.5**	1.3	0.6
Corporate costs	**0.5**	**0.2**	0.5	0.2
Recurring administrative expenses	**15.3**	**5.1**	11.9	5.2
Incentive fee payable in shares	**4.9**	**1.7**	16.0	7.0
VAT on incentive fee, payable in cash	**0.4**	**0.1**	1.6	0.6
Total administrative expenses	**20.6**	**6.9**	29.5	12.8

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 general running costs averaged 42% during the year and was 38% as at 31 December 2018.

As an externally managed business, the majority of the Group's overheads are covered by the advisory fees paid to the Investment Adviser, which in the year amounted to £12.2 million plus VAT totalling £13.3 million (2017: £9.3 million plus VAT totalling £10.1 million). The Investment Adviser then meets office running costs, administrative expenses and remuneration for the whole management and support team.

Advisory fees during the year were calculated on a sliding scale based on the Group's EPRA NAV, payable 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% thereafter.

The advisory fees are further explained in note 26 to the financial information.

Since the balance sheet date, the management agreement between the Company and Prestbury has been amended with effect from 1 April 2019 in order to secure the services of Prestbury as Investment Adviser for a longer period. The changes include a reduction in the level of advisory fees payable on EPRA NAV exceeding £1.5 billion from 0.75% per annum to 0.5%, reflecting the significant growth of the size of the Company since the fee arrangements were last reviewed.

The other recurring administrative expenses are principally professional fees, including property valuation, tax compliance and audit fees, which are largely billed directly to subsidiary undertakings. Fees paid to the auditors are disclosed in note 8 to the financial information.

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 (2017: £0.2 million), with the other three Directors being partners 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 totalled £0.3 million (2017: £0.3 million) in the year.

An incentive fee becomes due if total returns to investors over a financial year, as set out in the audited accounts, exceed a compound growth rate of 10% per annum above the EPRA NAV per share the last time any incentive fee was paid. If the threshold return is exceeded, the Investment Adviser receives 20% of any surplus above that priority return to shareholders, with any such fee payable in shares. Any shares received by the Investment Adviser 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.

Investment Adviser's Report continued

Business review (continued)

Adjusted EPRA EPS: administrative expenses (continued)

The benchmark EPRA NAV per share for the year ended 31 December 2018 was 394.5 pence. The actual results were in excess of the benchmark so the Investment Adviser has earned a fee of £4.9 million in respect of the year, to be satisfied by the issue of approximately 1.3 million shares, expected to occur in March 2019 and as explained in note 26 to the financial information. The amendments made to the agreement between the Company and the Investment Adviser, effective from 1 April 2019, include the introduction of a cap on incentive fees payable in any year (save in the event of a sale of the majority of the business) of 5.0% of EPRA NAV where previously there was no cap. The terms relating to incentive fees including the requirement that they are paid in shares which are locked in for a period of 18 to 42 months remain unchanged.

Adjusted EPRA EPS: net finance costs

	Year to 31 December 2018		Year to 31 December 2017	
	£m	**Pence per share**	£m	Pence per share
Interest on secured debt:				
On facilities drawn throughout the year	**49.1**	**16.3**	49.2	21.3
On facilities drawn during the year	**2.4**	**0.8**	-	-
	51.5	**17.1**	49.2	21.3
Amortisation of costs of arranging facilities (non-cash):				
On facilities drawn throughout the year	**1.9**	**0.6**	1.9	0.9
On facilities drawn during the year	**0.3**	**0.1**	-	-
Interest charge on headlease liabilities	**1.2**	**0.4**	0.8	0.3
Interest income on cash	**(0.4)**	**(0.1)**	(0.1)	-
Net finance costs for the year (IFRS and EPRA basis)	**54.5**	**18.1**	51.8	22.5
Reclassification of interest charge on headlease liabilities *	**(1.2)**	**(0.4)**	(0.8)	(0.3)
Adjustment for weighted average number of shares	**-**	**(0.1)**	-	(0.2)
Net finance costs for the year (Adjusted EPRA basis)	**53.3**	**17.6**	51.0	22.0

* headlease interest is reclassified against rental income net of property outgoings in Adjusted EPRA EPS

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

Adjusted EPRA EPS: Tax

The Group operates under the UK REIT regime, therefore 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.

German tax was charged in the year at an effective rate of 15% (2017: 17%) on realised profits from the Group's German rental operations and the resulting tax charge was £0.3 million (2017: £0.3 million). The balance sheet also includes a deferred tax liability of £11.1 million (2017: £10.2 million) relating to unrealised German capital gains tax on investment properties which would only be crystallised on a sale of those assets. There are currently no plans to sell these assets.

On an IFRS basis, the current tax charge and the movement in deferred tax result in a net tax charge of £1.1 million (2017: £1.7 million). Deferred tax is excluded from Adjusted EPRA EPS as shown in note 11 to the financial information.

Adjusted EPRA EPS: Currency translation

The majority of the Group's assets are located in the UK and the financial information is therefore presented in Sterling. 3.7% (2017: 5.1%) of the Group's EPRA NAV comprises assets and liabilities relating to properties located in Germany, valued in and generating net earnings in Euros. The fact that both assets and liabilities are Euro denominated acts as a partial hedge of currency fluctuations, but 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.

Business review (continued)

Adjusted EPRA EPS: Currency translation (continued)

The German properties are valued at €125.5 million as at 31 December 2018, with the Euro denominated secured debt amounting to €71.8 million. The Euro strengthened against Sterling over the year by c. 1% and as a result there was a net currency translation gain of £0.5 million (2017: £1.2 million) on an IFRS basis. The deferred tax liability is excluded from EPRA NAV and as a result a further currency translation gain of £0.1 million arises in the movement in EPRA NAV in relation to the German operations (2017: £0.2 million).

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 varying market conditions. During the year, the Group's Net LTV fell from 49.6% to 43.0%. This reduction reflects the impact of £102.5 million of property valuation uplifts, £4.2 million of scheduled debt amortisation and the new £128.7 million secured loans arranged to part finance the £436 million portfolio acquisitions having a Net LTV of c. 27%, lower than the average for the rest of the portfolio.

Key performance indicator – headroom on debt covenants

The Board's approach to managing the Group's capital structure includes ensuring that the risk of any breach of covenants within secured debt facilities is carefully monitored on a range of scenarios and, to the extent possible, able to be managed. This includes structuring facilities to ring fence the extent to which the Group's assets are at risk, ensuring that levels of headroom over financial covenants are appropriate and maintaining a level of uncommitted cash to apply in 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 leases for UK real estate and that the Group's rental income increases annually, as a result of the annual minimum fixed rental uplifts on 48% of portfolio income, with the additional prospect of increases from the upwards only RPI-linked reviews on the rest of the portfolio. This structure gives rise to a naturally deleveraging debt profile on the assumption of constant valuation yields.

The Board reviews the headroom on all financial covenants at least quarterly. The headroom on key financial covenants at 31 December 2018 is summarised below, together with the net initial valuation yield, the fall in valuation or the fall in rent that would trigger a breach of the relevant covenant at the first test date after the balance sheet date. The results shown in the following table do not include the effects of preventative measures that could be taken with the Group's uncommitted cash balance, which is further explained in the following section.

	Actual	Covenant	Initial yield triggering LTV test *	Valuation headroom on LTV test	Rental headroom on ICR test
Leisure facility (£381.1 million loans at 31 December 2018)					
Cash trap LTV test (1% per annum loan amortisation if triggered)	60%	<80%	6.7%	25%	
Cash trap LTV test (full cash sweep if triggered)	60%	<85%	7.1%	29%	
Healthcare facility (£305.9 million loan at 31 December 2018)					
Cash trap LTV test (full cash sweep if triggered)	56%	<77%	6.6%	27%	
LTV test	56%	<83%	7.1%	32%	
Cash trap projected interest cover test (full cash sweep if triggered)	177%	>140%			21%
Projected interest cover test	177%	>120%			32%
Healthcare facility (£216.8 million loan at 31 December 2018)					
LTV test (from September 2019)	49%	<80%	8.0%	38%	
Cash trap projected debt service cover test (full cash sweep if triggered)	222%	>150%			32%
Projected debt service cover test	222%	>125%			44%

* assuming RPI-linked rents increase in line with the external valuer's 2.5% RPI assumption as at 31 December 2018

Investment Adviser's Report continued

Business review (continued)

	Actual	Covenant	Initial yield triggering LTV test *	Valuation headroom on LTV test	Rental headroom on ICR test
Hotels facility (£68.7 million loan at 31 December 2018)					
Partial cash trap LTV test (50% of surplus cash swept to lender if triggered)	27%	<40%	8.1%	32%	
Cash trap LTV test (full cash sweep if triggered)	27%	<45%	9.2%	40%	
LTV test	27%	<50%	10.2%	46%	
Cash trap projected interest cover test (full cash sweep if triggered)	651%	>300%			54%
Projected interest cover test	651%	>250%			62%
Hotels facility (£60.0 million loan at 31 December 2018)					
Partial cash trap LTV test (50% of surplus cash swept to lender if triggered)	25%	<40%	8.8%	38%	
Cash trap LTV test (full cash sweep if triggered)	25%	<45%	9.9%	45%	
LTV test	25%	<50%	11.0%	50%	
Cash trap projected interest cover test (full cash sweep if triggered)	869%	>300%			65%
Projected interest cover test	869%	>250%			71%
Leisure facility (£60.0 million loan at 31 December 2018)					
Partial cash trap LTV test (50% of surplus cash swept to lender if triggered)	31%	<40%	7.0%	22%	
Cash trap LTV test (full cash sweep if triggered)	31%	<45%	7.9%	31%	
LTV test	31%	<50%	8.8%	37%	
Projected interest cover test	586%	>150%			74%

* assuming RPI-linked rents increase in line with the external valuer's 2.5% RPI assumption as at 31 December 2018

Key performance indicator – uncommitted cash

The Board considers that the ability to manage potential debt covenant breaches is an important part of a well implemented leverage strategy. The Group has negotiated headroom on financial covenants considered appropriate to the business and has also obtained certain contractual cure rights, including the ability to inject cash (subject to certain 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 comprises cash balances outside ring-fenced structures secured to lenders, net of any creditors or other cash commitments at the balance sheet date and excluding any cash required to be retained under the AIFMD regulatory capital rules.

The Group's uncommitted cash was £66.4 million as at 31 December 2018, up from £60.6 million as at 31 December 2017.

Investment Adviser's Report continued

Business review (continued)
Cash flow

	Year to 31 December 2018		Year to 31 December 2017	
	£m	**Pence per share**	£m	Pence per share
Cash from operating activities	**110.7**	**36.6**	82.5	35.8
Net interest and finance costs paid	**(51.6)**	**(17.2)**	(50.1)	(21.7)
	59.1	**19.4**	32.4	14.1
Dividends paid	**(41.4)**	**(13.9)**	(31.2)	(13.6)
	17.7	**5.5**	1.2	0.5
Issue of ordinary shares, net of costs	**309.8**	**96.3**	-	-
Loans drawn down, net of costs	**126.0**	**39.2**	-	-
Acquisition of investment properties	**(436.8)**	**(135.8)**	-	-
Portfolio acquisitions	**(1.0)**	**(0.3)**	-	-
Scheduled amortisation of secured debt	**(4.2)**	**(1.4)**	(4.2)	(1.8)
Disposal of investment properties	**0.4**	**0.1**	-	-
Cash flow in the year	**12.9**	**3.9**	(3.0)	(1.3)
Cash at the start of the year	**88.8**	**38.5**	91.7	40.3
Currency translation movements	**-**	**-**	0.1	-
March 2018 share issue	**-**	**(10.0)**	-	-
Incentive fee share issues	**-**	**(0.8)**	-	(0.5)
Cash at the end of the year	**101.7**	**31.6**	88.8	38.5

Comprising:	**£m**	**Pence per share**	£m	Pence per share
Free cash	**71.1**	**22.1**	64.9	28.1
Cash secured under credit facilities	**30.0**	**9.3**	23.4	10.2
Cash reserved for regulatory capital	**0.6**	**0.2**	0.5	0.2
Cash at the end of the year	**101.7**	**31.6**	88.8	38.5

Cash secured under credit facilities is represented by rent held in charged accounts between the date of receipt, which is typically in the week before each calendar quarter end, and the date of payment of interest and any debt amortisation, which is typically three to four weeks after the quarter end. Following the debt service payments those surpluses are then released to free cash.

The Group's investment properties are let on full repairing and insuring terms, with each tenant obliged to keep the premises in good and substantial repair and condition, including rebuilding, reinstating, renewing or replacing premises where necessary. Consequently, no unrecovered capital expenditure, property maintenance or insurance costs have been incurred in the year and it is not expected that material costs of that nature will be incurred on the current portfolio. As a result, in the absence of asset purchases or disposals, cash balances should remain relatively stable over time.

The supplementary information included with this financial information includes details of the calculation of the EPRA measures referred to in this report.

Strategic Review

Strategy and investment policy
Against a backdrop of a significant reduction in income security in the UK real estate market, caused by a marked decline in the average term to first tenant lease break or expiry, and mindful of the growing requirement amongst investors for long term, secure income flows, the Board aims to further build on the Group's existing portfolio of Key Operating Assets to create a substantial diversified long term income portfolio providing stable and growing income and capital returns for its shareholders. The Board defines a long term income stream as one with a weighted average term to maturity in excess of 15 years at the time of acquisition, and income security is assessed by reference either to the financial strength of the tenants or to the extent of asset cover provided by way of residual asset value.

The Board believes that the Company offers attractive geared returns from high quality real estate, with financially strong 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 asset in question forms an essential part of the value of the tenant's own business and the tenants are strongly motivated to continue to invest in the assets.

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.

The Board believes that it will be able to deliver returns-enhancing deals in the interests of all 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.

Key performance indicators
In order to oversee the successful delivery of the investment strategy, the Board monitors the following principal key performance indicators:

- Total Accounting Return and Total Shareholder Return
- Adjusted EPRA EPS
- Net Loan To Value Ratio
- Headroom on debt covenants
- Uncommitted cash

Each of these is reported on in the Investment Adviser's Report on the preceding pages.

Corporate responsibility
In addition to the financial performance indicators, the Board is mindful of its responsibilities to its all of stakeholders, including the wider community.

The Corporate Governance Report includes details of the composition of the Board, including a description of the balance of skills, experience and gender on the Board. As an externally managed business, no Group company has any employees and therefore the Group does not 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 own operations and has received confirmation from the Investment Adviser that it complies with all relevant laws and regulations.

Both the Company and the Investment Adviser have complied with their responsibilities under the Modern Slavery Act 2015.

The Group has no reportable emissions for the year ended 31 December 2018, as all Group properties are the tenants' responsibility, and the Group has no operational control over them. The Group does not develop properties and all of the physical upkeep of its property assets is the responsibility of its tenants, so we do not report on environmental sustainability in this annual report as the Group does not have direct influence on the sustainability of the assets nor on the tenants in their day to day operations.

Strategic Review continued

Principal risks and uncertainties

The Board considers that the principal risks and uncertainties facing the Group are as follows:

Risk and change in assessment since prior year	Impact on the Group	Mitigation
Property valuation movements The Group invests in commercial property and so is exposed to movements in property valuations, which are subjective and may vary as a result of a variety of factors, many of which are outside the control of the Board. No change in risk assessment since prior year.	Investment properties make up the majority of the Group's assets, so material changes in their value will have a significant impact on EPRA NAV, with any effect of the valuation changes on EPRA NAV magnified by the impact of borrowings. Falls in the value of investment properties could lead to a breach of LTV covenants, 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 ultimately default under secured debt agreements. The Board notes the relative resilience in value demonstrated by long lease properties such as those owned by the Group through the wider capital market declines of 2008 to 2011.	The Group uses experienced external valuers whose work is reviewed by suitably qualified members of the Investment Adviser and, separately, the Audit Committee before being considered in the context of the financial information as a whole by the Board. The Board seeks to structure the Group's capital such that gearing is appropriate having regard to market conditions and financial covenant levels, with appropriate cure rights within debt facilities. The Board reserves unsecured cash outside ring-fenced debt structures which would be available to cure certain covenant breaches to the extent of the uncommitted cash available.
Tenant risk During the year the Group derived its rental income from ten (2017: four) tenant groups, three of which have the benefit of guarantees from substantial listed parent companies. The three largest tenant groups account for 89% of passing rent as at the balance sheet date (2017: 98%). Although the Board considers the tenant and guarantor groups to be financially strong, there can be no guarantee that they will remain able to comply with their obligations throughout the term of the relevant leases. In making this assessment the Board also has regard to the potential for tenant or guarantor groups to be adversely affected by the UK's departure from the EU. Reduction in risk assessed since prior year as a result of greater income diversification from new portfolios acquired.	A default of lease obligations by a material tenant and its guarantor (if any) would have an impact on the Group's revenue, earnings, cash flows and debt covenant compliance. The specialised use of the properties may mean that re-letting takes time. Investment property valuations reflect a valuer's assessment of the future security of income. A loss of income would therefore impact EPRA NAV as well as earnings. It could also lead to a breach of interest 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.	67% (2017: 85%) of passing rent at the balance sheet date is contractually backed by large listed companies with capital structures considered by the Board to be strong and with impressive long term earnings growth and share price track records. The balance of the income is payable by substantial businesses also considered by the Board to be financially strong in the context of their lease obligations. The properties themselves 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, 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 Board reserves unsecured cash outside ring-fenced debt structures which would be available to be used to cure certain covenant defaults to the extent of the uncommitted cash available.

Strategic Review continued

Principal risks and uncertainties (continued)

Risk and change in assessment since prior year	Impact on the Group	Mitigation
Borrowing Certain Group companies have granted security to lenders in the form of mortgages over all of the Group's investment property and fixed and floating charges over other assets. No change in risk assessment since prior year.	In the event of a breach of a debt covenant, the Group may be required to pay higher interest costs or to increase debt amortisation out of free cash flow arising on a particular portfolio which would affect cash flows and earnings. If a financial covenant breach is the result of financial weakness of a tenant or a guarantor, the property valuations and therefore EPRA NAV may also be adversely affected. In certain circumstances the Company's ability to make cash distributions to shareholders may be reduced or curtailed. Where a Group company is unable to make loan repayments out of existing cash resources, it 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 impact EPRA NAV and future earnings. Early debt repayments are likely to crystallise early repayment penalties which would also adversely impact EPRA NAV.	The Group's borrowing arrangements comprise six ring-fenced subgroups with no cross-guarantees between them and no recourse to other assets outside the secured subgroups. A financial covenant issue in one portfolio should therefore be limited to that portfolio. Four facilities have an annual LTV default covenant, one has a default LTV covenant to be first tested in September 2019 and one has no LTV default tests. The Board reviews compliance with all financial covenants at least every quarter, including forward-looking tests for at least twelve months, and considers whether there is sufficient headroom on relevant loan covenants to withstand stress test scenarios. The Board seeks to structure the Group's capital such that gearing is appropriate having regard to market conditions and financial covenant levels, with appropriate cure rights within debt facilities. The Board reserves unsecured cash outside ring-fenced debt structures which would be available to be used to cure certain covenant defaults to the extent of the uncommitted cash available.
Tax risk The Group is subject to the UK REIT regime. 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. No change in risk assessment since prior year.	If subject to UK corporation tax, the Group's current tax charge would increase, impacting cash flows, EPRA NAV and earnings, and reducing cash available for distributions.	The Board reviews compliance with the UK REIT rules at least every quarter. The REIT conditions which, if breached, could result in automatic expulsion from the REIT regime are those relating to the Company's share and loan capital, and are therefore (with the exception of a successful hostile takeover of the Company by a non-REIT) within the control of the Group.

Strategic Review continued

Principal risks and uncertainties (continued)

Risk and change in assessment since prior year	Impact on the Group	Mitigation
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 the heading 'tenant risk'. No change in risk assessment since prior year.	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 EPRA NAV and earnings, and reducing cash and/or distributable 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 (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 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 medium term. A scrip dividend alternative could also be offered to meet the PID requirement.

Brexit and political risk

The Board does not consider that Brexit (the departure of the UK from the European Union) presents a risk to the Group in and of itself, largely as the Group is not dependent on access to European markets and is not expected to be directly impacted by changes in regulations or tariffs. The tax treatment of the German assets is considered unlikely to change as a result of Brexit. However, the Board considers that Brexit does potentially weigh on all of the risks described above, principally through the heightened risk of market uncertainty or disruption.

The potential impact of Brexit and political upheaval on our tenants has been assessed. In this respect we take some comfort from the fact that a large majority of passing rents are underpinned by businesses with globally diverse sources of income, not solely dependent on the UK and its trade relations with the rest of the world.

There have been periods of significant political, economic and market uncertainty since the referendum to leave the EU in 2016 and this has at times affected equity, debt, property and foreign exchange markets. Delivery of the Group's growth aspirations depends on access to capital markets. External factors, including market volatility, can have an impact on the ability to implement the growth strategy. Given the Group's long term income profile and the characteristics of its debt where the finance costs are ultimately fixed or capped, such conditions are currently considered unlikely to have a material impact on the status quo for the Group, but are considered to be relevant to the Group's growth aspirations in so far as there is an impact on the availability of debt and equity capital.

Strategic Review continued

Going concern
The Board regularly monitors the Company's and the Group's ability to continue as a going concern. Summaries of the Company's and the Group's liquidity position, compliance with loan covenants and the financial strength of its tenants and guarantors are considered at the quarterly Board meetings and more often if required. Scenarios for the Group's future performance and cash flows, including stress test scenarios, are also considered at least each quarter. Based on this information, the Directors are satisfied that the Company and the Group are able to continue in business for the foreseeable future and therefore have adopted the going concern basis in the preparation of this financial information.

Viability statement
The Board has assessed the prospects of the Group over the five years from the balance sheet date to 31 December 2023, 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.

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

Risk	**Assumptions**
Tenant risk	• Tenants (and guarantors where relevant) continue to comply with their rental obligations over the term of their leases and do not suffer any insolvency events over the term of the review.
Borrowing risk	• The Group continues to comply with all loan covenants. • The Group is able negotiate acceptable terms to refinance £381.2 million of debt in one facility falling due in 2022 and £188.7 million in three facilities falling due in 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.

Group Income Statement

	Notes	**Year to 31 December 2018 £000**	Year to 31 December 2017 £000
Revenue	4	**125,874**	106,930
Property outgoings	5	**(548)**	(256)
Gross profit		**125,326**	106,674
Administrative expenses	6	**(20,575)**	(29,487)
Profit on disposal of investment properties	7	**183**	-
Other income		**-**	171
Investment property revaluation	12	**98,167**	113,428
Operating profit	8	**203,101**	190,786
Finance income	9	**371**	85
Finance costs	9	**(54,878)**	(51,919)
Profit before tax		**148,594**	138,952
Tax charge	10	**(1,081)**	(1,713)
Profit for the year		**147,513**	137,239

Earnings per share		**Pence per share**	Pence per share
Basic	11	**48.9**	59.5
Diluted	11	**48.7**	58.4

All amounts relate to continuing activities.

The notes form part of this financial information.

Group Statement of Other Comprehensive Income

	Notes	**Year to 31 December 2018 £000**	Year to 31 December 2017 £000
Profit for the year		**147,513**	137,239
Items that may subsequently be reclassified to profit or loss:			
Currency translation differences	22	**468**	1,148
Fair value movements in derivatives	14, 22	**(200)**	-
Other comprehensive income		**268**	1,148
Total comprehensive income for the year		**147,781**	138,387

The notes form part of this financial information.

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 2018					
At 1 January 2018	23,054	196,975	20,852	619,696	**860,577**
Profit for the year	-	-	-	147,513	**147,513**
Other comprehensive income	-	-	268	-	**268**
Total comprehensive income	-	-	268	147,513	**147,781**
Issue of shares	9,102	316,700	(16,015)	-	**309,787**
Shares to be issued	-	-	4,872	-	**4,872**
Interim dividends of 13.9 pence per share	-	-	-	(41,429)	**(41,429)**
At 31 December 2018	32,156	513,675	9,977	725,780	**1,281,588**

	Share capital £000	Share premium reserve £000	Other reserves £000	Retained earnings £000	**Total £000**
Year to 31 December 2017					
At 1 January 2017	22,723	187,947	13,048	513,705	**737,423**
Profit for the year	-	-	-	137,239	**137,239**
Other comprehensive income	-	-	1,148	-	**1,148**
Total comprehensive income	-	-	1,148	137,239	**138,387**
Issue of shares	331	9,028	(9,359)	-	**-**
Shares to be issued	-	-	16,015	-	**16,015**
Interim dividends of 13.6 pence per share	-	-	-	(31,248)	**(31,248)**
At 31 December 2017	23,054	196,975	20,852	619,696	**860,577**

The notes form part of this financial information.

Group Balance Sheet

	Notes	**31 December 2018 £000**	31 December 2017 £000
Non-current assets			
Investment properties	12	**2,335,220**	1,781,884
Headlease rent deposits		**2,766**	1,686
Interest rate derivatives	14	**306**	-
		2,338,292	1,783,570
Current assets			
Cash and cash equivalents	15	**101,745**	88,755
Trade and other receivables	16	**3,436**	394
Current tax receivable		**40**	111
		105,221	89,260
Total assets		**2,443,513**	1,872,830
Current liabilities			
Trade and other payables	17	**(41,727)**	(34,981)
Secured debt	18	**(1,771)**	(2,227)
		(43,498)	(37,208)
Non-current liabilities			
Secured debt	18	**(1,078,495)**	(953,086)
Head rent obligations under finance leases	19	**(28,511)**	(11,721)
Deferred tax liability	20	**(11,110)**	(10,238)
Interest rate derivatives	14	**(311)**	-
		(1,118,427)	(975,045)
Total liabilities		**(1,161,925)**	(1,012,253)
Net assets		**1,281,588**	860,577
Equity			
Share capital	21	**32,156**	23,054
Share premium reserve	22	**513,675**	196,975
Other reserves	22	**9,977**	20,852
Retained earnings	22	**725,780**	619,696
Total equity		**1,281,588**	860,577

		Pence per share	Pence per share
Basic NAV per share	24	**398.5**	373.3
Diluted NAV per share	24	**397.0**	366.0
EPRA NAV per share	24	**400.5**	370.4

The notes form part of this financial information.

Group Cash Flow Statement

	Notes	**Year to 31 December 2018 £000**	Year to 31 December 2017 £000
Operating activities			
Profit before tax		**148,594**	138,952
Adjustments for non-cash items:			
Investment property revaluation	12	**(102,466)**	(124,954)
Administrative expenses payable in shares	26	**4,872**	16,015
Profit on disposal of investment properties	7	**(183)**	-
Finance income	9	**(371)**	(85)
Finance costs	9	**54,878**	51,919
Cash flows from operating activities before changes in working capital		**105,324**	81,847
Changes in working capital:			
Trade and other receivables		**(507)**	209
Trade and other payables		**6,111**	813
Headlease rent deposits		**-**	(8)
Cash generated from operations		**110,928**	82,861
Tax paid		**(234)**	(431)
Cash flows from operating activities		**110,694**	82,430
Investing activities			
Acquisition of investment properties		**(435,536)**	-
Headlease rent deposits acquired		**(1,225)**	-
Disposal of investment properties		**443**	-
Interest received	9	**371**	85
Cash flows from investing activities		**(435,947)**	85
Financing activities			
Proceeds of share issue		**315,500**	-
Costs of share issue		**(5,713)**	-
Drawdown of new secured debt	25	**128,700**	-
Interest and finance costs paid	25	**(51,998)**	(50,086)
Dividends paid		**(41,429)**	(31,248)
Scheduled amortisation of secured debt	25	**(4,156)**	(4,156)
Loan arrangement costs paid on new facilities	25	**(2,462)**	-
Purchase of interest rate caps	14, 25	**(220)**	-
Cash flows from financing activities		**338,222**	(85,490)
Increase / (decrease) in cash and cash equivalents		**12,969**	(2,975)
Cash and cash equivalents at the beginning of the year		**88,755**	91,667
Currency translation movements		**21**	63
Cash and cash equivalents at the end of the year	15	**101,745**	88,755

The notes form part of this financial information.

Notes to the Group Financial Information

1. General information about the Group

The financial information set out in this report covers the year to 31 December 2018, with comparative figures relating to the year to 31 December 2017, and includes the results and net assets of the Company and its subsidiaries, together referred to as the Group.

The Company is incorporated in the United Kingdom. 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.

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 information has been prepared in accordance with International Financial Reporting Standards adopted for use in the European Union ("IFRS").

The financial information contained in this announcement has been prepared on the basis of the accounting policies set out in the financial statements for the year ended 31 December 2018. Whilst the financial information included in this announcement has been computed in accordance with IFRS, as adopted by the European Union, this announcement does not itself contain sufficient information to comply with IFRS. The financial information does not constitute the Group's financial statements for the years ended 31 December 2018 or 31 December 2017, but is derived from those financial statements. Those financial statements give a true and fair view of the assets, liabilities, financial position and results of the Group. Financial statements for the year ended 31 December 2017 have been delivered to the Registrar of Companies and those for the year ended 31 December 2018 will be delivered following the Company's AGM. The auditors' reports on both the 31 December 2018 and 31 December 2017 financial statements were unqualified; did not draw attention to any matters by way of emphasis; and did not contain statements under section 498 (2) or (3) of the Companies Act 2006.

b) Basis of preparation

The Group financial information is 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, unless otherwise stated.

Euro denominated results for the German assets have been converted to Sterling at the average exchange rate for the year of €1:£0.8846 (2017: €1:£0.8762), which is not considered to produce materially different results from using the actual rates at the time of the transactions. Year end balances have been converted to Sterling at the 31 December 2018 exchange rate of €1:£0.8969 (2017: €1:£0.8873).

The Directors have, at the time of preparing the financial information, 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 information. Further details are given in the Strategic Review.

The financial information has 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.

The preparation of financial information 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 the 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 12, the opinion of external valuers has been obtained at each reporting date using recognised valuation techniques and the principles of IFRS 13 "Fair Value Measurement".

Notes to the Group Financial Information continued

c) Basis of preparation (continued)

The principal areas of judgement are:

- 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 expected to go to 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 information therefore does not reflect any additional revenue arising as a result of this rent review.
- the assessment of whether to recognise to recognise the sale of two investment properties which had unconditionally exchanged but not completed at the balance sheet date. The directors consider that the terms of the contracts mean the buyers have sufficient control over the properties to require the sales to be recognised.

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

Adoption of new and revised standards

During the year, the Group has adopted IFRS 9 "Financial instruments" and IFRS 15 "Revenue from contracts with customers". IFRS 9 deals with the classification and measurement of financial instruments and includes a requirement to apply an expected credit loss approach to the impairment of short term financial assets such as trade receivables, but its adoption has not had a material impact on the Group's financial information other than certain additional disclosures in respect of hedging which are included in note 18. The Group's revenue is derived entirely from leases which are outside the scope of IFRS 15, therefore its adoption has not had a material impact on the Group's financial information.

The Group has also adopted the amendments to IAS 40 "Investment Property", which clarify when a disposal of investment property should be recognised in line with the revenue recognition criteria of IFRS 15. The accounting policies in note 2e reflect this change.

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 has issued IFRS 16 "Leases", which is effective from 1 January 2019 and has not been adopted early. Since IFRS 16 will not result in significant changes of accounting policies for lessors, the Directors' assessment of its impact of remains unchanged from that reported in the 2017 financial statements, where it was noted that it was not expected to have a material impact on the Group's financial information.

The IASB and IFRIC have also issued or revised IFRS 3, IFRS 9, IFRS 10, IFRS 11, IFRS 14, IFRS 17, IAS 1, IAS 8, IAS 12, IAS 19, IAS 23, IAS 28 and IFRIC 23 but these are not expected to have a material effect on the operations of the Group.

d) Basis of consolidation

Subsidiaries are those entities controlled by the Group. The Group 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 information includes the financial information of the Group'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.

e) Property portfolio

Investment properties

Investment properties comprise properties owned by the Group 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 external valuers.

Valuations are calculated, in accordance with "RICS Valuation – Global Standards 2017", 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.

Notes to the Group Financial Information continued

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, which is considered 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.

Occupational leases
The Directors exercise judgement in considering the potential transfer of the risks and rewards of ownership in accordance with IAS 17 "Leases" for all occupational leases and headleases, and determine whether 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. If the Group substantially retains those risks, a lease is classified as an operating lease. All occupational leases reflected in this financial information 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 deposits held by head leaseholders as guarantees of head leasehold obligations are included as non-current assets.

Rental income
Revenue comprises rental income exclusive of VAT. It is recognised in the income statement on an accruals basis and on a straight line basis. Future anticipated rental income is spread over the term of the lease, giving rise to a Rent Smoothing Adjustment. Where income is 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 independently assessed fair value of the property. Income relating to contractual rights that are subject to external factors, such as the Rent Smoothing Adjustment for RPI-linked or open market rent reviews, is recognised in the income statement in the period in which it is determinable and reasonably certain.

f) Financial assets and liabilities
Financial assets and liabilities are initially recognised at their fair value when the Group 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.

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

Cash and cash equivalents
Cash and cash equivalents comprise cash in hand and deposits with maturities of three months or less held with banks and financial institutions.

Borrowings and finance charges
Secured debt is initially recognised at its fair value, net of any 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.

Derecognition of financial liabilities
The Group derecognises financial liabilities when its obligations are discharged, cancelled or they 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 subsequently measured at fair value.

f) Financial assets and liabilities (continued)
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 on an ongoing basis to ensure 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 the 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.

g) 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 equity.

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.

h) 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.

i) 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 disclosed within administrative expenses in the income statement.

j) 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.

k) 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.

Notes to the Group Financial Information continued

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 Group's chief operating decision maker is considered to be the Board.

The Group owns 175 properties, originally acquired in five 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 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 business segment of property investment in both the current and prior year.

The geographical split of revenue and applicable non-current assets required by IFRS 8 was as follows:

	Year to 31 December 2018 £000	Year to 31 December 2017 £000
Revenue		
UK	**117,470**	98,606
Germany	**8,404**	8,324
	125,874	106,930

	31 December 2018 £000	31 December 2017 £000
Non-current assets		
UK	**2,222,670**	1,674,120
Germany	**112,550**	107,764
	2,335,220	1,781,884

Revenue including Rent Smoothing Adjustments comprises:	**Year to 31 December 2018 £000**	Year to 31 December 2017 £000
Largest tenant	**55,045**	54,400
Second largest tenant	**26,804**	25,914
Third largest tenant	**25,398**	15,002
Other tenants (each less than 10% of revenue)	**18,627**	11,614
Reported revenue	**125,874**	106,930

Revenue excluding Rent Smoothing Adjustments comprises:	**Year to 31 December 2018 £000**	Year to 31 December 2017 £000
Largest tenant	**48,385**	46,463
Second largest tenant	**26,804**	25,914
Third largest tenant	**25,398**	15,002
Other tenants (each less than 10% of revenue)	**14,337**	8,108
Revenue on Adjusted EPRA Earnings basis	**114,924**	95,487

Notes to the Group Financial Information continued

4. Revenue

	Year to 31 December 2018 £000	Year to 31 December 2017 £000
Rental income	**113,540**	94,375
Rent Smoothing Adjustments	**10,950**	11,443
Recovery of head rent and other costs from occupational tenants	**1,384**	1,112
	125,874	106,930

The Rent Smoothing Adjustments arise through the Group's accounting policy in respect of leases, which requires the recognition of rental income on a straight line basis over the lease term in certain circumstances, including for the 48% of passing rent as at 31 December 2018 (2017: 58%) that increases by a fixed percentage each year and the 5% of passing rent at 31 December 2018 (2017: nil) that is subject to minimum fixed uplifts on RPI-linked review. At this stage in the lease terms, which is before the midway point in each lease, this results in an increase in revenue and an offsetting entry is recognised in the income statement as a reduction in the gains on investment property revaluation.

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

5. Property outgoings

	Year to 31 December 2018 £000	Year to 31 December 2017 £000
Property outgoings in the income statement	**548**	256
Finance element of head rent included in finance costs (note 9)	**1,191**	799
Movement in headlease liabilities included in property revaluations (note 12)	**72**	83
Property outgoings	**1,811**	1,138
Recovery of head rents and other costs from occupational tenants, included in revenue (note 4)	**(1,384)**	(1,112)
Net property outgoings	**427**	26

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

6. Administrative expenses

	Year to 31 December 2018 £000	Year to 31 December 2017 £000
Advisory fees (note 26)	**13,295**	10,148
Incentive fee (note 26)	**5,278**	17,575
Other administrative expenses	**1,485**	1,262
Corporate costs	**517**	502
	20,575	29,487

Amounts shown above include irrecoverable VAT as appropriate. The incentive fee comprises £4.9 million (2017: £16.0 million) satisfied by way of share issue and £0.4 million (2017: £1.6 million) of VAT payable in cash.

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

Notes to the Group Financial Information continued

7. Profit on disposal of investment properties

	Year to 31 December 2018 £000	Year to 31 December 2017 £000
Disposal proceeds	**2,975**	-
Disposal costs	**(61)**	-
Book value of sold properties	**(2,731)**	-
	183	-

The disposals represent two sales that unconditionally exchanged in the year and completed after the balance sheet date. Deposits of £0.4 million were received during the year and the £2.5 million balance payable by the purchasers at the balance sheet date is included in trade and other receivables (note 16).

The Group's accounting policy for investment property sales is disclosed in note 2e.

8. Operating profit

Operating profit is stated after charging fees for:

	Year to 31 December 2018 £000	Year to 31 December 2017 £000
Audit of the Company's consolidated and individual financial statements	**46**	44
Audit of subsidiaries, pursuant to legislation	**184**	127
Total audit services	**230**	171
Audit related services: half year review	**32**	30
Audit related services: FCA reporting	**3**	3
Total audit and audit related services	**265**	204
Other non-audit services	**7**	12
Total fees before VAT	**272**	216

The total charge for the fees above, including irrecoverable VAT, was £283,000 (2017: £226,000).

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

	Year to 31 December 2018 £000	Year to 31 December 2017 £000
Martin Moore	**75**	75
Leslie Ferrar	**44**	40
Jonathan Lane	**39**	35
Ian Marcus	**39**	35
	197	185

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

Notes to the Group Financial Information continued

9. Finance income and costs

	Year to 31 December 2018 £000	Year to 31 December 2017 £000
Recognised in the income statement:		
Finance income		
Interest on cash deposits	**371**	85
Finance costs		
Interest on secured debt	**(51,288)**	(49,198)
Amortisation of loan costs (non-cash)	**(2,225)**	(1,922)
Interest charge on headlease liabilities	**(1,191)**	(799)
Amortisation of interest rate derivatives, transferred from other reserves	**(149)**	-
Fair value adjustment of interest rate derivatives (note 14)	**(25)**	-
Total finance costs	**(54,878)**	(51,919)
Net finance costs recognised in the income statement	**(54,507)**	(51,834)
Recognised in other comprehensive income:		
Fair value adjustment of interest rate derivatives	**(349)**	-
Amortisation of interest rate derivatives, transferred to the income statement	**149**	-
Net finance costs recognised in other comprehensive income (note 14)	**(200)**	-

Net finance costs analysed by the categories of financial asset and liability shown in note 18 are as follows:

	Year to 31 December 2018 £000	Year to 31 December 2017 £000
Financial assets at amortised cost	**371**	85
Financial liabilities at amortised cost	**(54,853)**	(51,919)
Derivatives in effective hedges	**(25)**	-
Net finance costs recognised in the income statement	**(54,507)**	(51,834)

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

	Year to 31 December 2018 £000	Year to 31 December 2017 £000
Effect on profit for the year	**114**	77
Effect on other comprehensive income and equity	**217**	-

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 £26.5 million (2017: £nil) of the secured debt that is hedged by interest rate caps. A further £50.0 million (2017: £nil) 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 £1,106.0 million (2017: £967.3 million) of the secured debt which is at fixed rates. The Group's sensitivity to interest rates has increased in the current year following the increase in floating rate borrowing.

The Group's accounting policy for finance charges is disclosed in note 2f.

10. Tax

	Year to 31 December 2018 £000	Year to 31 December 2017 £000
Current tax - UK		
Adjustments in respect of prior years	**-**	(7)
Current tax - Germany		
Corporation tax charge	**282**	266
Adjustments in respect of prior years	**52**	17
Deferred tax		
Deferred tax charge (note 20)	**747**	1,437
	1,081	1,713

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

	Year to 31 December 2018 £000	Year to 31 December 2017 £000
Profit before tax	**148,594**	138,952
Profit before tax multiplied by the standard rate of corporation tax in the UK for the financial year of 19% (2017: 19.25%)	**28,233**	26,748
Effects of:		
Investment property revaluation not taxable	**(20,001)**	(22,481)
Qualifying property rental business not taxable under UK REIT rules	**(8,585)**	(3,601)
Recognition / (utilisation) of tax losses	**733**	(164)
Finance costs disallowed under corporate interest restriction rules	**401**	926
German current tax charge for the year	**282**	266
Adjustments in respect of prior years	**52**	10
Profit on disposal of investment properties not taxable	**(35)**	-
Amounts not deductible for tax	**1**	9
Tax charge for the year	**1,081**	1,713

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, there are a number of conditions to 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% (2017: 17%), resulting in a current tax charge of £0.3 million (2017: £0.3 million) and a deferred tax charge of £0.7 million (2017: £1.4 million). A deferred tax liability of £11.1 million (2017: £10.2 million) is recognised for the German capital gains tax that would potentially be payable on the sale of the relevant investment properties.

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

Notes to the Group Financial Information continued

11. Earnings per share

Basic EPS

Earnings per share ("EPS") is calculated as 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:

- 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.
- shares to be issued at the balance sheet date in settlement of an incentive fee relating to the results of the year are not taken into account.

Diluted EPS

The weighted average number of shares for diluted EPS does 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.

	Year to 31 December 2018 £000	Year to 31 December 2017 £000
Profit	**147,513**	137,239
Weighted average number of shares in issue	**Number**	Number
Basic EPS calculation	**301,549,670**	230,536,874
Shares to be issued in satisfaction of incentive fee (note 26)	**1,287,242**	4,588,479
Diluted EPS calculation	**302,836,912**	235,125,353
	Pence per Share	Pence per share
Basic EPS	**48.9**	59.5
Diluted EPS	**48.7**	58.4

Notes to the Group Financial Information continued

11. Earnings per share (continued)

EPRA EPS

EPRA, the European Public Real Estate Association, publishes guidelines for calculating adjusted earnings designed to represent core operational activities. An Adjusted EPRA earnings calculation has also been presented. This removes the effect of the Rent Smoothing Adjustments (in order not to artificially flatter Dividend Cover calculations) and any non-recurring costs such as those 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.

In calculating Adjusted EPRA EPS, the weighted average number of shares is 300,553,819 (2017: 229,685,165), 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 dividends per share paid in the year. In this way the Group's measure of Dividend Cover is considered to be more precisely calculated.

EPRA and Adjusted EPRA earnings are calculated as:

	Year to 31 December 2018 £000	Year to 31 December 2017 £000
Basic earnings attributable to shareholders	**147,513**	137,239
EPRA adjustments:		
Investment property revaluation (note 12)	**(98,167)**	(113,428)
Deferred tax on German investment property revaluations (note 10)	**747**	1,437
Profit on disposal of investment properties (note 7)	**(183)**	-
Fair value adjustment of interest rate derivatives (note 9)	**25**	-
Other income	**-**	(171)
EPRA earnings	**49,935**	25,077
Other adjustments:		
Rent Smoothing Adjustments (note 4)	**(10,950)**	(11,443)
Incentive fee (note 6)	**5,278**	17,575
Adjusted EPRA earnings	**44,263**	31,209

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

	Pence per share	Pence per share
EPRA EPS	**16.6**	10.9
Diluted EPRA EPS	**16.5**	10.7
Adjusted EPRA EPS	**14.7**	13.6

Notes to the Group Financial Information continued

12. Investment properties

Freehold investment properties	**Year to 31 December 2018 £000**	Year to 31 December 2017 £000
At the start of the year	**1,693,956**	1,573,281
Additions	**228,642**	-
Revaluation movement	**97,015**	117,167
Disposals	**(2,731)**	-
Currency translation movement	**1,233**	3,508
At the end of the year	**2,018,115**	1,693,956

Leasehold investment properties	**Year to 31 December 2018 £000**	Year to 31 December 2017 £000
At the start of the year	**87,928**	80,224
Additions	**206,936**	-
Recognition of headlease liabilities acquired	**16,862**	-
Revaluation movement	**5,451**	7,787
Movement in headlease liabilities	**(72)**	(83)
At the end of the year	**317,105**	87,928

Total investment properties	**Year to 31 December 2018 £000**	Year to 31 December 2017 £000
At the start of the year	**1,781,884**	1,653,505
Additions	**435,578**	-
Recognition of headlease liabilities acquired	**16,862**	-
Revaluation movement	**102,466**	124,954
Disposals	**(2,731)**	-
Currency translation movement	**1,233**	3,508
Movement in headlease liabilities	**(72)**	(83)
At the end of the year	**2,335,220**	1,781,884

As at 31 December 2018 the properties were valued at £2,306.7 million (2017: £1,770.2 million) by CBRE Limited or Christie & Co (2017: CBRE Limited) in their capacity as external valuers. The valuations were prepared on a fixed fee basis, independent of the portfolio value, and were undertaken in accordance with RICS Valuation – Global Standards 2017 on the basis of fair value, supported by reference to market evidence of transaction prices for similar properties.

The historic cost of the Group's investment properties as at 31 December 2018 was £1,690.9 million (2017: £1,258.0 million). Other than the future minimum headlease payments disclosed in note 19, the majority of which are recoverable from tenants, the Group did not have any contractual investment property obligations at either balance sheet date and all responsibility for property liabilities, including repairs and maintenance, resides with the tenants.

Of the total fair value, £112.6 million (2017: £107.8 million) relates to the Group's German investment properties, the valuations of which are translated into Sterling at the year end exchange rate.

Notes to the Group Financial Information continued

12. Investment properties (continued)
Under the Group's accounting policy, in line with International Financial Reporting Standards, the carrying values of leasehold properties are 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 resulting reconciliation between the carrying value of the investment properties and their external valuation is as follows:

	31 December 2018 £000	31 December 2017 £000
Carrying value	**2,335,220**	1,781,884
Gross-up of headlease liabilities (note 19)	**(28,511)**	(11,721)
External valuation	**2,306,709**	1,770,163

Included within the carrying value of investment properties at 31 December 2018 is £197.1 million (2017: £185.8 million) in respect of Rent Smoothing Adjustments as described in note 4, representing the amount of rent included in the income statement ahead of actual cash receipts. This receivable increases over the first half of each lease term and then unwinds, reducing to zero over the second half of each lease term, and comprises:

	31 December 2018 £000	31 December 2017 £000
Healthcare – Ramsay hospitals (maximum receivable £165.2 million in May 2022)	**151,863**	145,205
German leisure (maximum receivable £42.1 million in January 2025)	**34,345**	31,979
Healthcare – Lisson Grove hospital (maximum receivable £20.6 million in March 2035)	**9,902**	8,633
Leisure - Manchester Arena (maximum receivable £8.9 million in December 2031)	**640**	-
Leisure – The Brewery (maximum receivable £2.1 million in January 2025)	**269**	-
Leisure - pubs (maximum receivable £1.3 million in April 2029)	**122**	-
	197,141	185,817

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. The effect of this Rent Smoothing Adjustment on the revaluation movement, together with the impact of back rent received during the year from a May 2017 rent review on the healthcare portfolio but yet not recognised in revenue, and movements on the headlease liabilities is as follows:

	Year to 31 December 2018 £000	Year to 31 December 2017 £000
Property revaluation	**102,466**	124,954
Rent Smoothing Adjustment	**(10,950)**	(11,443)
Back rent received	**6,723**	-
Movement in headlease liabilities	**(72)**	(83)
Revaluation movement in the income statement	**98,167**	113,428

All of the investment properties are held within six (2017: four) 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 £1,811,000 (2017: £1,138,000) of which £427,000 (2017: £26,000) was not recoverable from occupational tenants.

Notes to the Group Financial Information continued

12. Investment properties (continued)

The Board determines the Group's valuation policies and procedures, and is responsible for overseeing the valuations. Valuations 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 partners 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 external valuers' assessment 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 Group's external valuers, focusing on properties with unexpected fair value changes or any with unusual characteristics. The Audit Committee considers the valuation process as part of its overall responsibilities, including meetings with the external valuers, 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 and the key inputs for these valuations were as follows:

	Fair value		Inputs	
Portfolio	**£000**	**Key unobservable input**	**Range**	**Blended yield**
At 31 December 2018:				
Healthcare	984,845	Net Initial Yield	3.9% - 5.5%	4.8%
		Running Yield by June 2019	4.0% - 5.6%	4.9%
Leisure – UK	723,503	Net Initial Yield	4.7% - 5.9%	5.1%
		Running Yield by June 2019	4.2% - 6.3%	5.2%
		Future RPI assumption per annum	2.6%	
Leisure – Germany	112,550	Net Initial Yield	5.5%	5.5%
		Running Yield by July 2019	5.7%	5.7%
Hotels	514,322	Net Initial Yield	4.5% - 10.1%	5.5%
		Running Yield by June 2019	4.5% - 10.1%	5.5%
		Future RPI assumption per annum	2.5%	
	2,335,220			
At 31 December 2017:				
Healthcare	944,450	Net Initial Yield	3.9% - 5.5%	4.8%
		Running Yield by June 2018	4.0% - 5.7%	5.0%
Leisure – UK	487,425	Net Initial Yield	5.0% - 5.6%	5.1%
		Running Yield by June 2018	5.1% - 5.7%	5.2%
		Future RPI assumption per annum	2.5%	
Leisure – Germany	107,750	Net Initial Yield	5.5%	5.5%
		Running Yield by July 2018	5.7%	5.7%
Hotels	242,259	Net Initial Yield	4.8% - 10.0%	5.8%
		Running Yield by June 2018	5.8%	5.8%
		Future RPI assumption per annum	2.5%	
	1,781,884			

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 2e.

Notes to the Group Financial Information continued

13. Subsidiaries

The companies listed below are the subsidiary undertakings of the Company at 31 December 2018, 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 Downs Limited	Property investment – healthcare
SIR Duchy Limited	Property investment – healthcare
SIR Euxton Limited	Property investment – healthcare
SIR Midlands Limited	Property investment – healthcare
SIR Mt Stuart Limited	Property investment – healthcare
SIR Oaklands Limited	Property investment – healthcare
SIR Renacres Limited	Property investment – healthcare
SIR Rivers Limited	Property investment – healthcare
SIR Springfield Limited	Property investment – healthcare
Thomas Rivers 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 Ashtead Limited	Property investment – healthcare
SIR Fitzwilliam Limited	Property investment – healthcare
SIR Fulwood Limited	Property investment – healthcare
SIR Lisson Limited	Property investment – healthcare
SIR Oaks Limited	Property investment – healthcare
SIR Pinehill Limited	Property investment – healthcare
SIR Reading Limited	Property investment – healthcare
SIR Rowley Limited	Property investment – healthcare
SIR Winfield Limited	Property investment – healthcare
SIR Woodland Limited	Property investment – healthcare
SIR Yorkshire 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 – hotels and borrower under secured debt facility
Grove Property Unit Trust 7 †	Property investment – hotels and borrower under secured debt facility
Grove Property Unit Trust 9 †	Property investment – hotels and borrower under secured debt facility
Grove Property Unit Trust 11 †	Property investment – hotels and borrower under secured debt facility
Grove Property Unit Trust 12 †	Property investment – hotels and borrower under secured debt facility

* 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

Notes to the Group Financial Information continued

13. Subsidiaries (continued)

	Nature of business
Grove Property Unit Trust 16 †	Property investment – 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 – hotels and borrower under secured debt facility
Grove Property Unit Trust 5 †	Property investment – hotels and borrower under secured debt facility
Grove Property Unit Trust 13 †	Property investment – hotels and borrower under secured debt facility
Grove Property Unit Trust 14 †	Property investment – hotels and borrower under secured debt facility
Grove Property Unit Trust 15 †	Property investment – hotels and borrower under secured debt facility
SIR Maple 4 Limited	Property investment – 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 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 funds to the Company, which is itself outside all security groups.

14. Interest rate derivatives

	Notional amount		Fair value	
	31 December 2018 £000	31 December 2017 £000	**31 December 2018 £000**	31 December 2017 £000
Interest rate caps (average rate 1.5%)	**26,528**	-	**306**	-
Interest rate swaps (average rate 1.3%)	**50,000**	-	**(311)**	-
	76,528	-	**(5)**	-

The movements in interest rate derivatives were as follows:

	Year to 31 December 2018 £000	Year to 31 December 2017 £000
At the start of the year	**-**	-
Premium paid for interest rate caps	**220**	-
Charge to the income statement (note 9)	**(25)**	-
Movement in other comprehensive income (note 9)	**(200)**	-
At the end of the year	**(5)**	-

14. Interest rate derivatives (continued)

The Group uses all of its interest rate derivatives in risk management as cash flow hedges to protect against movements in future interest cash flows 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 J.C. Rathbone Associates Limited. The fair values are calculated using the 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. 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 described in note 18. 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 has not been designated for hedge accounting to allow for any future loan repayments as a result of property sales and as a result, although the entire cash flow interest rate is hedged, the hedges as measured for the purposes of IFRS 9 are expected 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 £16.5 million of the floating rate loans described in note 18. The notional amounts of the interest rate caps equal the loan principal balance, their maturity dates also match and they have been wholly designated for hedge accounting. As a result, the hedges are expected to be 100% effective throughout their lives.

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

15. Cash and cash equivalents

	31 December 2018 £000	31 December 2017 £000
Free cash	**71,133**	64,838
Secured cash	**29,972**	23,435
Regulatory capital	**640**	482
	101,745	88,755

Secured cash is held in accounts over which the providers of secured debt have fixed security. The Group is unable to access this cash until it is released to free cash each quarter, which takes place once quarterly interest and loan repayments have been made.

As the Company is considered to be an internally managed Alternative Investment Fund, it is required by the Financial Conduct Authority to hold a balance of regulatory capital in liquid funds, which is maintained in cash.

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

16. Trade and other receivables

	31 December 2018 £000	31 December 2017 £000
Trade receivables	**267**	61
Amounts receivable from investment property disposals (note 7)	**2,503**	-
Prepayments and accrued income	**666**	298
Other receivables	**-**	35
	3,436	394

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

17. Trade and other payables

	31 December 2018 £000	31 December 2017 £000
Trade payables	**135**	136
Rent received in advance and other deferred income	**27,696**	22,024
Interest payable	**9,248**	8,613
Tax and social security	**3,526**	3,451
Accruals and other payables	**1,122**	757
	41,727	34,981

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

18. Financial assets and liabilities

Borrowings

	31 December 2018 £000	31 December 2017 £000
Amounts falling due within one year		
Secured debt – current portion of fixed rate long term facilities	**4,156**	4,156
Unamortised finance costs	**(2,385)**	(1,929)
	1,771	2,227
Amounts falling due in more than one year		
Secured debt at fixed interest rates	**1,011,846**	963,142
Secured debt at floating interest rates	**76,528**	-
Unamortised finance costs	**(9,879)**	(10,056)
	1,078,495	953,086

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

The debt is secured by charges over the Group's investment properties and by fixed and floating charges over the other assets of certain Group companies, not including the Company itself save for a limited share charge over the parent company of one of the ring-fenced subgroups. There were no defaults or breaches of any loan covenants during the current or prior year.

The analysis of borrowings by currency is as follows:

	31 December 2018 £000	31 December 2017 £000
Sterling denominated		
Secured debt	**1,028,151**	903,607
Unamortised finance costs	**(11,691)**	(11,270)
	1,016,460	892,337
Euro denominated		
Secured debt	**64,379**	63,691
Unamortised finance costs	**(573)**	(715)
	63,806	62,976

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

Notes to the Group Financial Information continued

18. Financial assets and liabilities (continued)
Categories of financial instruments

	31 December 2018 £000	31 December 2017 £000
Financial assets		
Financial assets at amortised cost:		
Cash and cash equivalents (note 15)	**101,745**	88,755
Trade and other receivables (note 16)	**267**	96
Derivatives in effective hedges		
Interest rate caps	**306**	-
	102,318	88,851
Financial liabilities		
Financial liabilities at amortised cost:		
Secured debt	**(1,080,266)**	(955,313)
Headlease liabilities (note 19)	**(28,511)**	(11,721)
Interest payable (note 17)	**(9,248)**	(8,613)
Trade payables and accrued expenses	**(1,233)**	(891)
Derivatives in effective hedges		
Interest rate swaps	**(311)**	-
	(1,119,569)	(976,538)

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

As at 31 December 2018 the fair value of the Group's secured debt was £1,117.7 million (2017: £1,005.3 million) and the fair value of the other financial liabilities was the same as the book values shown above.

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 J.C. Rathbone Associates 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.

It should be noted that fair value is not the same as a liquidation valuation or the amount required to prepay the loans at the balance sheet date, and therefore does not represent an estimate of the cost to the Group of repaying the debt before the scheduled maturity date, which would be expected to be materially higher.

The Group's accounting policy for financial assets and liabilities is disclosed in note 2f.

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 arises and the policy for managing it is summarised below.

Market risk
Market risk in financial assets and liabilities is defined as 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 and liabilities and foreign currencies, to the extent that these are exposed to general and specific market movements.

Notes to the Group Financial Information continued

18. Financial assets and liabilities (continued)

(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 fixed rate loans totalling £1,016.0 million (2017: £967.3 million) are not subject to interest rate risk. The Group is exposed to cash flow interest rate risk on its £76.5 million (2017: £nil) of floating rate loans, which are at variable rates. The Group's policy is to mitigate interest rate risk by entering into interest rate derivatives, which at the balance sheet date included interest rate swaps on £50.0 million of floating rate loans and interest rate caps on the remaining £26.5 million. 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. Under interest rate caps, the Group agrees a similar exchange if the variable interest rate exceeds the contractual strike rate of the derivative.

The Group's sensitivity to changes in interest rates is disclosed in note 9.

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 it is assumed that there is no material interest rate risk associated with these financial liabilities.

(b) Market risk – currency risk

The Group prepares its financial information in Sterling. On an IFRS basis, 2.9% (2017: 4.0%) by value of the Group's net assets are Euro denominated and as a result the Group is subject to foreign currency exchange risk due to exchange rate movements between Sterling and the Euro. On an EPRA basis, the Euro net assets exposure is 3.7% (2017: 5.1%). This risk is partially hedged because within the Group's German operations, the majority of both assets and liabilities are held in Euros, and the majority of both revenue and expenditure arises in Euros. An unhedged currency risk therefore 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 or decrease in average and closing Sterling rates against the Euro, was as follows:

	Year to 31 December 2018 £000	Year to 31 December 2017 £000
Effect on profit	**460**	758
Effect on other comprehensive income and equity	**3,572**	2,863

Credit risk

Credit risk is the risk of financial loss to the Group if a counterparty fails to meet its contractual obligations. The principal counterparties are the Group's tenants (in respect of trade receivables arising under operating leases), banks (as holders of the Group's cash deposits) and the counterparties to the Group's investment property disposals that had not completed at the balance sheet date.

The credit risk of trade receivables is considered low because the counterparties to the operating leases are considered by the Board to be high quality tenants and any lease guarantors are of appropriate financial strength. On the 70% of the portfolio (at 31 December 2018 valuations) that had been owned by the Group since 2007, over the last ten years the rent has always been paid on or before its due date. Rent collection dates and statistics are benchmarked in Board reports to identify any problems at any early stage, and if necessary rigorous credit control procedures will be applied to facilitate the recovery of trade receivables. The Group does not hold any financial assets which are either past due or impaired. The credit risk on cash deposits is limited because the counterparties are banks with credit ratings which are acceptable to the Board and are kept under review each quarter or more often if required.

Inflation risk

Inflation risk arises from the impact of inflation on the Group's income and expenditure. 52% (2017: 42%) of the Group's passing rent at 31 December 2018 is subject to RPI-linked rent reviews, though rents are only subject to nil or upwards review, never downwards. As a result, the Group is not exposed to a fall in rent in deflationary conditions. The Group is also exposed to inflation risk on its running costs, with the exception of any advisory and incentive fees, where these costs could increase in periods of strong inflation. These costs total £2.2 million for the current year (10% of total property and administrative costs) and therefore the impact of any significant percentage increase in inflation would be minimal.

Notes to the Group Financial Information continued

18. Financial assets and liabilities (continued)

Liquidity risk

Liquidity risk arises from the Group's management of working capital and 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 Group seeks to manage its liquidity risk by ensuring that sufficient cash is available to meet its foreseeable needs. These liquidity needs are relatively modest and are managed principally through the deduction of much of the operating costs from rental receipts, before any surplus is applied in payment of interest and loan amortisation as required by the credit agreements relating to the Group's secured debt.

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. These assessments are made on the basis of both base case and downside scenarios. The Group prepares budgets and working capital forecasts which are reviewed by the Board at least quarterly to assess ongoing 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 when they fall due.

The following tables show the maturity analysis for financial assets and liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities, including future interest payments, based on the earliest date on which the Group can be required to pay. In the prior year, all headlease liabilities paid by the Group were fully recoverable from the relevant tenant so there was no net cash flow impact on the Group. From the year ended 31 December 2018 some 25% of headlease liabilities are not recoverable from the tenant and are included in this analysis.

31 December 2018	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	0.3%	101,745	-	-	-	**101,745**
Trade and other receivables		267	-	-	-	**267**
Interest rate derivatives		1	27	278	-	**306**
		102,013	27	278	-	**102,318**
Financial liabilities:						
Secured debt – fixed interest rates	5.0%	(54,639)	(55,332)	(631,277)	(546,633)	**(1,287,881)**
Secured debt – floating interest rates	2.7%	(2,291)	(2,361)	(82,666)	-	**(87,318)**
Headlease liabilities		(502)	(502)	(1,507)	(6,871)	**(9,383)**
Accrued interest		(9,248)	-	-	-	**(9,248)**
Trade payables and accrued expenses		(1,233)	-	-	-	**(1,233)**
Interest rate derivatives	1.3%	(158)	(111)	(42)	-	**(311)**
		(68,071)	(58,306)	(715,492)	(553,504)	**(1,395,374)**

31 December 2017	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%	88,755	-	-	-	**88,755**
Trade and other receivables		96	-	-	-	**96**
		88,851	-	-	-	**88,851**
Financial liabilities:						
Secured debt – fixed interest rates	5.1%	(40,782)	(52,807)	(165,342)	(1,053,546)	**(1,312,477)**
Accrued interest		(8,613)	-	-	-	**(8,613)**
Trade payables and accrued expenses		(891)	-	-	-	**(891)**
		(50,286)	(52,807)	(165,342)	(1,053,546)	**(1,321,981)**

18. Financial assets and liabilities (continued)

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 debt covenants so as to safeguard its equity and avoid financial penalties. Borrowings are secured on each of six (2017: four) 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.

The Group is subject to externally imposed capital requirements under the AIFMD regime as disclosed in note 15. Those capital requirements have been complied with at all times during the current and prior years, and up to the date of this report.

At both 31 December 2018 and 31 December 2017, the capital structure of the Group consisted of debt (note 18), cash and cash equivalents (note 15), and equity attributable to the shareholders of the Company (comprising share capital, retained earnings and the other reserves referred to in notes 21 and 22).

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 Group keeps under review the amount of any dividends or other returns to shareholders, and monitors the extent to which the issue of new shares or the realisation of assets may be required.

Details of the significant accounting policies adopted, including 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 are disclosed in the accounting policies in note 2.

19. Headlease liabilities

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

Minimum headlease payments	**31 December 2018 £000**	31 December 2017 £000
Within one year	**1,801**	834
Between one year and five years	**7,219**	3,345
More than five years	**157,138**	51,904
	166,158	56,083
Less future finance charges	**(137,647)**	(44,362)
	28,511	11,721

The earliest expiry date of all the lease obligations is in more than five years. All but £0.5 million (2017: £nil) of the minimum headlease payments due within one year are recoverable from the occupational tenants.

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

20. Deferred tax

The movements in the deferred tax liability, which relate entirely to unrealised gains on the Group's German investment properties, were as follows:

	Year to 31 December 2018 £000	Year to 31 December 2017 £000
At the start of the year	**10,238**	8,496
Charge to the income statement (note 10)	**747**	1,437
Currency translation movement in other comprehensive income	**125**	305
At the end of the year	**11,110**	10,238

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

Notes to the Group Financial Information continued

21. Share capital
Share capital represents the aggregate nominal value of shares issued. The movement over the year in the number of shares in issue, all of which were fully paid, was as follows:

	Year to 31 December 2018 Number	Year to 31 December 2017 Number
At the start of the year	**230,536,874**	227,229,706
Issue of ordinary shares:		
in respect of March 2018 placing	**86,438,000**	-
in settlement of 2017 incentive fee	**4,588,479**	-
in settlement of 2016 incentive fee	**-**	3,307,168
At the end of the year	**321,563,353**	230,536,874

Under the incentive fee arrangements described in note 26, a fee of £4.9 million (2017: £16.0 million) will become due in March 2019, assuming completion of the process of service of notice, acceptance of the calculation and independent valuation of the shares, by way of the issue of 1,282,619 (2017: 4,588,479) new ordinary shares in the Company, following which there will be 322,845,972 (2017: 235,125,353) ordinary shares in issue. The cost of the incentive fee to the Group including irrecoverable VAT is £5.3 million (2017: £17.6 million), charged to administrative expenses in the year.

22. Reserves
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 equity issues.

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

Other reserves represent:

- the cumulative exchange gains and losses on foreign currency translation;
- 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 26, under the terms of the incentive fee arrangements.

Movements in other reserves comprise:

	Currency translation differences £000	Shares to be issued £000	Cash flow hedging instruments £000	**Total £000**
Year to 31 December 2018				
At the start of the year	4,837	16,015	-	**20,852**
Currency translation movements	468	-	-	**468**
Fair value of derivatives	-	-	(200)	**(200)**
Other comprehensive income	468	-	(200)	**268**
Shares issued in the year	-	(16,015)	-	**(16,015)**
Shares to be issued	-	4,872	-	**4,872**
	5,305	4,872	(200)	**9,977**
Year to 31 December 2017				
At the start of the year	3,689	9,359	-	**13,048**
Currency translation movements	1,148	-	-	**1,148**
Other comprehensive income	1,148	-	-	**1,148**
Shares issued in the year	-	(9,359)	-	**(9,359)**
Shares to be issued	-	16,015	-	**16,015**
	4,837	16,015	-	**20,852**

Notes to the Group Financial Information continued

23. Operating leases

The Group's principal assets are investment properties which are leased to third parties under non-cancellable operating leases. The weighted average remaining lease term at 31 December 2018 is 20.9 years (2017: 22.2 years) and there are no significant break options. The leases contain either fixed or upwards only RPI-linked uplifts, and with effect from May 2018, periodic open market reviews on the majority of the healthcare portfolio. Contingent rental income, which arises as a result of the RPI-linked uplifts, totalling £1.0 million (2017: £0.6 million) was recognised in the income statement in the year.

The future minimum lease payments receivable under the Group's leases, translated at the relevant year end exchange rates, are as follows:

	31 December 2018 £000	31 December 2017 £000
Within one year	**126,076**	96,665
Between one year and five years	**519,432**	403,193
More than five years	**2,376,858**	2,022,467
	3,022,366	2,522,325

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

24. Net asset value per share

Net asset value per share

The net asset value ("NAV") per share of 398.5 pence (2017: 373.3 pence) is calculated as the net assets of the Group attributable to shareholders divided by 321,563,353 (2017: 230,536,874) shares in issue at the end of the year.

Diluted net asset value per share

Diluted NAV per share is calculated as the net assets of the Group attributable to shareholders divided by 322,850,595 (2017: 235,125,353) shares, having adjusted the number of shares for the additional 1,287,242 (2017: 4,588,479) shares to be issued in settlement of incentive fees payable as explained in note 26. As at 31 December 2018 diluted NAV per share is 397.0 pence per share (2017: 366.0 pence per share).

EPRA NAV per share

The European Public Real Estate Association ("EPRA") has issued guidelines aimed at providing a measure of net asset value on the basis of long term fair values. The EPRA measure excludes items that are considered to have no impact in the long term, such as the deferred tax on investment properties held for long term benefit. The Group's EPRA NAV is calculated, consistent with diluted EPRA NAV, on 322,850,595 (2017: 235,125,353) shares as follows:

	31 December 2018		31 December 2017	
	£000	**Pence per share**	£000	Pence per share
Basic NAV	**1,281,588**	**398.5**	860,577	373.3
Dilution from shares issued for incentive fee	**-**	**(1.5)**	-	(7.3)
Diluted NAV	**1,281,588**	**397.0**	860,577	366.0
EPRA adjustments:				
Deferred tax on German investment property revaluations	**11,110**	**3.4**	10,238	4.4
Fair value of derivatives	**197**	**0.1**	-	-
EPRA NAV	**1,292,895**	**400.5**	870,815	370.4

Notes to the Group Financial Information continued

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

Year ended 31 December 2018	Secured debt due within one year (note 18) £000	Secured debt due in more than one year (note 18) £000	Headlease liabilities (note 19) £000	Interest payable (note 17) £000	Derivatives (note 14) £000	**Total £000**
At the start of the year	2,227	953,086	11,721	8,613	-	**975,647**
Cash flows:						
Drawdown of secured debt	-	128,700	-	-	-	**128,700**
Interest and finance costs paid	-	-	(1,191)	(50,704)	(103)	**(51,998)**
Scheduled amortisation of secured debt	(4,156)	-	-	-	-	**(4,156)**
Loan costs paid on new facilities	(454)	(2,007)	-	-	-	**(2,462)**
Purchase of interest rate caps	-	-	-	-	(220)	**(220)**
Non-cash flows:						
Finance costs in the income statement	-	2,225	1,191	51,288	174	**54,878**
Finance costs in other comprehensive income	-	-	-	-	200	**200**
Recognition of headlease liabilities acquired	-	-	16,862	-	-	**16,862**
Movement in headlease liabilities	-	-	(72)	-	-	**(72)**
Currency translation movements	(2)	647	-	5	-	**649**
Reclassifications	4,156	(4,156)	-	46	(46)	**-**
At the end of the year	1,771	1,078,495	28,511	9,248	5	**1,118,029**

Year ended 31 December 2017	Secured debt due within one year (note 18) £000	Secured debt due in more than one year (note 18) £000	Headlease liabilities (note 19) £000	Interest payable (note 17) £000	Derivatives (note 14) £000	**Total £000**
At the start of the year	2,238	953,302	11,804	8,684	-	**976,028**
Cash flows:						
Interest and finance costs paid	-	-	(799)	(49,287)	-	**(50,086)**
Scheduled amortisation of secured debt	(4,156)	-	-	-	-	**(4,156)**
Non-cash flows:						
Finance costs in the income statement	-	1,922	799	49,198	-	**51,919**
Movement in headlease liabilities	-	-	(83)	-	-	**(83)**
Currency translation movements	(11)	2,018	-	18	-	**2,025**
Reclassifications	4,156	(4,156)	-	-	-	**-**
At the end of the year	2,227	953,086	11,721	8,613	-	**975,647**

Notes to the Group Financial Information continued

26. Related party transactions and balances

Relationship between Company and Investment Adviser

The Investment Advisory Agreement, which sets out the terms of the relationship between the Company and the Investment Advisor, originally had a term of eight years from the time of the Company's listing and in the ordinary course would be expected to expire in June 2022. As explained in note 27, the agreement has been amended after the balance sheet date including the extension of the termination date by three and a half years to December 2025.

Neither party to the agreement has any contractual renewal right. The agreement may be terminated in certain circumstances which are summarised in the 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 in the event of a change of control of the Company. In the event of a change of control prior to June 2019 the termination fee would be six times the previous quarter's advisory fee after which it reduces to four times the previous quarter's advisory fee, with any such termination payments designed to cover the cost of redundancies and office wind down costs that may be required following the Investment Adviser's loss of the management of the Group.

Advisory fees payable

Nick Leslau, Mike Brown and Sandy Gumm are Directors of the Company and are respectively Chairman, Chief Executive and Chief Operating Officer of Prestbury Investments LLP ("Prestbury"), in which they also hold partnership interests. Prestbury is Investment Adviser to the Group under the terms of an agreement that became effective on listing in June 2014 (the "Investment Advisory Agreement"). Under the terms of the Investment Advisory Agreement, advisory fees of £12.3 million (2017: £9.3 million) plus VAT were payable in cash to Prestbury in respect of the year, of which £0.1 million (2017: £0.1 million) was outstanding as at the balance sheet date and is included in trade and other payables (note 17).

Advisory fees are calculated at 1.25% per annum on EPRA NAV up to £500 million, plus 1.0% per annum on EPRA NAV between £500 million and £1 billion, plus 0.75% per annum on EPRA NAV over £1 billion. If there were no change in EPRA NAV in the forthcoming financial year, the advisory fee for the year would be £13.4 million plus VAT.

After the balance sheet date, the terms of the Agreement have been amended with effect from 1 April 2019 to:

- extend the term by three and a half years to December 2025;
- reduce the level of fees payable to the extent that EPRA NAV exceeds £1.5bn by reducing the percentage above that level from 0.75% to 0.5%;
- introduce a cap on fees payable (excluding any fees earned on a sale of the business) at a maximum of 5% of EPRA NAV, where previously fees were uncapped; and
- include a further review of the fee bases in December 2022 or ahead of any proposal for the Company to move to the Main List of the London Stock Exchange.

The process undertaken by the Independent Directors to appropriately benchmark these terms is set out in the Chairman's Statement.

Incentive fee

Under the terms of the Investment Advisory Agreement, a Prestbury group company 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 Prestbury's interests with those of shareholders. TAR is measured as growth in 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). Sales of these shares are restricted, with the restriction lifted on a phased basis over a period from 18 to 42 months from the date of issue, subject to a specific release in the event that Prestbury needs to sell shares to settle the tax liability on the fee income it earns.

The incentive fee is calculated in accordance with the Investment Advisory Agreement by reference to growth in TAR: if this growth exceeds a hurdle rate of 10% over a given financial year, an incentive fee equal to 20% of this excess is payable to Prestbury. In the event of an incentive fee being payable at the end of an accounting period, a "high water mark" is established, represented by the closing EPRA NAV per share after the impact of the incentive fee, which is then the starting point for the cumulative hurdle calculations for future periods. The hurdle will therefore be set at the higher of the EPRA NAV at the start of the year plus 10% or the high water mark EPRA NAV plus 10% per annum. Dividends or other distributions paid in any period are treated as payments on account against achievement of the hurdle rate of return.

26. Related party transactions and balances (continued)

A high water mark EPRA NAV per share of 370.4 pence per share was established at 31 December 2017, when a fee was last earned, therefore TAR had to exceed 37.0 pence per share for the year for an incentive fee to be earned. Dividends of 13.9 pence per share were paid in the year, so any excess of EPRA NAV per share over and above 394.5 pence per share at 31 December 2018 represents above target TAR, of which Prestbury earns 20% under the incentive fee arrangements. Since EPRA NAV is 400.5 pence per share, this fee amounts to £4.9 million, payable in shares following publication of these results and satisfactory completion of the service of notices and acceptance of the calculation.

Irrecoverable VAT arises on any element of the Group's costs, including any incentive fee, that relate to the healthcare portfolio. For the year to 31 December 2018, the irrecoverable element amounted to 42% of the VAT liability so £0.4 million of the VAT on the incentive fee will not be recoverable. The total expense in the income statement for the incentive fee therefore amounts to £5.3 million: £4.9 million satisfied by way of the issue of 1,287,242 shares to Prestbury plus £0.4 million of irrecoverable VAT. Since new ordinary shares are issued in satisfaction of any incentive fee, the cost of that fee in the financial information only impacts the net asset value of the Group to the extent of the irrecoverable VAT but does reduce the Group's net asset value per share. The issue of the incentive shares in respect of the 2018 fee to Prestbury will result in dilution of shareholder returns of under 0.4%, and this dilution is reflected in the 31 December 2018 EPRA NAV per share.

Assuming no changes in the Company's capital structure, dividends plus EPRA NAV per share growth will have to exceed 40.0 pence per share for the year ending 31 December 2019 for an incentive fee to be earned at the end of that year.

27. Events after the balance sheet date

On 23 February 2019, the Company paid a dividend of £12.6 million, representing a payment of 3.9325 pence per share.

Since the balance sheet date, the terms of the Investment Advisory Agreement have been amended with effect from 1 April 2019 to:

- extend the term by three and a half years to December 2025;
- reduce the level of fees payable to the extent that EPRA NAV exceeds £1.5 billion by reducing the percentage above that level from 0.75% to 0.5%;
- introduce a cap on fees payable (excluding any fees earned on a sale of at least the majority of the business) at a maximum of 5.0% of EPRA NAV, where previously fees were uncapped, with the terms of the incentive fee payments including their being payable in shares subject to lock-in periods being unchanged; and
- include a further review of the fee bases in December 2022 or ahead of any proposal for the Company to move to the Main List of the London Stock Exchange.

The process undertaken by the Independent Directors to appropriately benchmark these terms is set out in the Chairman's Statement.

Supplementary information

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

When providing illustrations of future performance, the Company measures shareholder return by reference to illustrative EPRA NAV as a proxy for the share price performance.

TAR – EPRA NAV performance

	Year to 31 December 2018 Pence per share	Year to 31 December 2017 Pence per share
EPRA NAV per share:		
at the start of the year	**370.4**	323.6
at the end of the year	**400.5**	370.4
Increase in EPRA NAV per share	**30.1**	46.8
Dividends per share	**13.9**	13.6
Increase in EPRA NAV per share plus dividends per share	**44.0**	60.4
TAR	**11.9%**	18.7%

TSR – share price performance

	Year to 31 December 2018 Pence per share	Year to 31 December 2017 Pence per share
Mid market closing share price:		
at the start of the year	**360.8**	315.5
at the end of the year	**377.0**	360.8
Increase in share price	**16.2**	45.3
Dividends per share	**13.9**	13.6
Increase in share price plus dividends per share	**30.1**	58.9
TSR	**8.3%**	18.7%

Supplementary information continued

EPRA measures

	31 December 2018	31 December 2017
EPRA NAV per share	**400.5p**	370.4p
EPRA Triple Net Asset Value Per Share	**389.2p**	349.8p
EPRA Net Initial Yield	**5.0%**	5.1%
EPRA Topped Up Net Initial Yield	**5.1%**	5.1%
EPRA Vacancy Rate	**0%**	0%

	Year to 31 December 2018	Year to 31 December 2017
EPRA EPS	**16.6p**	10.9p
Adjusted EPRA EPS	**14.7p**	13.6p
EPRA Capital Expenditure	**£435.5m**	-
EPRA Cost Ratio excluding direct vacancy costs	**16.8%**	27.9%
EPRA Cost Ratio including direct vacancy costs	**16.9%**	27.9%
Adjusted EPRA Cost Ratio excluding direct vacancy costs	**14.1%**	14.3%
Adjusted EPRA Cost Ratio including direct vacancy costs	**14.2%**	14.3%

EPRA NAV per share

	31 December 2018		31 December 2017	
	£000	**Pence per share**	£000	Pence per share
Basic NAV (note 24)	**1,281,588**	**398.5**	860,577	373.3
Dilution from shares to be issued for incentive fee	**-**	**(1.5)**	-	(7.3)
Diluted NAV	**1,281,588**	**397.0**	860,577	366.0
EPRA adjustments:				
Deferred tax on German investment property revaluations	**11,110**	**3.4**	10,238	4.4
Fair value of derivatives	**197**	**0.1**	-	-
EPRA NAV	**1,292,895**	**400.5**	870,815	370.4

Basic NAV, diluted NAV and EPRA NAV are calculated on the number of shares in issue at each balance sheet date as follows:

	31 December 2018 Number	31 December 2017 Number
Basic NAV	**321,563,353**	230,536,874
Shares to be issued in satisfaction of incentive fee (note 26)	**1,287,242**	4,588,479
Diluted and EPRA NAV	**322,850,595**	235,125,353

Supplementary information continued

EPRA Triple Net Asset Value per share

The EPRA Triple NAV is adjusted to reflect the fair values of any debt and hedging instruments, and any inherent tax liabilities not provided for in the financial information. This is calculated as follows:

	31 December 2018		31 December 2017	
	£000	**Pence per share**	£000	Pence per share
EPRA NAV (note 24)	**1,292,895**	**400.5**	870,815	370.4
Adjustment to reflect fair value of fixed rate debt	**(25,176)**	**(7.8)**	(38,024)	(16.2)
Deferred tax on German investment property revaluations	**(11,110)**	**(3.4)**	(10,238)	(4.4)
Fair value of derivatives	**(197)**	**(0.1)**	-	-
EPRA Triple NAV	**1,256,412**	**389.2**	822,553	349.8

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 in the balance sheet at its fair value. The fair value of debt is not the same as a liquidation valuation, so the fair value adjustment above does not reflect the liability that would crystallise if the debt was repaid early on the balance sheet date, which would be materially higher.

EPRA Net Initial Yield and EPRA Topped Up Net Initial Yield

	31 December 2018 £000	31 December 2017 £000
Investment property, all of which is completed and wholly owned, at external valuation (note 12)	**2,306,709**	1,770,163
Allowance for estimated purchasers' costs	**155,628**	119,480
Grossed up completed property portfolio valuation	**2,462,337**	1,889,643
Annualised cash passing rental income	**124,989**	95,682
Annualised non-recoverable property outgoings	**(815)**	(26)
Annualised net rents	**124,174**	95,656
Notional rent increase on expiry of rent free periods and other lease incentives	**187**	-
	124,361	95,656
EPRA Net Initial Yield	**5.0%**	5.1%
EPRA Topped Up Net Initial Yield	**5.1%**	5.1%

EPRA Vacancy Rate

	31 December 2018	31 December 2017
EPRA Vacancy Rate	**0%**	0%

Supplementary information continued

EPRA EPS

	Year to 31 December 2018 £000	Year to 31 December 2017 £000
Basic earnings attributable to shareholders (note 11)	**147,513**	137,239
EPRA adjustments:		
Investment property revaluation (note 12)	**(98,167)**	(113,428)
German deferred tax on investment property revaluation (note 10)	**747**	1,437
Profit on disposal of investment properties (note 7)	**(183)**	-
Fair value adjustment of interest rate derivatives (note 9)	**25**	
Other income	**-**	(171)
EPRA earnings	**49,935**	25,077
Other adjustments:		
Rent Smoothing Adjustments (note 4)	**(10,950)**	(11,443)
Incentive fee (note 6)	**5,278**	17,575
Adjusted EPRA earnings	**44,263**	31,209

Weighted average number of shares in issue	**Number**	Number
Adjusted EPRA EPS	**300,553,819**	229,685,165
Adjustment for time weighting of shares issued in the year *	**995,851**	851,709
EPRA EPS	**301,549,670**	230,536,874
Shares to be issued in satisfaction of incentive fee (note 26)	**1,287,242**	4,588,479
Diluted EPRA EPS	**302,836,912**	235,125,353

* 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	**16.6**	10.9
Diluted EPRA EPS	**16.5**	10.7
Adjusted EPRA EPS	**14.7**	13.6

EPRA Capital Expenditure

	Year to 31 December 2018 £000	Year to 31 December 2017 £000
Acquisitions	**435.5**	-
Development	**-**	-
Expenditure on like for like portfolio	**-**	-
Other	**-**	-
EPRA Capital Expenditure	**435.5**	-

The expenditure on acquisitions in the year represents the purchase of two portfolios, including costs.

The Group does not capitalise any overheads or interest into its property portfolio and it does not develop properties.

The Group's properties are let on full repairing and insuring leases, so the Group incurs no routine ongoing capital expenditure on its investment portfolio. There is only negligible vacant space as at 31 December 2018 and there was none in prior years.

Supplementary information continued

EPRA Cost Ratio

	Year to 31 December 2018 £000	Year to 31 December 2017 £000
Revenue (note 4)	**125,874**	106,930
Tenant contributions to property outgoings (note 4)	**(1,384)**	(1,112)
EPRA gross rental income	**124,490**	105,818
Non-recoverable property operating expenses (note 5) *	**427**	26
Administrative expenses (note 6)	**20,575**	29,487
EPRA costs including direct vacancy costs	**21,002**	29,513
Direct vacancy costs	**(90)**	-
EPRA costs	**20,912**	29,513
EPRA Cost Ratio including direct vacancy costs	**16.9%**	27.9%
EPRA Cost Ratio excluding direct vacancy costs	**16.8%**	27.9%

* included within the £0.5 million (2017: £0.3 million) of property costs charged to the income statement is £0.1 million (2017: £0.2 million) of costs that are recoverable from the tenant

The Group has no capitalised overheads or operating expenses.

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. The adjusted EPRA Cost Ratio excludes:

- 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 26).

	Year to 31 December 2018 £000	Year to 31 December 2017 £000
EPRA gross rental income	**124,490**	105,818
Rent Smoothing Adjustments (note 4)	**(10,950)**	(11,443)
Adjusted EPRA gross rental income excluding non-cash items	**113,540**	94,375
EPRA costs including direct vacancy costs	**21,002**	29,513
Incentive fee settled in shares (note 26)	**(4,872)**	(16,015)
Adjusted EPRA costs including direct vacancy costs	**16,130**	13,498
Direct vacancy costs	**(90)**	-
Adjusted EPRA costs excluding direct vacancy costs	**16,040**	13,498
Adjusted EPRA Cost Ratio including direct vacancy costs	**14.2%**	-
Adjusted EPRA Cost Ratio excluding direct vacancy costs	**14.1%**	14.3%

The Group has no capitalised overheads or operating expenses.

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
AIFMD	Alternative Investment Fund Managers Directive
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 November 2016
EPRA NAV	A measure of **NAV** designed by **EPRA** to present the fair value of a company on a long term basis, by excluding items such as interest rate derivatives that are held for long term benefit, net of deferred tax
EPS	Earnings per share, calculated as the profit for the period after tax attributable to members of the parent company divided by the weighted average number of shares in issue in the period
IFRS	International Financial Reporting Standards adopted for use in the European Union
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**
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
NAV	Net asset value
Net Initial Yield	Annualised net rents on investment properties as a percentage of the investment property valuation, less purchaser's costs
Net Loan To Value or Net LTV	**LTV** calculated on the gross loan amount less cash balances
REIT	Real Estate Investment Trust
Rent Smoothing Adjustments	The adjustment required to recognise rent received in the income statement ahead of cash received as a result of the requirement to spread rental income evenly over the lease term
Running Yield	The anticipated **Net Initial Yield** at a future date, taking account of any rent reviews 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 NAV** over a period plus dividends paid in the period, expressed as a percentage of the **EPRA NAV** 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