12 March 2020

Results for the year ended 31 December 2019

Secure Income REIT Plc (AIM: SIR) (the "Company" or the "Group"), the specialist long term income UK REIT, today announces its results for the year ended 31 December 2019.

Highlights

	31 December 2019	31 December 2018	Change in year
Net assets	**£1,384.5m**	£1,281.6m	Up 8.0%
EPRA net assets	**£1,396.9m**	£1,292.9m	Up 8.0%
EPRA net assets per share	**431.1p**	400.5p	Up 7.6%
Net Loan To Value ratio	**31.9%**	43.0%	Down 26%
Uncommitted cash	**£234.2m**	£66.4m	Up 350%
Annualised passing rent: like for like (1)	**£110.7m**	£108.5m	Up 2.0%
Portfolio blended net initial valuation yield: like for like (1)	**4.95%**	5.05%	Down 10 bps
Running Yield within 12 months: like for like (1),(2)	**5.08%**	5.16%	Down 8 bps
Weighted Average Unexpired Lease Term	**21.0 years**	20.9 years	Up 0.5%

(1) Like for like data excludes the effect of sales in either period
(2) Using independent external valuers' RPI estimates averaging 2.6%

	Year to 31 December 2019	Year to 31 December 2018	Change in year
Total Accounting Return	**11.7%**	11.9%	Down 1.7%
Total Shareholder Return	**19.4%**	8.3%	Up 134%
Adjusted EPRA earnings per share	**15.3p**	14.7p	Up 4.1%
Earnings per share	**47.5p**	48.9p	Down 2.9%
Dividends per share	**16.3p**	13.9p	Up 17.3%
Latest dividend per share annualised, as a percentage of EPRA NAV	**3.9%**	3.9%	-

- **7.6% growth in NAV per share and EPRA NAV per share**

- Shareholder Returns:
  - **Total Shareholder Return of 19.4%** in the year
  - **Total Accounting Return of 11.7%** in the year
  - **Total Accounting Return of 19.0% per annum since listing** in June 2014

- **Adjusted EPRA EPS up 4.1%** to 15.3p for the year

- Distributions:
  - **dividends per share up 17.3%** year on year to 16.3 pence per share in the year
  - Adjusted EPRA EPS distributed as a fully covered dividend of 15.2 pence per share, plus 1.1 pence per share of 'top-up' dividends paid out of surplus realised on the August 2019 hospitals sale

- **Eight of the Group's 19 private hospitals sold for gross consideration of £347 million** in the year:
  - contract price **19% above 31 December 2018 book value**
  - **net debt reduced by £316 million** contributing to **uncommitted cash of £234 million** at 31 December 2019
  - 65% capital return and **over 100% unlevered property return on the sold hospital assets since IPO**

Highlights continued

- Portfolio of 161 Key Operating Assets in defensive sectors:
    - **like for like portfolio valuation up 4.0%** over the year to £2.1 billion
    - externally valued at a **blended Net Initial Yield of 4.95%**
    - **like for like passing rents up 2.0%** to £110.7 million
    - Running Yield within 12 months 5.08% (assuming independent external valuers' estimates of RPI uplifts averaging 2.6%)
    - Weighted Average Unexpired Lease Term as at 31 December 2019 of **21.0 years with no breaks**, up from 20.9 years at 31 December 2018
    - **strong and predictable growth prospects** underpinned by upwards only RPI-linked rent reviews (59% of passing rents) and fixed rental uplifts (41% of passing rents)

- **Close Management Team alignment with shareholders** through management shareholding of 12% worth £173.5 million at 31 December 2019 EPRA NAV

Martin Moore, Non-Executive Chairman of the Company, commented:
"We are pleased to report another set of strong results with over £360 million of very profitable disposals and a 7.6% rise in EPRA Net Asset Value per share contributing to our Total Accounting Return of 19% per annum since listing in 2014. Stock market volatility has returned in recent days prompting a flight to safety that has driven bond yields around the world to historic lows. Safety has rarely, if ever, been as expensive in offering such low income returns which seem unlikely to match the level of inflation. In this environment we strongly believe in the attraction of the safe, inflation-linked long term income streams provided by Secure Income REIT, with its properties valued at a net initial yield of almost 5% driving secure and growing long term dividends. With £234 million of uncommitted cash, net leverage at the Company's lowest ever level, and with materially the longest leases amongst the major UK long lease REITs, we are well placed to both ride out any short term storms and take advantage of any opportunities that arise in the market."

For further information on the Company, please contact:

Secure Income REIT Plc	+44 20 7647 7647
Nick Leslau	enquiries@SecureIncomeREIT.co.uk
Mike Brown	
Sandy Gumm	
Stifel Nicolaus Europe Limited	
(Nominated Adviser)	+44 20 7710 7600
Mark Young	StifelSecureIncomeREIT@stifel.com
Stewart Wallace	
FTI Consulting	
(PR Adviser)	+44 20 3727 1000
Dido Laurimore	SecureIncomeREIT@fticonsulting.com
Claire Turvey	
Eve Kirmatzis	

Preliminary Results Presentation
Secure Income REIT will be holding a presentation for analysts and investors today at 9.00am at Stifel, 150 Cheapside, London, EC2V 6ET. If you would like to attend, please contact FTI Consulting on 020 3727 1000, or email SecureIncomeREIT@fticonsulting.com.

A conference call facility will be available. The dial-in details are:

Participants: Local, United Kingdom:	+44 (0)330 336 9126
Confirmation code:	5997280

Webcast link: https://webcasting.brrmedia.co.uk/broadcast/5e380cd6b9710760e29256d2

The presentation will subsequently be uploaded on the Company's website www.SecureIncomeREIT.co.uk

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 2019, the Group's investment property portfolio was valued at £2.1 billion, producing £110.7 million per annum of rental income from long term leases with a weighted average unexpired term to expiry of 21.0 years with no breaks. All rental income is subject to fixed uplifts or RPI upwards only rent reviews with 59% of rental income subject to RPI-linked reviews and 41% having fixed uplifts.

The Group's portfolio comprises key operating assets let to strong businesses in defensive sectors with high barriers to entry. The upwards only 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 Investment Partners Limited, owned by the team which advised Max Property Group Plc until August 2014, when all of the assets of Max Property Group Plc were sold to Blackstone Group. Prestbury is owned and run by a team 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.

Chairman's Statement

Dear Shareholder,
Secure Income REIT listed in June 2014 with a modest market capitalisation of under £300 million, but with an ambition to become a sector-leading REIT by providing attractive investor returns through safe, inflation-linked upward only long term income streams. In our sixth annual report we are pleased to report continuing progress, with a net asset value that has grown to £1.4 billion whilst delivering a Total Accounting Return of 19% per annum since listing and significantly reducing leverage.

Results and financial position
We remain as focussed as ever on delivering attractive income and total returns to shareholders, and this year we report a Total Accounting Return of 11.7% and a Total Shareholder Return of 19.4%. The Group's NAV per share at 31 December 2019 was up 7.6% at 428.8 pence and the Group's EPRA NAV per share was 431.1 pence, also an increase of 7.6% over the year.

	IFRS Net Assets		EPRA Net Assets	
	£m	Pence per share	£m	Pence per share
At 1 January 2019	1,281.6	398.5	1,292.9	400.5
Investment property revaluation	75.7	23.4	86.3	26.7
Realised profits on sale of properties net of all debt repayment and other costs	23.8	7.3	23.8	7.3
Other retained earnings	55.9	15.9	46.4	12.9
Dividends paid:				
Dividends covered 1:1 by earnings	(49.0)	(15.2)	(49.0)	(15.2)
Dividends paid out of surplus on sale of hospitals	(3.5)	(1.1)	(3.5)	(1.1)
At 31 December 2019	**1,384.5**	**428.8**	**1,396.9**	**431.1**

Our most significant transaction in 2019 was the £347 million sale of eight hospitals at 19% above their December 2018 book value, highlighting the attraction of well-let long lease property. The net profit on the sale contributed 7.1 pence per share to the 30.6 pence per share growth in EPRA NAV, before the impact on valuation yield of the pricing achieved on the sale. Excluding the impact of property sales in the year, the like for like valuation increase over the year was 4.0%. The portfolio passing rent grew by 2.0% on a like for like basis following rent reviews on 69% of total portfolio income. The blended Net Initial Yield on the portfolio was 4.95% at 31 December 2019 compared to 5.05% at the start of the year.

The Group's Adjusted EPRA EPS was 15.3 pence for the year, an increase of 4.1% over the 2018 result. The main factor contributing to this increase is the earnings accretion from the £436 million of portfolio acquisitions in 2018 being reflected for a full year. The Group's EPS, measured on an IFRS basis without the industry standard EPRA adjustments, was 47.5 pence in the year compared to 48.9 pence for 2018. That figure includes the uplifts in property valuations recognised in each year and is explained in the Investment Adviser's report.

These results contribute to the consistently strong returns that the Company has delivered since listing in 2014.

Outlook
The relief rally following the decisive UK election result proved short-lived as the spread of the Covid-19 virus has precipitated sharp stock market corrections across the globe. Aside from the human tragedy, attempts to supress its spread will likely also dampen global economic activity. It is unknown how far the virus might spread or the extent of the measures the UK Government may introduce to try to contain it. However, we do think it is safe to make the judgement that eventually it will pass and economic activity should revert to normal levels. In the same way, we anticipate that the strong branded businesses making up our tenant base, together with the Key Operating Assets that we lease to them, will prove just as attractive to investors once the virus has passed as they were before. Rental income should continue to rise along the path of inflation and therefore our earnings should not suffer the same interruption that operational businesses will face should events deteriorate.

Chairman's Statement continued

Outlook (continued)

In every reporting period since the Company listed, the Group's Net Loan To Value ratio has fallen and this trend continued in the year, with a reduction to 31.9% at 31 December 2019. If the correction in equity markets were to fuel a disruption in the market for long lease property (and there are no signs of it yet) we hold £234 million of uncommitted cash, significantly more than our historic cash buffer of around £60 million, which can be deployed to take advantage of any opportunities that arise. The current flight to safety by investors has driven bond yields around the world to historic lows. Safety has rarely, if ever, been as expensive in offering such meagre income returns, which seem unlikely to match the level of inflation. We believe that those investors willing to keep their nerve and focus on the medium term horizon have the potential to make significantly higher returns with only a modest amount of incremental risk by investing in secure, inflation-linked income streams such as those provided by SIR.

Martin Moore
Chairman
12 March 2020

Investment Adviser's Report

Prestbury Investment Partners Limited, the investment adviser to Secure Income REIT Plc, is pleased to report on the operations of the Group for the year ended 31 December 2019.

EPRA measures

We focus in this report on financial measures recommended by the European Public Real Estate Association ("EPRA") to facilitate comparison with other real estate investment companies. The calculation of the EPRA measures and their reconciliation to the main financial information prepared under IFRS is presented in the unaudited supplementary information included with these reports. The EPRA disclosures are made with reference to the guidelines currently in force which are those issued in 2016. With effect from the Company's 2020 financial year, three new EPRA NAV measures will replace the EPRA NAV and EPRA Triple NAV measures that are currently recommended. We have included the calculation of the three new measures in the unaudited supplementary information. The analysis in this report uses the measures in effect for the 2019 year, calculated on a consistent basis with those in the 2018 accounts.

The business model

The Company is a specialist REIT investing in real estate assets that provide long term rental income with inflation protection. The business is financed with leverage considered by the Board to be appropriate to portfolio and wider market risks, with significant in-built protections intended to enhance returns for shareholders without taking undue borrowing risk.

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

i) the properties should be Key Operating Assets: properties that are essential for the tenant to carry out their business and generate earnings;

ii) the relevant businesses should be in defensive sectors which are likely to be more resilient to disruption from technology, including the internet, to economic downturn or other threats to their sustainability; and

iii) the properties should have high barriers to entry, making them difficult to replace whether because of planning challenges or high replacement cost.

By meeting these tests the Board considers that tenants would be more likely to renew or extend their leases, making the assets less prone to obsolescence and thus preserving shareholder value.

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

i) protections at site level, such as high residual values, alternative use value, or the profitability of a given site enhancing its attractiveness to alternative operators;

ii) protections relating to the tenant, including its financial strength, the sustainability of its business model, the strength of any restrictions relating to lease assignability and the spread of the tenant's operations, whether that is by segment or geography; and

iii) protections afforded by any lease guarantor in addition to the direct tenant, including its financial strength and spread of operations which add to those at site and tenant level.

Financing assets that meet the various criteria outlined above with appropriately structured debt, where interest costs are either entered into at a fixed rate or where interest rate risk is hedged by way of interest rate swaps or caps, means that returns to shareholders can be enhanced in a way that takes risk properly into account. To date all credit facilities have been non-recourse bilateral facilities, where the equity at risk is limited to the net assets within six ring-fenced subgroups. Each subgroup is self-contained, with no cross-default provisions between the six of them. In all cases, substantial financial covenant headroom has been negotiated into loan terms together with appropriate 'cure' rights where cash can be diverted to a security group in order to maintain covenant compliance if that becomes necessary. As new investments are acquired or existing facilities refinanced, the appropriateness of the financing structure is kept under review in order to deliver well priced borrowings while protecting shareholders' equity.

With the Group's debt costs largely fixed, and the running costs of the Group predominantly represented by the advisory fee which is a simple calculation on a reducing scale relative to EPRA NAV, the medium to long term prospects for shareholders are predictable and transparent.

Investment Adviser's Report continued

The portfolio

The Group held 161 properties at 31 December 2019 with annual passing rent of £110.7 million and a very long Weighted Average Unexpired Lease Term of 21.0 years without break. With two thirds of the portfolio subject to annual rent reviews and the entire portfolio being subject to either fixed uplifts or upwards only RPI-linked rent reviews, the Group can continue to offer long term, secure, inflation protected income streams.

	Number of properties	Valuation £m	Passing rent £m
At the start of the year	175	2,306.7	125.0
Increase, net of exchange rate movements	-	81.0	2.2
Hospitals portfolio disposal	(8)	(292.3)	(15.6)
Non-core budget hotel disposals	(6)	(12.3)	(0.9)
At the end of the year	**161**	**2,083.1**	**110.7**

Excluding the impact of the 2019 property sales to provide a meaningful comparison, the external portfolio valuation has increased by 4.0% over the year. The growth in like for like passing rent was 2.0% over the year and follows the completion of reviews on 69% of portfolio rents in the year.

Basis of review

The income arising on the portfolio benefits from fixed contractual rental uplifts which average 2.8% per annum on 41% of the income and upwards only RPI-linked rent reviews on the remaining 59% of the income. Two thirds of the rent is subject to annual review, underpinning the expected dividend growth for the Company.

		31 December 2019		31 December 2018
Percentage of passing rents	**Reviewed annually**	**Reviewed three or five yearly**	**Total portfolio**	Total portfolio
Upwards only RPI:				
Uncapped	25%	28%	**53%**	47%
Collared	4%	2%	**6%**	5%
Total upwards only RPI linked reviews	29%	30%	**59%**	52%
Fixed uplifts:				
Annual reviews	38%	-	**38%**	45%
Five-yearly reviews	-	3%	**3%**	3%
Total fixed uplifts	38%	3%	**41%**	48%
Total portfolio	**67%**	**33%**	**100%**	100%

Lease lengths

The leases on the Group's portfolio are very long with a Weighted Average Unexpired Lease Term of 21.0 years without break from 31 December 2019. 97% of the portfolio has an unexpired lease term longer than 17 years without break.

	Leisure		Healthcare		Budget hotels		**Total**	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
Weighted Average Unexpired Lease Term (years)	22.5	21.7	17.8	18.6	22.4	23.4	**21.0**	20.9

During the year, the lease term for the Brewery on Chiswell Street, London, was extended, with no premium payable to the tenant and no change to the current passing rent of £3.4 million per annum on the property, from 12 to 37 years unexpired without break. From a Group perspective this added 0.7 years to the Weighted Average Unexpired Lease Term and the disposal of eight hospitals during the year had a further positive impact of 0.3 years.

The portfolio Weighted Average Unexpired Lease Term of 21.0 years is significantly longer than that of any other major UK REITs (defined as those with a market capitalisation in excess of £1 billion).

Investment Adviser's Report continued

Portfolio (continued)

No material vacancies or landlord costs

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.

Portfolio valuation

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

	Leisure		Healthcare		Budget hotels		**Total**	
	£m	Like for like change	£m	Like for like change	£m	Like for like change	**£m**	**Like for like change**
Passing rent:								
31 December 2018	45.7		50.2		29.1		**125.0**	
Disposals	-		(15.6)		(0.9)		**(16.5)**	
Exchange rate movement	(0.3)	(0.8%)	-	-	-	-	**(0.3)**	**(0.3%)**
Like for like	45.4		34.6		28.2		**108.2**	
Uplifts	1.4	3.1%	1.0	2.8%	0.1	0.6%	**2.5**	**2.3%**
31 December 2019	46.8	2.3%	35.6	2.8%	28.3	0.6%	**110.7**	**2.0%**
Valuation:								
31 December 2018	826.7		984.8		495.2		**2,306.7**	
Additions	-		-		0.3		**0.3**	
Disposals	-		(292.3)		(12.3)		**(304.6)**	
Exchange rate movement	(6.0)	(0.8%)	-		-		**(6.0)**	**(0.3%)**
Like for like	820.7		692.5		483.2		**1,996.4**	
Revaluation	31.2	3.8%	55.9	8.1%	(0.4)	0.0%	**86.7**	**4.3%**
31 December 2019	851.9	3.0%	748.4	8.1%	482.8	0.0%	**2,083.1**	**4.0%**

Movements in portfolio rents and valuation are further explained in the following sections.

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

	Year to 31 December 2019 £m	Year to 31 December 2018 £m
Investment properties at the start of the year	**2,306.7**	1,770.2
Portfolio held throughout the year:		
Revaluation movement at constant currency	**86.7**	92.1
Currency translation movements on Euro denominated investment properties	**(6.0)**	1.2
Like for like portfolio revaluation	**80.7**	93.3
Hospitals portfolio disposal	**(292.3)**	-
Budget hotels disposals	**(12.3)**	(3.0)
Acquisition of freehold interest in leasehold property	**0.3**	-
Portfolios acquired	**-**	446.2
Net (decrease)/increase in portfolio	**(223.6)**	536.5
Investment properties at the end of the year	**2,083.1**	2,306.7

Yield profile

	Leisure		Healthcare		Budget hotels		**Total**	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
Net Initial Yield *	5.07%	5.11%	4.46%	4.78%	5.50%	5.50%	**4.95%**	5.05%
Running Yield within 12 months †	5.19%	5.25%	4.58%	4.82%	5.66%	5.50%	**5.08%**	5.16%

* the healthcare yields take no account of any uplift from an outstanding May 2018 open market review on the Ramsay hospitals, which account for 94% of the healthcare rents at 31 December 2019

† the leisure and budget hotels Running Yields are calculated using the independent external valuers' estimates of RPI averaging 2.6%

Overall, the blended Net Initial Yield has fallen by ten basis points, with the healthcare yields reflecting the positive impact of the £347 million sale by the Group to Medical Properties Trust, Inc during the year.

Portfolio total rents
The Group's principal lease counterparties, analysed by passing rent as at 31 December 2019, are as follows:

Tenant/guarantor	**31 December 2019 £m**	31 December 2018 £m
Merlin Entertainments Limited *	**34.5**	33.8
Ramsay Health Care Limited:		
Hospitals held throughout the year	**33.5**	32.6
Hospitals sold in July 2019	**-**	15.6
Travelodge Hotels Limited:		
Budget hotels held throughout the year	**28.3**	28.2
Budget hotels sold during the year	**-**	0.9
SMG & SMG Europe Holdings Limited	**4.0**	3.8
The Brewery on Chiswell Street Limited	**3.4**	3.4
Orpea SA	**2.1**	2.0
Stonegate Pub Company Limited	**2.0**	2.0
Others (each below £1.4 million)	**2.9**	2.7
	110.7	125.0

* £6.5 million (2018 £6.6 million) of the Merlin rents are Euro denominated

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

Investment Adviser's Report continued

Portfolio (continued)

Leisure assets (41% of portfolio value)

Passing rents	**31 December 2019 £m**	31 December 2018 £m
UK assets	**40.3**	39.1
German assets (at constant Euro exchange rate)	**6.5**	6.3
	46.8	45.4

The leisure properties comprise four well known visitor attractions let to subsidiaries of Merlin Entertainments Limited together with 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 and Scotland.

The Merlin assets include two of the UK's top three theme parks, Alton Towers and Thorpe Park, together with the Alton Towers hotel and Warwick Castle. The German assets operated by Merlin are Heide Park theme park in Soltau, Saxony, which is the largest in Northern Germany, and its adjacent hotel. These assets are all held freehold and are let to subsidiaries of Merlin Entertainments Limited, which owns all of Merlin's operating businesses and which is the guarantor of all lease obligations for these assets. Measured by the number of visitors, Merlin is Europe's largest and the world's second largest operator of leisure attractions, second only to Disney. During the year, Merlin was the subject of a takeover from a consortium of substantial, established, long term investors that took the business private at a price representing an enterprise value of some £6 billion.

The average term to expiry of the Merlin leases is 22.5 years without break from 31 December 2019 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 2019 resulted in a rental increase of 3.0%. The German properties are subject to fixed annual increases of 3.34% every July throughout the term, as a result of which the German rents increased from £6.3 million to £6.5 million on 30 July 2019 (translated at the 31 December 2019 exchange rate).

Manchester Arena is a strategic site of eight acres, held long leasehold and located on top of Manchester Victoria Railway and Metrolink station. It comprises the UK's largest indoor arena by capacity, some 160,000 sq ft of office and leisure space, a multi-storey car park with approximately 1,000 spaces, and advertising hoardings. The leases on the Manchester site as a whole have an average term to expiry of 16.1 years from 31 December 2019 and produce net passing rent of £6.2 million per annum at that date.

The Arena is let to SMG and SMG Europe Holdings Limited, part of ASM Global, with 25.5 years unexpired without break from 31 December 2019. Rent is reviewed annually every June in line with RPI, collared between 2% and 5%, which in 2019 resulted in a rental increase of 2.9%. ASM Global was created by a merger of AEG Facilities and SMG and is the world's largest venue management company, operating over 322 venues in 21 countries and with pro forma annualised revenues of $500 million. The offices and ancillary leisure space at Manchester Arena are let to tenants including Serco, Manchester City Council, Unison, JCDecaux and go-karting operator TeamSport.

The Brewery on Chiswell Street is a predominantly freehold investment let to a specialist venue operator on a full repairing and insuring lease. 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. Following the completion during the year of a 25 year lease extension at no cost to the Group, the lease term to expiry is now 36.5 years without break from 31 December 2019. The lease terms, which were unaffected by the extension, include five-yearly fixed uplifts of 2.5% per annum compounded and the passing rent is £3.4 million per annum as at 31 December 2019. The next rental uplift to £3.8 million will take effect in July 2021.

The portfolio of 18 high street pubs produces passing rent of £2.0 million per annum as at 31 December 2019 and the leases have an average term to expiry of 20.1 years without break. Rents are subject to five-yearly RPI-linked increases collared between 1% and 4% per annum compounded. No rent reviews fell due on these assets during the financial year but the reviews in February 2020 resulted in an increase in passing rent of £0.2 million per annum (13.2% or 2.5% per annum compounded) and the pub portfolio rents now total £2.2 million per annum. The pubs are let on individual leases either to, or guaranteed by, Stonegate Pub Company Limited. Stonegate announced in July 2019 its recommended offer for Ei Group Plc in a deal that placed an enterprise value of £3 billion on Ei. The combined group is expected to generate annualised EBITDA of £435 million on revenues of £1.55 billion from a 4,828 pub estate, making it the UK's largest pub business.

Portfolio (continued)

Healthcare assets (36% of portfolio value)

Passing rents	**31 December 2019 £m**	31 December 2018 £m
Ramsay hospitals held throughout the year	**33.5**	32.6
Ramsay hospitals sold in July 2019	**-**	15.6
London psychiatric hospital	**2.1**	2.0
	35.6	50.2

The healthcare assets are 11 freehold private hospitals located throughout England and 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 care. During the year, eight Ramsay hospitals were sold to the specialist US healthcare REIT Medical Properties Trust, Inc in a £347 million deal agreed in July 2019. The price reflected a 19% premium over the 31 December 2018 book value.

The Ramsay hospitals are let on full repairing and insuring leases with a term to expiry at 31 December 2019 of 17.4 years without break. The rents increase in May each year by a minimum of a fixed 2.75% per annum throughout the lease term. Following the May 2019 fixed uplifts, the rents on the retained hospitals portfolio increased from £32.6 million to £33.5 million. In addition, there is an upwards only open market review within each lease as at 3 May 2018 and then in May 2022 and every five years thereafter. The May 2018 open market review remains outstanding as it is subject to a formal arbitration process which is ongoing, 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 10 March 2020 (and using the exchange rate on that date) of £6.5 billion.

The London psychiatric hospital is let on a full repairing and insuring lease with a term to expiry at 31 December 2019 of 24.6 years without break. The rent increases in May each year by a fixed 3.0% per annum throughout the lease term and as a result increased from £2.0 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 10 March 2020 (and using the exchange rate on that date) of £5.8 billion.

Budget hotel assets (23% of portfolio value)

Passing rents	**31 December 2019 £m**	31 December 2018 £m
Budget hotels held throughout the year	**28.3**	28.2
Non-core budget hotels sold in the year	**-**	0.9
	28.3	29.1

At 31 December 2019 the Group owned 123 (2018: 129) Travelodge hotels in England, Wales and Scotland, let to Travelodge Hotels Limited which is the main operating company within the Travelodge group trading in the UK, Ireland and Spain. Travelodge is the UK's second largest budget hotel brand, with 586 hotels and over 44,600 rooms as at 30 September 2019.

Six budget hotels not considered core to the portfolio were sold in the year for net proceeds of £13.0 million, representing a gain of £0.7 million (5.7%) over 31 December 2018 book value and £1.4 million (12.3%) over their purchase price. During the year, the Group purchased the freehold interest of an existing leasehold hotel for £0.3 million.

The average term to expiry of the Travelodge leases is 22.4 years from 31 December 2019 with no break clauses. The leases are on full repairing and insuring terms and Travelodge is also responsible for the cost of any headlease payments and other amounts owing to the freeholders of the 52 leasehold properties. There are upwards only uncapped RPI-linked rent reviews every five years throughout the term of each lease, with reviews falling due over a staggered pattern across the portfolio. Reviews on four budget hotels (4% of the portfolio by rental value) took effect during 2019, with passing rent on those assets increasing by 12.6% from £1.3 million to £1.4 million, equivalent to an average uplift of 2.4% per annum. The following three financial years will see a considerably higher proportion of rents subject to review, amounting to 22% of the 31 December 2019 passing rent in 2020, 24% in 2021, 39% in 2022 and 11% in 2023.

Financing

The Group's Net LTV ratio fell from 43.0% to 31.9% over the year, including the impact of the £164 million cash surplus generated on the hospitals portfolio disposal which completed in August 2019.

	Secured amounts £m	Unsecured amounts £m	Regulatory capital £m	**Group total £m**
Gross debt	**930.7**	-	-	**930.7**
Secured cash	**(26.3)**	-	(0.6)	**(26.9)**
Free cash *	**(9.2)**	(231.0)	-	**(240.2)**
Net debt	**895.2**	(231.0)	(0.6)	**663.6**
Property valuation	**2,083.1**			**2,083.1**
Net LTV	**43.0%**			**31.9%**

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

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	377.8*	6	5.7%	Fixed	£3.8m from Oct 2020†	Oct 2022
Budget hotels loan 2	66.9	70	3.3%	78% fixed 22% capped	None	April 2023
Leisure loan 2	60.0	20	3.2%	83% fixed 17% capped	None	June 2023
Budget hotels loan 1	59.0	53	2.7%	Fixed	None	Oct 2023
Healthcare loan 1	64.2	2	4.3%	Fixed	£0.3m	Sept 2025
Healthcare loan 2	302.8	10	5.3%	Fixed	£3.2m	Oct 2025
Total	**930.7**	**161**	**4.9%**			

* £316.8 million of senior and mezzanine Sterling loans and €71.8 million of senior and mezzanine Euro denominated loans translated at the year end exchange rate of €1:£0.85. All loan tranches within the total £377.8 million are 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.

The Board ensures that interest rate risk is managed by either fixing or capping rates over the term of each loan. Currently, 92% of the Group's borrowings are fixed rate facilities.

The weighted average interest cost in the year was 4.9% per annum. The fixed rate on the debt prepaid from the hospitals sale was 4.3% per annum which means that the Group's weighted average cost of debt has increased marginally to 4.9% compared to 4.8% in 2018. Interest cover, measured for these purposes as passing rent divided by annualised interest cost, has remained at 2.4 times on the debt portfolio held at 31 December 2019, consistent with the prior year.

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.

Investment Adviser's Report continued

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

	Year to 31 December 2019	Year to 31 December 2018
Financial measures:		
Total Accounting Return	**11.7%**	11.9%
Total Shareholder Return	**19.4%**	8.3%
Adjusted EPRA earnings per share	**15.3p**	14.7p
Net LTV ratio	**31.9%**	43.0%
Uncommitted cash	**£234.2m**	£66.4m
Other measures:		
Headroom on debt covenants before any preventative cash cure or other remedial action:		
Valuation headroom before tightest LTV default test is triggered	**38%**	32%
Rent headroom before tightest interest cover default test is triggered	**33%**	32%

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

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

	Year to 31 December 2019		Year to 31 December 2018	
	£m	**Pence per share**	£m	Pence per share
NAV at the start of the year	**1,281.6**	**398.5**	860.6	373.3
Investment property revaluation *	**75.7**	**23.4**	98.2	30.3
Profit on disposal of investment properties	**53.1**	**16.4**	0.2	-
Cost of early repayment of debt	**(29.3)**	**(9.1)**	-	-
Net contribution from disposals	**23.8**	**7.3**	0.2	-
Rental income * less administrative expenses, finance costs and tax	**57.9**	**18.0**	53.7	17.9
Dividends paid	**(52.5)**	**(16.3)**	(41.4)	(13.9)
Currency translation movements	**(2.0)**	**(0.6)**	0.5	0.2
Dilution from shares issued in settlement of previous year's incentive fee	**-**	**(1.5)**	-	(7.3)
March 2018 share placing net of costs	**-**	**-**	309.8	(2.0)
NAV at the end of the year	**1,384.5**	**428.8**	1,281.6	398.5
Growth in NAV	**102.9**	**30.3**	106.6	25.2
Dividends paid	**52.5**	**16.3**	41.4	13.9
IFRS Total Accounting Return	**155.4**	**46.6**	148.0	39.1
IFRS Total Accounting Return – percentage		**11.7%**		10.5%

* including £10.5 million or 3.2 pence (2018: £10.9 million or 3.7 pence) of Rent Smoothing Adjustments

The industry standard EPRA NAV measure takes IFRS net asset value and excludes items that are considered to have no relevance to the assessment of long term performance. Consistent with the EPRA Guidance, the Group's reported IFRS NAV is adjusted to exclude deferred tax on investment property revaluations (in this case relating to the German assets) and fair value movements on derivatives. EPRA NAV and EPRA NAV per share is reconciled to net asset value measured in accordance with IFRS in note 24 to the financial information.

Investment Adviser's Report continued

Business review (continued)

Key performance indicator – Total Accounting Return (continued)

The Group's EPRA NAV per share at 31 December 2019 was 431.1 pence, up 7.6% over the year. The 30.6 pence per share uplift, together with dividends of 16.3 pence per share, results in a Total Accounting Return over the year of 11.7%.

	Year to 31 December 2019		Year to 31 December 2018	
	£m	**Pence per share**	£m	Pence per share
EPRA NAV at the start of the year	**1,292.9**	**400.5**	870.8	370.4
Investment property revaluation *	**86.3**	**26.7**	109.1	33.9
Profit on disposal of investment properties	**53.1**	**16.4**	0.2	-
Cost of early repayment of debt	**(29.3)**	**(9.1)**	-	-
Net contribution from disposals	**23.8**	**7.3**	0.2	-
Rental income * less administrative expenses, finance costs and current tax	**49.3**	**15.4**	44.2	14.7
Dividends paid	**(52.5)**	**(16.3)**	(41.4)	(13.9)
Incentive fee: 0.4% (2018: 0.4%) dilution from shares to be issued	**(0.3)**	**(1.7)**	(0.4)	(1.6)
Currency translation movements	**(2.6)**	**(0.8)**	0.6	0.2
March 2018 share placing net of costs	**-**	**-**	309.8	(3.2)
EPRA NAV at the end of the year	**1,396.9**	**431.1**	1,292.9	400.5
Growth in EPRA NAV	**104.0**	**30.6**	106.6	30.1
Dividends paid	**52.5**	**16.3**	41.4	13.9
Total Accounting Return	**156.5**	**46.9**	148.0	44.0
Total Accounting Return – percentage		**11.7%**		11.9%

* adjusted by £10.5 million or 3.2 pence (2018: £10.9 million or 3.7 pence) of Rent Smoothing Adjustments

The Total Shareholder Return is calculated as:

	Year to 31 December 2019	Year to 31 December 2018
	Pence per share	Pence per share
Share price at the end of the year	**434.0**	377.0
Share price at the start of the year	**(377.0)**	(360.8)
Increase in the year	**57.0**	16.2
Dividends paid	**16.3**	13.9
Total Shareholder Return	**73.3**	30.1
Total Shareholder Return – percentage	**19.4%**	8.3%

Business review (continued)

Key performance indicator – Adjusted EPRA earnings per share

The calculation of basic and diluted EPS under IFRS, as reported in the financial information, is shown below.

	Year to 31 December 2019		Year to 31 December 2018	
Basic and diluted EPS (IFRS basis)	**£m**	**Pence per share**	£m	Pence per share
Rental income net of property outgoings	**131.4**	**40.7**	125.3	41.6
Investment property revaluation	**75.7**	**23.4**	98.2	32.6
Profit on disposal of investment properties	**53.1**	**16.4**	0.2	0.1
Cost of early repayment of debt	**(29.3)**	**(9.1)**	-	-
Net finance costs	**(54.2)**	**(16.7)**	(54.5)	(18.1)
Administrative expenses	**(16.9)**	**(5.2)**	(15.3)	(5.1)
Incentive fee and irrecoverable VAT thereon	**(5.3)**	**(1.6)**	(5.3)	(1.8)
Tax charge	**(1.1)**	**(0.4)**	(1.1)	(0.4)
Basic earnings	**153.4**	**47.5**	147.5	48.9
Diluted earnings		**47.3**		48.7

The IFRS earnings measure includes unrealised property revaluations, gains or losses on property disposals and certain other factors which are considered to distort an assessment of underlying long term performance and which are therefore excluded from the EPRA measure of earnings.

A further element of the IFRS calculations considered to have a distorting effect on Dividend Cover is the impact of the weighting of share issues where they relate to incentive fee payments. The Group's basic and diluted EPS, calculated in accordance with IFRS, must 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, regardless of when they are actually issued. As a result, basic EPS for 2019, for example, is calculated on the basis that the 1.3 million shares issued in March 2019 in settlement of the 2018 incentive fee were in issue for the whole year, artificially reducing EPS. The calculation of diluted EPS for 2019 under the IFRS rules also includes the 1.2 million shares not yet issued in settlement of the 2019 incentive fee as if they had been issued, creating a further artificial reduction.

There are also certain items within EPRA earnings which create a material disconnect for the Company between the calculated EPRA earnings and the Group's funds from operations available for the payment of dividends, principally the Rent Smoothing Adjustments and the incentive fees paid in shares. The Board considers that including these items results in both IFRS earnings and EPRA earnings being an unreliable basis for calculating the Company's Dividend Cover.

A further measure, Adjusted EPRA EPS, is therefore presented, both for comparison of the performance of the Group from year to year and with its peer group, and to avoid distortions in the per share figures which in turn would result in unreliable measures of Dividend Cover.

The Company's dividend policy is to distribute Adjusted EPRA earnings through payment of a fully covered cash dividend, paid quarterly. In addition to that fully covered distribution, the Board intends, for as long as the surplus proceeds of the hospitals portfolio disposal are not fully deployed or returned to shareholders, to top up the dividend to the extent that Adjusted EPRA EPS was reduced by that disposal. The annualised reduction in earnings as a result of the sale is 2.7 pence per share and the impact on the results for the year ended 31 December 2019 for the four and a half months following the sale of the properties was 1.1 pence per share.

Business review (continued)
Key performance indicator – Adjusted EPRA earnings per share (continued)
Adjusted EPRA EPS is derived from EPRA EPS by:

- removing the Rent Smoothing Adjustments from rental income;
- excluding any significant non-recurring costs;
- excluding the charge for the incentive fee, on the basis that it is a non-cash payment and considered to be linked to revaluation movements and therefore best treated consistently with revaluations; and
- calculating the weighted average number of shares to reflect the actual dates on which shares are issued.

	Year to 31 December 2019		Year to 31 December 2018	
	£m	**Pence per share**	£m	Pence per share
Rental income net of property outgoings	**129.7**	**40.1**	124.1	41.3
Net finance costs	**(52.5)**	**(16.3)**	(53.3)	(17.6)
Administrative expenses	**(16.9)**	**(5.2)**	(15.3)	(5.1)
Incentive fee (including irrecoverable VAT)	**(5.3)**	**(1.6)**	(5.3)	(1.8)
Tax charge	**(0.4)**	**(0.1)**	(0.3)	(0.2)
EPRA earnings	**54.6**	**16.9**	49.9	16.6
Rent Smoothing Adjustments	**(10.5)**	**(3.2)**	(10.9)	(3.6)
Incentive fee	**5.3**	**1.6**	5.3	1.8
Adjustment for weighted average number of shares	**-**	**-**	-	(0.1)
Adjusted EPRA earnings	**49.4**	**15.3**	44.3	14.7

Adjusted EPRA EPS is reconciled to basic EPS in note 11 to the financial information. We show below the analysis of the Adjusted EPRA earnings in the year in order to demonstrate where the adjusting items take effect.

	Year to 31 December 2019		Year to 31 December 2018	
	£m	**Pence per share**	£m	Pence per share
Rental income net of property outgoings:				
Portfolio owned throughout the year	**83.5**	**25.9**	82.2	27.2
Acquisitions April and July 2018	**25.9**	**8.0**	15.5	5.3
Hospitals sold August 2019	**9.8**	**3.0**	15.4	5.2
Net finance costs:				
Facilities drawn throughout the year	**(44.3)**	**(13.8)**	(44.2)	(14.7)
Loans drawn down April and July 2018	**(4.7)**	**(1.4)**	(2.7)	(0.9)
Healthcare loan prepaid August 2019	**(4.2)**	**(1.3)**	(6.7)	(2.2)
Finance income	**0.7**	**0.2**	0.4	0.1
Administrative expenses	**(16.9)**	**(5.2)**	(15.3)	(5.1)
Tax charge	**(0.4)**	**(0.1)**	(0.3)	(0.1)
Adjustment for weighted average number of shares	**-**	**-**	-	(0.1)
Adjusted EPRA earnings	**49.4**	**15.3**	44.3	14.7

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 components of earnings are analysed below.

Property outgoings in the year to 31 December 2019 include £0.4 million of costs relating to ongoing but as yet unsettled rent reviews, and £0.2 million relating to a feasibility study for a capital project which has not proceeded (and might not proceed). These are not recurring costs but are included within costs for the purpose of calculating Adjusted EPRA earnings.

Investment Adviser's Report continued

Business review (continued)

Adjusted EPRA EPS: administrative expenses

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

	Year to 31 December 2019		Year to 31 December 2018	
	£m	**Pence per share**	£m	Pence per share
Advisory fees	**14.7**	**4.6**	13.3	4.4
Other recurring administrative expenses	**1.6**	**0.4**	1.5	0.5
Corporate costs	**0.6**	**0.2**	0.5	0.2
Recurring administrative expenses	**16.9**	**5.2**	15.3	5.1
Incentive fee payable in shares	**4.9**	**1.5**	4.9	1.7
VAT on incentive fee, payable in cash	**0.4**	**0.1**	0.4	0.1
Total administrative expenses	**22.2**	**6.8**	20.6	6.9

Because VAT cannot be applied to the rents on the Healthcare assets, there is an element of irrecoverable VAT incurred on the Group's running costs which is included within each relevant line item in the table above. The proportion of disallowed VAT on administrative expenses averaged 26% during the year and was 30% as at 31 December 2019.

As an externally managed business, the majority of the Group's overheads are covered by the advisory fees paid to the Investment Adviser, which meets office running costs, administrative expenses and remuneration for the whole management and support team out of those fees. The basis of calculating the advisory fees is explained in note 26 to the financial information. In summary, the fees are calculated on a reducing scale based on the Group's EPRA NAV, at:

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

In February 2020 the Independent Directors approved a proposal made by the Investment Adviser to exclude the surplus cash on the hospitals portfolio disposal from the advisory fee calculation. With effect from 1 April 2020, for the purposes of calculating the advisory fee only, EPRA NAV will exclude the balance of that surplus cash to the extent that those funds have not been:

- deployed in topping up the dividends to replace the net income on the sold hospitals;
- invested in acquisitions;
- used for liability management; or
- returned to shareholders.

The current annualised saving as a result of this change is estimated at £1.2 million. The surplus cash realised on the disposal was £164 million. Prior to the balance sheet date, £3.5 million was applied in dividend top ups resulting in a balance of the surplus at 31 December 2019 of £160.5 million, and since then a further £2.2 million has been applied in dividend top-up with the balance of £158.3 million available to be deployed at 11 March 2020.

The advisory fee for the year amounted to £13.8 million plus irrecoverable VAT of £0.9 million (2018: £12.2 million plus irrecoverable VAT totalling £1.1 million). If there were no change in EPRA NAV in the 2020 financial year and assuming that surplus cash is not deployed other than for the dividend top-up, the advisory fee for 2020 would be £13.4 million plus VAT.

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

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

Business review (continued)

Adjusted EPRA EPS: administrative expenses (continued)

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 (2018: £0.2 million), with the other three Directors being shareholders in the Investment Adviser who receive no directors' fees from the Company; and
- other costs of being listed, such as the fees of the nominated adviser required under the AIM Rules, registrars' fees and AIM fees, which together totalled £0.4 million (2018: £0.3 million) in the year.

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

Having adjusted for dividends paid in the year, the benchmark EPRA NAV per share for the year ended 31 December 2019 was 425.1 pence. As explained in note 26 to the financial information, shareholder returns for the year were in excess of the benchmark so the Investment Adviser has earned a fee of £4.9 million plus VAT in respect of the year. The fee payment will be satisfied by the issue of approximately 1.2 million shares, expected to occur in March 2020.

Adjusted EPRA EPS: net finance costs

	Year to 31 December 2019		Year to 31 December 2018	
	£m	**Pence per share**	£m	Pence per share
Interest on secured debt facilities:				
Outstanding throughout the year	**42.1**	**13.0**	42.2	14.0
Repaid in August 2019	**4.1**	**1.3**	6.7	2.2
Drawn in the prior year	**4.1**	**1.3**	2.4	0.8
	50.3	**15.6**	51.3	17.0
Amortisation of costs of arranging facilities (non-cash):				
Routine amortisation over loan term	**2.4**	**0.7**	2.2	0.7
Accelerated amortisation on prepayment from property sales	**1.4**	**0.5**	-	-
	3.8	**1.2**	2.2	0.7
Interest charge on headlease liabilities	**1.7**	**0.4**	1.2	0.4
Loan agency fees and other lenders' costs	**0.5**	**0.2**	0.2	0.1
Interest income on cash and cash equivalents	**(0.7)**	**(0.2)**	(0.4)	(0.1)
Net finance costs for the year (IFRS basis)	**55.6**	**17.2**	54.5	18.1
Accelerated amortisation on prepayment from property sales	**(1.4)**	**(0.5)**	-	-
Net finance costs for the year (EPRA basis)	**54.2**	**16.7**	54.5	18.1
Reclassification of interest charge on headlease liabilities against revenue *	**(1.7)**	**(0.4)**	(1.2)	(0.4)
Adjustment for weighted average number of shares	**-**	**-**	-	(0.1)
Net finance costs for the year (Adjusted EPRA basis)	**52.5**	**16.3**	53.3	17.6

* 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.

Business review (continued)

Adjusted EPRA EPS: Tax

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

Tax is payable on the Group's German rental operations at an effective tax rate in the year of 15% (2018: 15%), resulting in a tax charge of £0.3 million (2018: £0.3 million). The balance sheet includes a deferred tax liability of £11.3 million (2018: £11.1 million) relating to unrealised German capital gains tax on the German properties, which would only be crystallised on a sale of those assets. There are no plans at present to sell these assets, so the deferred tax is not currently expected to be crystallised.

On an IFRS basis, the current tax charge and the movement in deferred tax result in a net tax charge of £1.1 million (2018: £1.1 million). Deferred tax is excluded from Adjusted EPRA EPS as shown in note 11 to the financial information.

Adjusted EPRA EPS: Currency translation

95% by value of the Group's property assets are located in the UK and the financial information is therefore presented in Sterling. 3.5% (2018: 3.7%) of the Group's EPRA NAV comprises assets and liabilities relating to properties located in Germany, valued in and generating net earnings in Euros. Exposure to currency fluctuations is partially hedged through assets, liabilities, rental income and interest costs being Euro denominated. The Group remains exposed to currency translation differences on the net results and net assets of these unhedged operations. Foreign currency movements are recognised in the statement of other comprehensive income.

The German properties are valued at €129.7 million as at 31 December 2019 (2018: €125.5 million), with the Euro denominated secured debt amounting to €71.8 million (2018: €71.8 million). The Euro weakened against Sterling over the year by c. 5% and as a result there was a net currency translation loss of £2.0 million (2018: gain of £0.5 million) on an IFRS basis. The deferred tax liability is excluded from EPRA NAV and as a result a further currency translation loss of £0.6 million arises in the movement in EPRA NAV in relation to the German operations (2018: gain of £0.1 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 a range of market conditions. During the year, the Group's Net LTV fell from 43.0% to 31.9% which reflects the impact of the retention of the cash surplus on the hospitals portfolio disposal, which was initially £164.0 million and which stood at £160.5 million at 31 December 2019, together with the impact of £80.7 million of property valuation uplifts. While the Net LTV ratio is one indicator of borrowing risk it is not the complete picture and the Board always considers it in conjunction with a wider assessment of headroom and financial covenants within debt facilities and the security of portfolio rental income.

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, within a realistic range of outcomes, with stress tested scenarios 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 UK real estate leases and that the Group's rental income increases annually as a result of the annual minimum fixed rental uplifts on 38% of portfolio income, with a further 3% subject to three or five yearly uplifts and the additional prospect of increases from the upwards only RPI-linked reviews on the rest of the portfolio. Overall, two thirds of the portfolio rents are subject to annual review with the remainder subject to three or five yearly reviews. This structure gives rise to predictable improvements in interest cover and a naturally deleveraging debt profile on the assumption of constant valuation yields.

The Board reviews the headroom on all financial covenants at least quarterly, including stress tested scenarios. The headroom on key financial covenants at 31 December 2019 is summarised below, including the Net Initial 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, before any preventative or remedial actions were taken. Defensive actions could include utilising any of the Group's significant uncommitted cash of £234.2 million as at 31 December 2019 and which is further explained in the following section.

Business review (continued)

Key performance indicator – headroom on debt covenants (continued)

	Actual	Covenant	Scenarios before any remedial action: Net Initial Yield triggering LTV test	Valuation fall before LTV test triggered	Rental fall before interest cover test triggered
Leisure facility (£377.8 million loans at 31 December 2019)					
Cash trap LTV test (1% per annum loan amortisation if triggered)	58%	<80%	6.9%	28%	
Cash trap LTV test (full cash sweep if triggered)	58%	<85%	7.3%	32%	
Healthcare facility (£302.8 million loan at 31 December 2019)					
Cash trap LTV test (full cash sweep if triggered)	50%	<74%	6.6%	33%	
LTV test	50%	<80%	7.1%	38%	
Cash trap projected interest cover test (full cash sweep if triggered)	185%	>140%			24%
Projected interest cover test	185%	>120%			35%
Budget hotels facility (£66.9 million loan at 31 December 2019)					
Partial cash trap LTV test (50% of surplus cash swept to lender if triggered)	27%	<40%	8.3%	33%	
Cash trap LTV test (full cash sweep if triggered)	27%	<45%	9.4%	41%	
LTV test	27%	<50%	10.4%	46%	
Cash trap projected interest cover test (full cash sweep if triggered)	654%	>300%			54%
Projected interest cover test	654%	>250%			62%
Healthcare facility (£64.2 million loan at 31 December 2019)					
LTV test	45%	<80%	8.0%	44%	
Cash trap projected debt service cover test (full cash sweep if triggered)	217%	>150%			31%
Projected debt service cover test	217%	>125%			42%
Leisure facility (£60.0 million loan at 31 December 2019)					
Partial cash trap LTV test (50% of surplus cash swept to lender if triggered)	30%	<40%	7.2%	24%	
Cash trap LTV test (full cash sweep if triggered)	30%	<45%	8.1%	32%	
LTV test	30%	<50%	9.0%	39%	
Projected interest cover test	520%	>150%			71%
Budget hotels facility (£59.0 million loan at 31 December 2019)					
Partial cash trap LTV test (50% of surplus cash swept to lender if triggered)	25%	<40%	8.9%	38%	
Cash trap LTV test (full cash sweep if triggered)	25%	<45%	10.0%	45%	
LTV test	25%	<50%	11.1%	51%	
Cash trap projected interest cover test (full cash sweep if triggered)	867%	>300%			65%
Projected interest cover test	867%	>250%			71%

Investment Adviser's Report continued

Business review (continued)

Key performance indicator – uncommitted cash

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

The Group's uncommitted cash was £234.2 million as at 31 December 2019, up from £66.4 million as at 31 December 2018, having increased largely as a result of the £164.0 million cash surplus realised on the sale of the hospitals portfolio which completed in August 2019. The Board has committed to topping up the Company's quarterly dividends to the extent that Adjusted EPRA EPS, and therefore dividends, have been reduced as a result of the hospitals portfolio disposal and not compensated by way of acquisitions or liability management. The top-up currently amounts to an annualised 2.7 pence per share, or £8.7 million per annum, and this sum will reduce the uncommitted cash balance for as long as the surplus cash has not been deployed. The surplus cash balance stands at £160.5 million at 31 December 2019 and, since the balance sheet date, £2.2 million has been applied in topping up the January 2020 dividend. The amounts that may be applied in future dividend top-ups have not been excluded from uncommitted cash on the basis that the extent of the surplus over time is not known with certainty. The current annualised top-up payment amounts to less than 4% of the total uncommitted cash balance.

Cash flow

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

	Year to 31 December 2019		Year to 31 December 2018	
	£m	**Pence per share**	£m	Pence per share
Cash from operating activities	**100.7**	**31.2**	110.9	36.7
Net interest and finance costs paid	**(52.9)**	**(16.4)**	(51.6)	(17.2)
Tax paid	**(0.2)**	**(0.1)**	(0.2)	(0.1)
	47.6	**14.7**	59.1	19.4
Dividends paid	**(52.5)**	**(16.3)**	(41.4)	(13.9)
	(4.9)	**(1.6)**	17.7	5.5
Disposal of investment properties	**357.8**	**110.8**	0.4	0.1
Repayment of secured debt from sale proceeds, including costs	**(155.2)**	**(48.1)**	-	-
Cost of early repayment of debt	**(27.9)**	**(8.6)**	-	-
Net property disposals	**174.7**	**54.1**	0.4	0.1
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	**(0.3)**	**(0.1)**	(436.8)	(135.8)
Net property acquisitions	**(0.3)**	**(0.1)**	(1.0)	(0.3)
Scheduled amortisation of secured debt	**(4.0)**	**(1.2)**	(4.2)	(1.4)
Cash flow in the year	**165.5**	**51.2**	12.9	3.9
Cash at the start of the year	**101.7**	**31.6**	88.8	38.5
Currency translation movements	**(0.1)**	**-**	-	-
Dilution from incentive fee share issues	**-**	**(0.1)**	-	(0.8)
Dilution from March 2018 share issue	**-**	**-**	-	(10.0)
Cash at the end of the year	**267.1**	**82.7**	101.7	31.6

Investment Adviser's Report continued

Business review (continued)

Cash flow (continued)

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 material unrecovered capital expenditure, property maintenance or insurance costs have been incurred in the year and it is not currently expected that material costs of that nature will be incurred on the portfolio as it stands at 31 December 2019. Risks to future cash flows are summarised in the Principal Risks and Uncertainties section of the Strategic Review.

Nick Leslau
Chairman, Prestbury Investment Partners Limited
12 March 2020

Strategic Review

Strategy and investment policy

Strategy

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 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 Unexpired Lease Term 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 return-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.

Investment policy

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

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

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

The Group's business model is explained in the Investment Adviser's Report.

Key performance indicators

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

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

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

Corporate responsibility

The Board is mindful of its responsibilities to its all of stakeholders, including the wider community, when it takes decisions in setting and implementing the Company's strategy.

Diversity

The Board is committed to fairness and to encouraging diversity on the Board and in its operations, including prevention of any forms of discrimination under the terms of the Equality Act 2010.

The terms of reference of the Nominations Committee include a requirement for the Committee to regularly review the structure, size and composition of the Board including the skills, knowledge, experience and diversity of the Directors.

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. The Investment Adviser has confirmed that it complies with all relevant laws and regulations in that respect.

Sustainability

The Board has had regard to the Sustainability Accounting Standards Board's Real Estate Sustainability Accounting Standard, published in October 2018. That standard sets out certain metrics that are considered relevant for REITs, and has categorised certain 'activity metrics' against which the Group reports as follows:

	Leisure	Hospitals	Budget hotels	Total
Number of assets	26	12	123	161
Lettable floor area	The nature of the majority of the Group's assets is such that lettable area measured in square feet is not a relevant measure. As the assets are operational assets, lettable floor area is not monitored by the Board and so is not provided.			
Percentage of indirectly managed assets (where tenants have operational control) *	99.2%	100%	100%	99.7%
Average occupancy rate	99.8%	100%	100%	99.9%

* measured by ERV

For the overwhelming majority of the Group's assets, operational control of the asset rests with the tenant. Consequently the energy management and water management data outlined in the standard is not provided in this report, nor is it monitored by the Board as in most cases the information is not able to be obtained from the tenants under the terms of the leases, all of which have been in place since before the Group purchased the assets.

Strategic Review continued

Corporate responsibility (continued)
The standard suggests disclosure of the approach to "management of tenant sustainability impacts", described as the manner in which agreements, contracts and relationships with tenants are structured to be instrumental in effectively managing the sustainability impacts of tenants. This can include aligning sustainability outcomes, creating systems for measuring and communicating resource consumption information and/or mandating minimum sustainability performance criteria. In all cases within the investment property assets held during the year, leases were already in place at the time of their acquisition, so the Group has no influence over their terms, including in so far as sustainability is concerned. None of the Group's leases have provisions which are relevant to management of tenant sustainability (aside from the requirement for tenants to abide by all laws and regulations, including environmental law), in large part because the majority were granted at least five years ago and in most cases some 12 years ago, when it was very uncommon for sustainability criteria or reporting to be included in leases. The Group has only negligible amounts of vacant space and therefore has extremely limited opportunity to introduce tenant sustainability management measures. Where space becomes available for letting or lease renewal, compliance with environmental standards forms part of the assessment of appropriate lease terms. However, 97% of the Group's leases by rental value have terms to expiry (with no breaks) of greater than 17 years therefore it is not anticipated that this will change in the near term.

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

Modern Slavery Act 2015
Both the Company and the Investment Adviser have complied with their responsibilities under the Modern Slavery Act 2015 and the relevant confirmations are included on their respective websites.

Statement on stakeholder relationships made under Section 172(1) of the Companies Act
The Directors consider that in conducting the business of the Company over the course of the year ended 31 December 2019, they have complied with Section 172(1) of the Companies Act 2006 ("the Act"). The business is externally managed and the Group has no employees. The Board is of the opinion that its conduct and that of its external management team culminated from decisions made in good faith to promote the success of the Company for the benefit of all of its members, having regard to the impact of decisions on the following matters specified in Section 172 of the Companies Act:

- the interests of the workforce, for whom the Senior Independent Director has special responsibility and who are also represented on the Board by the three Prestbury directors;
- business relationships with suppliers, customers and other counterparties, where engagement is managed by the Investment Adviser;
- the community and the environment, where the Board takes overall responsibility;
- the reputation of the business for high standards of business conduct;
- fair treatment as between all members of the Company where the Investment Adviser engages routinely and where the Chairman of the Company and other Independent Directors make themselves available for meetings as appropriate; and
- the likely long term consequences of decisions made by the Board.

The strategy of the Company was initially laid out in the AIM Admission document issued in May 2014 and which was approved by the Board at that time. In running the business, any deviation from or amendment to that strategy is subject to Board and, if necessary, shareholder approval. At least annually, the Board considers a business plan and budget for the delivery of its strategic objectives. Through regular engagement with its stakeholder groups, the Board aims to gain a rounded and balanced understanding of the impact of its decisions. In the main, that information is gathered in the first instance by the Investment Adviser and communicated to the Board in its regular quarterly meetings and otherwise as required.

The key strategic decisions for the Board are those relating to asset acquisitions, financing, disposals and distributions, and where these types of transaction, or any other material transaction or decision, is considered, the Board has regard to its wider obligations under Section 172 of the Act.

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

Specifically, during the 2019 financial year the principal non-routine decision made by the Board was the consideration of the terms of the disposal of eight hospitals in a portfolio disposal and the application of the net cash received following that sale. This transaction resulted in a 13% reduction in the gross value of property assets owned by the Group but the business remains very substantial with £2.1 billion of gross property assets owned immediately after the sale. As such the Company's relationships with the workforce and its key customers and suppliers did not change significantly as a result. The sale reduced the proportion of the Group's rental income received from the relevant tenant from 39% to 30%, reducing the Group's reliance on that particular source of income but where the tenant remains significant to the Group and, as usual for a property sale, the terms of the lease were unaffected. The Investment Adviser maintains regular contact with all tenants and in this particular case worked to achieve a smooth transition for the tenant from the ownership of the properties by the Group to the new owner. The reasons for the disposal and the related decision for the Group to retain the net cash proceeds in the near term were announced at the time, so that all stakeholders were aware of the decision, and through the shareholder engagement programme investors have had an opportunity to ask questions to understand the Board's decision. The Board's commitment to keeping in mind the long term consequences of its decisions underlies the focus on risk, including risks to the long term success of the business, leading to the conclusion that, during a period of heightened political and market uncertainty both in the UK and globally, the net cash proceeds should be retained by the Company until such time as it is in the best interests of shareholders to invest it, deploy it in debt reduction, or return it to shareholders.

While the Group has no employees as a result of its external management structure, the Directors have regard to the interests of the individuals who are responsible for delivery of the management services to the Company to the extent that they are able to. Three of the seven Directors are representatives of the Investment Adviser and, in their capacity as directors and majority owners of the Investment Adviser, have direct responsibility for the employees of the entities providing management services to the business. In addition, the Chairman of the Remuneration Committee has responsibility for workforce engagement so that there is a line of communication from the workforce to the Independent Directors. There have been no strategic initiatives or transactions in the year that were considered to have a direct bearing on the employees of the external management business. After the balance sheet date the Investment Adviser proposed a reduction in the advisory fee as explained in note 27 to the financial information. This proposal was advanced by members of the Management Team, rather than at the request of the Board, and the interests of the workforce had been taken into account.

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

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

The interaction of Group entities with the wider community and its impact on the environment is relatively limited as a result of the Group's business operations being entirely related to investment in properties let on very long leases, where the operation of the properties, their upkeep and environmental impact is the responsibility of the occupational tenants. The Board's approach to sustainability is explained in the Strategic Review. The Board and the Investment Adviser have committed to limiting the impact of the business on the environment where possible, including, for example, the cessation during the year of the use of single use plastics.

The Board is mindful that the ability of the Company to continue to conduct its investment business and to finance its activities depends in part on the reputation of the Board and Management Team The risk of falling short of the high standards expected and thereby risking business reputation is included in the Board's review of the Company's risk register, which is conducted at least annually. Principal risks and uncertainties facing the business are summarised in the Strategic Review.

Strategic Review continued

Statement on stakeholder relationships made under Section 172(1) of the Companies Act (continued)
The Company's shareholders are a very important stakeholder group. The Board oversees the Management Team's formal investor relations programme which is supported by the Company's brokers and financial PR advisers. The Board and management of the Company aim to be open with shareholders and available to them, subject to compliance with relevant securities laws. The investor relations programme is designed to promote formal engagement with major investors, generally defined as those holding more than approximately 1% of the shares in the Company. Major investors are offered meetings after each results announcement. The Board and Management Team also engage with major investors, other investors who may request meetings and with potential new investors on an ad hoc basis throughout the year including where prompted by Company announcements. All formal shareholder presentations are made available on the Company's website and remain available to any interested party. The whole Board attends the Company's Annual General Meeting. The Company has a single class of shares in issue with all members of the Company having equal rights.

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

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

- the Group does not have standard or maximum payment terms, but seeks to settle supplier invoices in accordance with pre-agreed terms;
- invoices may be submitted electronically but as the volume of payments is relatively low, the Group does not operate electronic tracking for suppliers;
- the Group does not offer supply chain finance;
- there are no arrangements for participation on supplier lists and no charges for being on such a list;
- the Group is not a member of a payment code of conduct; and
- the average number of days taken to make payments in the year was 23 days (2018: 20 days).

Principal risks and uncertainties
The Board considers that the principal risks and uncertainties facing the Group over the long term 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 which is held on the balance sheet at its fair value at each balance sheet date. The Company is therefore exposed to movements in property valuations, which are subjective and may vary as a result of a number of factors, many of which are outside the control of the Board. 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 measures of net asset value including EPRA NAV, with any effect of the valuation changes on NAV magnified by the impact of borrowings. Falls in the value of investment properties could lead to a breach of financial covenants in secured debt facilities, resulting in increased interest margins payable to lenders, restricted cash flows out of secured debt groups, restrictions of distributable reserves available for dividend payments or default under secured debt agreements. The Board notes the relative resilience in value demonstrated by long lease properties through the dramatic property market decline in 2008-11.	The Group uses experienced independent external valuers whose work is reviewed by suitably qualified members of the Investment Adviser and, separately, the Audit Committee before being considered by the Board in the context of the financial information as a whole. The Board seeks to structure the Group's capital such that the level of borrowing and the protections available to cure a covenant default are appropriate having regard to market conditions and financial covenant levels. The Board reserves unsecured and uncommitted 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 (2018: ten) tenant groups, two (2018: three) of which have the benefit of guarantees from or joint tenancies with substantial listed parent companies. The three largest tenant groups account for 87% of passing rent as at the balance sheet date (2018: 89%). 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. We consider this risk moderately reduced this year as a result of lower political risk in the UK but we are mindful of the potential risks presented by the Covid-19 virus which, at the date of this report, results in a risk level unchanged overall.	A default of lease obligations by a material tenant and its guarantor (if any) would have an impact on the Group's revenue, earnings and cash flows and could have an impact on debt covenant compliance. The specialised use of the properties may mean that, in the event of an unexpected vacancy, re-letting takes time. Investment property valuations reflect a valuer's assessment of the future security of income. A loss of income would therefore impact net asset value as well as earnings. It could also lead to a breach of interest cover or debt service cover covenants, resulting in increased interest rate margins payable to lenders, restricted cash flows out of secured debt groups or ultimately default under secured debt agreements. The availability of distributable reserves could also be restricted.	32% (2018: 67%) of passing rent at the balance sheet date is contractually backed by large listed companies and a further 31% (2018: nil) by global businesses with multi billion pound valuations, all with capital structures considered by the Board to be strong and with impressive long term earnings growth and (where relevant) 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, as explained in the summary of the business model in the Investment Adviser's Report. 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 and uncommitted cash outside ring-fenced debt structures which would be available to be used to cure certain covenant defaults to the extent of the cash available.

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 each of the Group's investment properties and fixed and floating charges over other assets. Following the sale of eight hospitals which completed in August 2019, the Group holds an uncommitted cash balance that is substantially higher than the level of approximately £60 million held historically. For such time as significant surplus cash is retained on the balance sheet, the borrowing risk can be considered to be lower than in prior periods as the ability to cure breaches of financial covenants, should they occur, is significantly greater.	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 cash flows arising on a particular portfolio which would affect Group 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 net asset value may also be adversely affected. In certain circumstances the Company's ability to make cash distributions to shareholders may be reduced. Where a 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 adversely impact net assets and future earnings. Early debt repayments would in most cases crystallise penalties which would also adversely impact cash balances and net asset value and reduce distributable reserves.	The Group's borrowing arrangements comprise six ring-fenced subgroups with no cross-guarantees between them and no recourse to other assets outside the secured subgroups. A financial covenant issue in one portfolio should therefore be limited to that portfolio, save for tenant related events (such as a tenant insolvency) where the two healthcare subgroups would both be affected by any issue relating to the Ramsay Health Care group and the two hotels facilities would be affected by any issue relating to Travelodge. Five of the facilities have LTV default covenants (the Merlin Leisure facility has no LTV default covenant) and all facilities have interest cover or debt service cover covenants. The Board reviews compliance with all financial covenants at least every quarter, including forward-looking tests for at least 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, net asset value and earnings, and reducing cash and reserves available for distributions. Further, any asset sales would be subject to corporation tax, reducing the net amounts receivable on sale and requiring deferred tax to be provided on inherent capital gains.	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.

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'. For as long as the Group holds a material uncommitted cash balance, as is the case following the 2019 hospitals portfolio disposal, this risk is considered reduced.	A breach of a lending covenant, or the insolvency of either the Group as a whole or an individual entity within a secured subgroup, could result in a loss of net assets, impacting net asset value and earnings, and reducing cash and reserves available for distributions As a result, there could be insufficient cash and/or distributable reserves to meet the Property Income Distribution ("PID") requirement under the UK REIT rules, which could result in UK corporation tax becoming payable on the Group's property rental business. This would in turn reduce free cash flows.	Unless there is a tenant default (the risk of which is explained under 'tenant risk') the Group's cash flows are generally highly predictable. The cash position is reported to the Board at least quarterly, projections at least two years ahead are included in the Group budget and are updated for review when the interim and annual reports are approved, and projections for a five year period are reviewed for the viability statement in the annual report. The Group 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.

There are certain overarching risks where the direct impact on the Company's operations is limited, but which the Board considers to be relevant to most of the major risk areas identified. These are the terms of the departure of the UK from the European Union following the end of the current transition period (generally referred to as Brexit risk) and climate risk. They are not classified as direct risks in their own right but as general risks which are also kept under review.

Brexit risk
The Board does not consider that Brexit 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 (the only non-UK assets held) is considered unlikely to change as a result of Brexit, although the terms of access to non-UK financial markets may be of relevance in any future equity and debt issues.

Nevertheless, 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 and in particular on how the Group's tenants are affected. 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 and 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.

Climate risk
As the Company has very limited direct impact on the environment (as explained under the sustainability section of the Strategic Report), this risk is not one where the Company can take steps to make a material impact. However, in assessing the strength of the credit quality of our tenants and of potential tenants, we take climate risk into account together with its likely impact on how we consider that any assets that we are considering for acquisition meet the criteria for defensive business sectors set out in the explanation of the Company's business model in the Investment Adviser's Report.

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 scheduled 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 by the Board at those Board meetings and more often if required, for example in connection with a transaction. 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 2024, 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 £377.8 million of debt in the Merlin Leisure facility falling due in 2022 and £185.9 million in two hotel facilities and one leisure facility 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.

The Strategic Report, which comprises the Chairman's Statement, Investment Adviser's Report and Strategic Review, was signed on behalf of the Board on 12 March 2020.

Martin Moore
Chairman

Sandy Gumm
Director

Group Income Statement

	Notes	**Year to 31 December 2019 £000**	Year to 31 December 2018 £000
Revenue	3, 4	**132,677**	125,874
Property outgoings	5	**(1,327)**	(548)
Gross profit		**131,350**	125,326
Administrative expenses	6	**(22,128)**	(20,575)
Profit on disposal of investment properties	7	**53,074**	183
Investment property revaluation	12	**75,708**	98,167
Operating profit	8	**238,004**	203,101
Finance income	9	**730**	371
Finance costs	9	**(84,234)**	(54,878)
Profit before tax		**154,500**	148,594
Tax charge	10	**(1,141)**	(1,081)
Profit for the year		**153,359**	147,513

Earnings per share		**Pence per share**	Pence per share
Basic	11	**47.5**	48.9
Diluted	11	**47.3**	48.7

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 2019 £000**	Year to 31 December 2018 £000
Profit for the year		**153,359**	147,513
Items that may subsequently be reclassified to profit or loss:			
Currency translation differences	22	**(2,000)**	468
Fair value movements in derivatives	14, 22	**(851)**	(200)
Other comprehensive (loss) / income		**(2,851)**	268
Total comprehensive income for the year		**150,508**	147,781

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

	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**

The notes form part of this financial information.

Group Balance Sheet

	Notes	**31 December 2019 £000**	31 December 2018 £000
Non-current assets			
Investment properties	3, 12	**2,111,297**	2,335,220
Headlease rent deposits		**2,742**	2,766
Interest rate derivatives	14	**43**	306
		2,114,082	2,338,292
Current assets			
Cash and cash equivalents	15	**267,119**	101,745
Trade and other receivables	16	**3,798**	3,436
Current tax receivable		**-**	40
		270,917	105,221
Total assets		**2,384,999**	2,443,513
Current liabilities			
Trade and other payables	17	**(38,290)**	(41,727)
Secured debt	18	**(1,170)**	(1,771)
Interest rate derivatives	14	**(246)**	-
Current tax liability		**(129)**	-
		(39,835)	(43,498)
Non-current liabilities			
Secured debt	18	**(920,408)**	(1,078,495)
Head rent obligations under finance leases	19	**(28,190)**	(28,511)
Deferred tax liability	20	**(11,267)**	(11,110)
Interest rate derivatives	14	**(757)**	(311)
		(960,622)	(1,118,427)
Total liabilities		**(1,000,457)**	(1,161,925)
Net assets		**1,384,542**	1,281,588
Equity			
Share capital	21	**32,285**	32,156
Share premium reserve	22	**518,415**	513,675
Other reserves	22	**7,164**	9,977
Retained earnings	22	**826,678**	725,780
Total equity		**1,384,542**	1,281,588

		Pence per share	Pence per share
Basic NAV per share	24	**428.8**	398.5
Diluted NAV per share	24	**427.3**	397.0
EPRA NAV per share	24	**431.1**	400.5

The notes form part of this financial information.

Group Cash Flow Statement

	Notes	**Year to 31 December 2019 £000**	Year to 31 December 2018 £000
Operating activities			
Profit before tax		**154,500**	148,594
Adjustments for non-cash items:			
Investment property revaluation	12	**(86,727)**	(102,466)
Administrative expenses payable in shares	26	**4,907**	4,872
Profit on disposal of investment properties	7	**(53,074)**	(183)
Finance income	9	**(730)**	(371)
Finance costs	9	**84,234**	54,878
Cash flows from operating activities before changes in working capital		**103,110**	105,324
Changes in working capital:			
Trade and other receivables		**(265)**	(507)
Trade and other payables		**(2,144)**	6,111
Headlease rent deposits		**24**	-
Cash generated from operations		**100,725**	110,928
Tax paid		**(233)**	(234)
Cash flows from operating activities		**100,492**	110,694
Investing activities			
Net proceeds on disposal of investment properties		**357,744**	443
Interest received		**695**	371
Acquisition of investment properties		**(307)**	(435,536)
Headlease rent deposits acquired		**-**	(1,225)
Cash flows from investing activities		**358,132**	(435,947)
Financing activities			
Repayment of secured debt from proceeds of disposal of investment properties	25	**(154,519)**	-
Dividends paid	25	**(52,461)**	(41,429)
Fees on accelerated prepayment of secured loans	9, 25	**(27,868)**	-
Interest and finance costs paid	25	**(53,638)**	(51,998)
Scheduled amortisation of secured debt	25	**(3,988)**	(4,156)
Loan arrangement costs paid	25	**(670)**	(2,462)
Proceeds of share issue		**-**	315,500
Costs of share issue		**-**	(5,713)
Drawdown of new secured debt		**-**	128,700
Purchase of interest rate caps		**-**	(220)
Cash flows from financing activities		**(293,144)**	338,222
Increase in cash and cash equivalents		**165,480**	12,969
Cash and cash equivalents at the beginning of the year		**101,745**	88,755
Currency translation movements		**(106)**	21
Cash and cash equivalents at the end of the year	15	**267,119**	101,745

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 2019, with comparative figures relating to the year to 31 December 2018, and includes the results and net assets of the Company and its subsidiaries, together referred to as the Group.

The Company is incorporated in England and Wales. The address of the registered office and principal place of business is Cavendish House, 18 Cavendish Square, London W1G 0PJ. The nature and scope of the Group's operations and principal activities are described in the Strategic Report.

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 2019. 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 2019 or 31 December 2018, 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 2018 have been delivered to the Registrar of Companies and those for the year ended 31 December 2019 will be delivered following the Company's AGM. The auditors' reports on both the 31 December 2019 and 31 December 2018 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 pounds, 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:£0.8769 (2018: €1:£0.8846), 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 2019 exchange rate of €1:£0.8500 (2018: €1:£0.8969).

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 any financial year. Any estimates and assumptions are based on experience and any other factors that are believed to be relevant under the circumstances and which the Board considers reasonable. Actual outcomes may differ from these estimates.

The principal area of estimation uncertainty is the investment property valuation where, as described in note 12, the opinion of independent external valuers has been obtained at each reporting date using recognised valuation techniques and the principles of IFRS 13 "Fair Value Measurement".

The principal area of judgement is the recognition of any additional revenue in the year as a result of an outstanding May 2018 open market rent review on the Ramsay hospitals. The review is under arbitration and the nature of the assets mean that there is little comparative information on which to base an assessment. The directors consider that it is not possible at present to make a reasonably certain estimate of any uplift that might result, and the financial information therefore does not reflect any additional revenue arising as a result of this rent review.

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

Notes to the Group Financial Information continued

b) Basis of preparation (continued)

Adoption of new and revised standards

During the year, the Group has adopted IFRS 16 "Leases" which has not had a material impact on the Group's accounting policies and financial information. As part of the transition, the Group reassessed the classification of all subleases by reference to the requirements of IFRS 16 but this resulted in no reclassifications.

None of the other new or amended standards or interpretations issued by the International Accounting Standards Board ("IASB") or the IFRS Interpretations Committee ("IFRIC") have led to any material changes in the Group's accounting policies or disclosures during the year.

Standards and interpretations in issue not yet adopted

The IASB and IFRIC have issued or revised IFRS 3, IFRS 7, IFRS 9, IFRS 17, IAS 1, IAS 8 and IAS 39 but these are not expected to have a material effect on the operations of the Group.

c) Basis of consolidation

Subsidiaries are those entities controlled 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.

All Group entities at 31 December 2019 and 31 December 2018 were wholly owned.

d) Property portfolio

Investment properties

Investment properties are 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 independent external valuers.

Valuations are calculated, in accordance with "RICS Valuation – Global Standards 2018" by applying market capitalisation rates to future rental cash flows with reference to data from comparable market transactions, together with an assessment of the security of income. Gains or losses arising from changes in the fair value of investment properties are recognised in the income statement in the period in which they arise. Depreciation is not charged in respect of investment properties.

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

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

Occupational leases

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

Notes to the Group Financial Information continued

d) Property portfolio (continued)

Rental income

Revenue comprises rental income exclusive of VAT, recognised in the income statement on an accruals basis. Future anticipated rental income is spread over the term of a lease on a straight line basis, giving rise to a Rent Smoothing Adjustment in cases where future rental uplifts can be determined with sufficient certainty. 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 fair value of the property as assessed by the externa valuers. Income arising from contractual rights that are subject to external factors, such as RPI-linked or open market rent reviews, is recognised in the income statement in the period in which it is determinable and reasonably certain.

e) Financial assets and liabilities

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

Trade and other receivables

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

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 or financial institutions.

Borrowings and finance costs

Secured debt is initially recognised at its fair value, net of any arrangement fees and other transaction costs directly attributable to its issue. Subsequently, secured debt is carried at amortised cost. Transaction costs are amortised over the life of the loan and charged to the income statement as part of the Group's finance costs.

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.

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

Hedges are assessed upon inception and on an ongoing basis to 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 a forecast transaction being hedged against is no longer expected to occur. In such circumstances, the cumulative amounts in other comprehensive income are then reclassified from equity to profit or loss.

Notes to the Group Financial Information continued

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

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

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

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

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

h) Equity 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.

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

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

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 when allocating resources between segments and assessing their performance. The Group's chief operating decision maker is the Board.

The Group owns 161 properties, originally acquired in five portfolios. Although certain information about these portfolios is described on a portfolio basis or grouped by property type (Healthcare, Leisure and Budget Hotels) within the Investment Adviser's Report, 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 was as follows:

	Year to 31 December 2019 £000	Year to 31 December 2018 £000
Revenue		
UK	**124,348**	117,470
Germany	**8,329**	8,404
	132,677	125,874

	31 December 2019 £000	31 December 2018 £000
Non-current assets		
UK	**2,001,047**	2,222,670
Germany	**110,250**	112,550
	2,111,297	2,335,220

Revenue including Rent Smoothing Adjustments comprises:	**Year to 31 December 2019 £000**	Year to 31 December 2018 £000
Largest tenant	**48,072**	55,045
Second largest tenant	**30,400**	25,398
Third largest tenant	**27,654**	26,804
Other tenants (each less than 10% of revenue)	**26,551**	18,627
Reported revenue	**132,677**	125,874

Revenue excluding Rent Smoothing Adjustments comprises:	**Year to 31 December 2019 £000**	Year to 31 December 2018 £000
Largest tenant	**43,317**	48,385
Second largest tenant	**30,400**	25,398
Third largest tenant	**27,654**	26,804
Other tenants (each less than 10% of revenue)	**20,742**	14,337
Revenue on Adjusted EPRA Earnings basis	**122,113**	114,924

4. Revenue

	Year to 31 December 2019 £000	Year to 31 December 2018 £000
Rental income	**120,533**	113,540
Rent Smoothing Adjustments	**10,564**	10,950
Recovery of head rent and other costs from occupational tenants (note 5)	**1,580**	1,384
	132,677	125,874

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 38% of passing rent as at 31 December 2019 (2018: 48%) that increases by a fixed percentage each year and the 5% of passing rent at 31 December 2019 (2018: 5%) that is subject to minimum fixed uplifts on RPI-linked review. At this stage in the lease terms, 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 2d. Further information about Rent Smoothing Adjustments and their impact on future reporting periods is given in the unaudited supplementary information following this financial information.

5. Property outgoings

	Year to 31 December 2019 £000	Year to 31 December 2018 £000
Property outgoings in the income statement	**1,327**	548
Finance element of head rent included in finance costs (note 9)	**1,702**	1,191
Movement in headlease liabilities included in property revaluations (note 12)	**100**	72
Property outgoings	**3,129**	1,811
Recovery of head rents and other costs from occupational tenants, included in revenue (note 4)	**(1,580)**	(1,384)
Net property outgoings	**1,549**	427

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

6. Administrative expenses

	Year to 31 December 2019 £000	Year to 31 December 2018 £000
Advisory fees (note 26)	**14,732**	13,295
Incentive fee (note 26)	**5,256**	5,278
Other administrative expenses	**1,546**	1,485
Corporate costs	**594**	517
	22,128	20,575

Amounts shown above include any irrecoverable VAT. The incentive fee comprises £4.9 million (2018: £4.9 million) satisfied by way of the issue of shares and £0.3 million (2018: £0.4 million) of VAT payable in cash.

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

7. Profit on disposal of investment properties

	Year to 31 December 2019 £000	Year to 31 December 2018 £000
Disposal proceeds	**360,250**	2,975
Property disposal costs	**(2,526)**	(61)
Book value of sold properties	**(304,650)**	(2,731)
	53,074	183

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

8. Operating profit

Audit fees included within administrative expenses relate to:

	Year to 31 December 2019 £000	Year to 31 December 2018 £000
Audit of the Company's consolidated and individual financial statements	**47**	46
Audit of subsidiaries, pursuant to legislation	**173**	184
Total audit services	**220**	230
Audit related services: half year review	**33**	32
Audit related services: FCA reporting	**3**	3
Total audit and audit related services	**256**	265
Other non-audit services	**3**	7
Total fees before VAT	**259**	272

The total charge for the fees above, including irrecoverable VAT, was £268,000 (2018: £283,000).

The Group had no employees in either the current or prior year. The Directors, 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 2019 £000	Year to 31 December 2018 £000
Martin Moore	**75**	75
Leslie Ferrar	**45**	44
Jonathan Lane	**40**	39
Ian Marcus	**40**	39
	200	197

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 2019 £000	Year to 31 December 2018 £000
Recognised in the income statement:		
Finance income		
Interest on cash deposits	**730**	371
Finance costs		
Interest on secured debt	**(49,920)**	(51,075)
Fees on accelerated loan repayments on property disposals	**(27,868)**	-
Amortisation of loan arrangement costs (non-cash)	**(2,382)**	(2,225)
Interest charge on headlease liabilities (note 5)	**(1,702)**	(1,191)
Amortisation of loan arrangement costs on accelerated debt repayment (non-cash)	**(1,443)**	-
Loan agency fees and other lender costs	**(546)**	(213)
Amortisation of interest rate derivatives, transferred from other reserves (non-cash)	**(269)**	(149)
Fair value adjustment of interest rate derivatives (note 14)	**(104)**	(25)
Total finance costs	**(84,234)**	(54,878)
Net finance costs recognised in the income statement	**(83,504)**	(54,507)
Recognised in other comprehensive income:		
Fair value adjustment of interest rate derivatives	**(1,120)**	(349)
Amortisation of interest rate derivatives, transferred to the income statement	**269**	149
Net finance costs recognised in other comprehensive income (note 14)	**(851)**	(200)

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

	Year to 31 December 2019 £000	Year to 31 December 2018 £000
Financial assets at amortised cost	**730**	371
Financial liabilities at amortised cost	**(84,130)**	(54,853)
Derivatives in effective hedges	**(104)**	(25)
Net finance costs recognised in the income statement	**(83,504)**	(54,507)

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

	Year to 31 December 2019 £000	Year to 31 December 2018 £000
Effect on profit for the year	**242**	114
Effect on other comprehensive income and equity	**181**	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 £24.8 million (2018: £26.5 million) of the secured debt that is hedged by interest rate caps. A further £50.0 million (2018: £50.0 million) of the secured debt is hedged with interest rate swaps, and movements in LIBOR would only have an impact on the fair value of those interest rate swaps, which would be reflected in other comprehensive income. There would be no effect from a change of LIBOR on the remaining £855.9 million (2018: £1,106.0 million) of the secured debt which is at fixed rates. The Group's sensitivity to interest rates has increased in the year as a result of the higher cash balances that it is holding as a result of the hospitals portfolio disposal.

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

Notes to the Group Financial Information continued

10. Tax

	Year to 31 December 2019 £000	Year to 31 December 2018 £000
Current tax - Germany		
Corporation tax charge	**341**	282
Adjustments in respect of prior years	**41**	52
Deferred tax - Germany		
Deferred tax charge (note 20)	**759**	747
	1,141	1,081

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 2019 £000	Year to 31 December 2018 £000
Profit before tax	**154,500**	148,594
Profit before tax at the standard rate of corporation tax in the UK for the financial year of 19% (2018: 19%)	**29,355**	28,233
Effects of:		
Investment property revaluation not taxable	**(15,652)**	(20,001)
Profit on disposal of investment properties not taxable	**(10,084)**	(35)
Qualifying property rental business not taxable	**(4,001)**	(8,585)
Recognition of tax losses	**721**	733
Finance costs disallowed under corporate interest restriction rules	**420**	401
German current tax charge for the year	**341**	282
Adjustments in respect of prior years	**41**	52
Amounts not deductible for tax	**-**	1
Tax charge for the year	**1,141**	1,081

The Company and its subsidiaries operate as a UK Group REIT. Subject to continuing compliance with certain rules, the UK REIT rules exempt the profits of the Group's UK and German property rental business from UK corporation tax. Capital gains on the Group's UK and German properties are also generally exempt from UK corporation tax, provided they are not held for trading or in certain circumstances sold in the three years after completion of a development. None of the Group's properties were developed in the last three years.

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

The Group is subject to German corporation tax on its German property rental business at an effective rate of 15% (2018: 15%), resulting in a current tax charge of £0.3 million (2018: £0.3 million) and a deferred tax charge of £0.8 million (2018: £0.7 million). A deferred tax liability of £11.3 million (2018: £11.1 million) is recognised for the German capital gains tax that would potentially be payable on the sale of the relevant investment properties. There are no current plans to sell the German assets.

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

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 rather than their actual date of issue, which is typically in March; and
- shares still to be issued at the balance sheet date in settlement of an incentive fee relating to the results of that year are not taken into account.

Diluted EPS

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

	Year to 31 December 2019 £000	Year to 31 December 2018 £000
Profit for the year	**153,359**	147,513
Weighted average number of shares in issue	**Number**	Number
Basic EPS calculation	**322,850,595**	301,549,670
Shares to be issued in satisfaction of incentive fee (note 26)	**1,184,551**	1,287,242
Diluted EPS calculation	**324,035,146**	302,836,912
	Pence per share	Pence per share
Basic EPS	**47.5**	48.9
Diluted EPS	**47.3**	48.7

EPRA EPS

EPRA, the European Public Real Estate Association, publishes guidelines for calculating adjusted earnings designed to represent core operational activities. These guidelines have been applied and the calculation of EPRA EPS is set out below.

An Adjusted EPRA earnings calculation is also 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 322,540,246 (2018: 299,730,383), 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 paid in the year. In this way the Group's measure of Dividend Cover is considered to be more precisely calculated.

Notes to the Group Financial Information continued

11. Earnings per share (continued)

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

	Year to 31 December 2019 Number	Year to 31 December 2018 Number
Shares in issue throughout the period	**321,563,353**	230,536,874
Adjustment for:		
Shares issued in March 2019 in settlement of 2018 incentive fee	**976,893**	-
Shares issued in March 2018 in settlement of 2017 incentive fee	**-**	3,595,356
Shares issued in March 2018 share placing	**-**	65,598,153
Shares in issue for calculation of Adjusted EPRA earnings	**322,540,246**	299,730,383

EPRA and Adjusted EPRA earnings are calculated as:

	Year to 31 December 2019 £000	Year to 31 December 2018 £000
Basic earnings attributable to shareholders	**153,359**	147,513
EPRA adjustments:		
Investment property revaluation (note 12)	**(75,708)**	(98,167)
Profit on disposal of investment properties (note 7)	**(53,074)**	(183)
Cost of early repayment of debt on disposal of properties (note 9)	**27,868**	-
Other early debt repayment costs (non-cash) (note 9)	**1,443**	-
Deferred tax on German investment property revaluations (note 10)	**759**	747
Fair value adjustment of interest rate derivatives	**36**	25
EPRA earnings	**54,683**	49,935
Other adjustments:		
Rent Smoothing Adjustments (note 4)	**(10,564)**	(10,950)
Incentive fee (note 6)	**5,256**	5,278
Adjusted EPRA earnings	**49,375**	44,263

	Pence per share	Pence per share
EPRA EPS	**16.9**	16.6
Adjusted EPRA EPS	**15.3**	14.7

Notes to the Group Financial Information continued

12. Investment properties

Freehold investment properties	Year to 31 December 2019 £000	Year to 31 December 2018 £000
At the start of the year	**2,018,115**	1,693,956
Additions	**38**	228,642
Reclassification on acquisition of freehold interest in leasehold property	**2,595**	-
Acquisition of freehold interest in leasehold property	**262**	-
Revaluation movement	**88,901**	97,015
Disposals	**(301,535)**	(2,731)
Currency translation movement	**(5,986)**	1,233
At the end of the year	**1,802,390**	2,018,115

Leasehold investment properties	Year to 31 December 2019 £000	Year to 31 December 2018 £000
At the start of the year	**317,105**	87,928
Additions	**7**	206,936
Reclassification on acquisition of freehold interest in leasehold property	**(2,595)**	-
Headlease liabilities on (disposals) / acquisitions	**(221)**	16,862
Revaluation movement	**(2,174)**	5,451
Disposals	**(3,115)**	-
Movement in headlease liabilities	**(100)**	(72)
At the end of the year	**308,907**	317,105

Total investment properties	Year to 31 December 2019 £000	Year to 31 December 2018 £000
At the start of the year	**2,335,220**	1,781,884
Additions	**45**	435,578
Net cost of acquisition of freehold interest in leasehold property	**262**	-
Headlease liabilities on (disposals) / acquisitions	**(221)**	16,862
Revaluation movement	**86,727**	102,466
Disposals	**(304,650)**	(2,731)
Currency translation movement	**(5,986)**	1,233
Movement in headlease liabilities	**(100)**	(72)
At the end of the year	**2,111,297**	2,335,220

As at 31 December 2019 the properties were valued at £2,083.1 million (2018: £2,306.7 million) by CBRE Limited or Christie & Co in their capacity as independent 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 2018 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 2019 was £1,479.6 million (2018: £1,690.9 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, £110.3 million (2018: £112.6 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 value of leasehold property is grossed up by the present value of minimum headlease payments. The corresponding liability to the head leaseholder is included in the balance sheet as a finance lease obligation. The reconciliation between the carrying value of the investment properties and their independent external valuation is as follows:

	31 December 2019 £000	31 December 2018 £000
Carrying value	**2,111,297**	2,335,220
Gross-up of headlease liabilities (note 19)	**(28,190)**	(28,511)
Independent external valuation	**2,083,107**	2,306,709

Included within the carrying value of investment properties at 31 December 2019 is £155.7 million (2018: £197.1 million) in respect of Rent Smoothing Adjustments described in note 4, representing the amount of rent included in the income statement ahead of actual cash receipt. This receivable increases over broadly the first half of each lease term and then unwinds, reducing to zero by the end of the lease term.

The difference between rents on a straight line basis and rents actually receivable is included within, but does not increase over fair value, the carrying value of investment properties. The effect of these Rent Smoothing Adjustments on the revaluation movement, together with the impact of back rent received during the prior year from a May 2017 rent review on the healthcare portfolio but yet not fully recognised in revenue, and movements on the headlease liabilities is as follows:

	Year to 31 December 2019 £000	Year to 31 December 2018 £000
Investment property revaluation	**86,727**	102,466
Rent Smoothing Adjustments	**(10,564)**	(10,950)
Adjustment for back rent received	**(355)**	6,723
Movement in headlease liabilities (note 5)	**(100)**	(72)
Revaluation movement in the income statement	**75,708**	98,167

Further information about the Rent Smoothing Adjustments is given in the unaudited supplementary information following this financial information.

All of the investment properties are held within six (2018: six) ring-fenced security pools as security under fixed charges in respect of separate secured debt facilities.

All of the Group's revenue reflected in the income statement is derived either from rental income or the recovery of head rent and other leasehold costs on investment properties. As shown in note 5, property outgoings arising on investment properties, all of which generated rental income in each year, were £3,129,000 (2018: £1,181,000) of which £1,549,000 (2018: £427,000) 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 performed by the Group's independent external valuers are based on information extracted from the Group's financial and property reporting systems, such as current rents and the terms and conditions of lease agreements, together with assumptions used by the valuers (based on market observation and their professional judgement) in their valuation models.

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

	Fair value		**Inputs**	
Portfolio	**£000**	**Key unobservable input**	**Range**	**Blended yield**
At 31 December 2019:				
Leisure – UK	751,008	Net Initial Yield	3.7% - 6.2%	5.0%
		Running Yield by December 2020	4.2% - 6.9%	5.1%
		RPI assumption per annum	2.5% - 3.1%	
Healthcare	748,385	Net Initial Yield	3.9% - 4.5%	4.5%
		Running Yield by December 2020	4.0% - 4.6%	4.6%
Budget hotels	501,654	Net Initial Yield	4.3% - 10.5%	5.5%
		Running Yield by December 2020	4.5% - 10.5%	5.7%
		RPI assumption per annum	2.5%	
Leisure – Germany	110,250	Net Initial Yield	5.5%	5.5%
		Running Yield by December 2020	5.7%	5.7%
	2,111,297			
At 31 December 2018:				
Healthcare	984,845	Net Initial Yield	3.9% - 5.5%	4.8%
		Running Yield by December 2019	4.0% - 5.6%	4.9%
Leisure – UK	723,503	Net Initial Yield	4.7% - 5.9%	5.1%
		Running Yield by December 2019	4.2% - 6.3%	5.2%
		RPI assumption per annum	2.6%	
Budget hotels	514,322	Net Initial Yield	4.5% - 10.1%	5.5%
		Running Yield by December 2019	4.5% - 10.1%	5.5%
		RPI assumption per annum	2.5%	
Leisure – Germany	112,550	Net Initial Yield	5.5%	5.5%
		Running Yield by December 2019	5.7%	5.7%
	2,335,220			

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

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

Notes to the Group Financial Information continued

13. Subsidiaries

The companies listed below are the subsidiary undertakings of the Company at 31 December 2019, all of which are wholly owned. Save where indicated all subsidiary undertakings are incorporated in England with their registered office at Cavendish House, 18 Cavendish Square, London W1G 0PJ.

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

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

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

Notes to the Group Financial Information continued

13. Subsidiaries (continued)

	Nature of business
Grove Property Unit Trust 14 †	Property investment – budget hotels and borrower under secured debt facility
Grove Property Unit Trust 15 †	Property investment – budget hotels and borrower under secured debt facility
SIR Maple 4 Limited	Property investment – budget hotels and borrower under secured debt facility
SIR Maple Holdco Limited *	Intermediate parent company
SIR Maple 1 Limited †	Intermediate parent company
SIR Unitholder 5 Limited †	Intermediate parent company
MIF I Unit Trust [x]	Property investment – leisure and borrower under secured debt facility
SIR Maple 2 Limited	Property investment – leisure and borrower under secured debt facility
SIR Maple 3 Limited	Property investment – leisure and borrower under secured debt facility
SIR New Hall Limited *	Dormant
SIR MTL Limited *	Dormant
Charcoal Bidco Limited *	Dormant
SIR Hotels 2 Holdco Limited †	Dormant
SIR Hotels 2 GP Limited †	Dormant
SIR Hotels 2 Nominee Limited †	Non trading
SIR Newco Limited *	Dormant
SIR Newco 2 Limited *	Dormant

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

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

14. Interest rate derivatives

	Notional amount		**Fair value**	
	31 December 2019 £000	31 December 2018 £000	**31 December 2019 £000**	31 December 2018 £000
Interest rate swaps (average rate 1.3%):	**50,000**	50,000		
Falling due within one year			**(246)**	-
Falling due in more than one year			**(757)**	(311)
	50,000	50,000	**(1,003)**	(311)
Interest rate caps (average rate 1.5%):	**24,766**	26,528		
Falling due in more than one year			**43**	306
	74,766	76,528	**(960)**	(5)

The movements in the fair value of interest rate derivatives were as follows:

	Year to 31 December 2019 £000	Year to 31 December 2018 £000
At the start of the year	**(5)**	-
Charge to the income statement (note 9)	**(104)**	(25)
Charge to other comprehensive income (note 9)	**(851)**	(200)
Premium paid for interest rate caps	**-**	220
At the end of the year	**(960)**	(5)

14. Interest rate derivatives (continued)

The Group utilises interest rate derivatives in risk management as cash flow hedges to protect against movements in future interest costs on secured loans which bear interest at variable rates. The derivatives have been valued in accordance with IFRS 13 by reference to interbank bid market rates as at the close of business on the last working day prior to each balance sheet date by Chatham Financial Europe Limited (2018: by J.C. Rathbone Associates Limited). The fair values are calculated using present values of future cash flows based on market forecasts of interest rates and adjusted for the credit risk of the counterparties. The amounts and timing of future cash flows are projected on the basis of the contractual terms of the derivatives. All interest rate derivatives are classified as level 2 in the fair value hierarchy as defined in IFRS 13 and there were no transfers to or from other levels of the fair value hierarchy during the year.

The entire £50.0 million notional amount of the interest rate swaps and £10.0 million of the notional amount of the interest rate caps are used to hedge cash flow interest rate risk on £60.0 million of the floating rate loans 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 prepayments 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 £14.8 million of the floating rate loans described in note 18. Following a rebalancing of the hedging arrangements on £1.7 million of the notional amount of the interest rate caps during the year, matching the loan principal that was repaid from the proceeds of investment property sales, the notional amounts of the interest rate caps designated for hedge accounting equal the loan principal balance and their maturity dates also match. As a result, the hedges, which have a fair value of £40,000 (2018: £306,000), are expected to be 100% effective throughout their lives. The remaining interest rate caps, which have a fair value of £3,000 (2018: £nil), have been classified as held for trading.

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

15. Cash and cash equivalents

	31 December 2019 £000	31 December 2018 £000
Free cash and cash equivalents	**240,254**	71,133
Secured cash	**26,261**	29,972
Regulatory capital	**604**	640
	267,119	101,745

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

As the Company is classified as an internally managed Alternative Investment Fund, it is required by the Financial Conduct Authority to hold a balance of regulatory capital in liquid funds. The Company maintains its regulatory capital in cash.

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

16. Trade and other receivables

	31 December 2019 £000	31 December 2018 £000
Trade receivables	**359**	267
Amounts receivable from investment property disposals	**2,565**	2,503
Prepayments and accrued income	**874**	666
	3,798	3,436

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

Notes to the Group Financial Information continued

17. Trade and other payables

	31 December 2019 £000	31 December 2018 £000
Trade payables	**1,172**	135
Rent received in advance and other deferred income	**24,402**	27,696
Interest payable	**8,019**	9,248
Tax and social security	**3,192**	3,526
Accruals and other payables	**1,505**	1,122
	38,290	41,727

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

18. Financial assets and liabilities

Borrowings

	31 December 2019 £000	31 December 2018 £000
Amounts falling due within one year		
Fixed rate secured debt	**3,480**	4,156
Unamortised finance costs	**(2,310)**	(2,385)
	1,170	1,771
Amounts falling due in more than one year		
Fixed rate secured debt	**852,411**	1,011,846
Floating rate secured debt	**74,766**	76,528
Unamortised finance costs	**(6,769)**	(9,879)
	920,408	1,078,495

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 any prior year.

The analysis of borrowings by currency is as follows:

	31 December 2019 £000	31 December 2018 £000
Sterling denominated		
Secured debt	**869,645**	1,028,151
Unamortised finance costs	**(8,677)**	(11,691)
	860,968	1,016,460
Euro denominated		
Secured debt	**61,012**	64,379
Unamortised finance costs	**(402)**	(573)
	60,610	63,806

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

Notes to the Group Financial Information continued

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

	31 December 2019 £000	31 December 2018 £000
Financial assets		
Financial assets at amortised cost:		
Cash and cash equivalents (note 15)	**267,119**	101,745
Amounts receivable from investment property disposals (note 16)	**2,565**	2,503
Trade receivables (note 16)	**359**	267
Derivatives in effective hedges:		
Interest rate caps (note 14)	**40**	306
Derivatives classified as held for trading:		
Interest rate caps (note 14)	**3**	-
	270,086	104,821
Financial liabilities		
Financial liabilities at amortised cost:		
Secured debt	**(921,578)**	(1,080,266)
Headlease liabilities (note 19)	**(28,190)**	(28,511)
Interest payable (note 17)	**(8,019)**	(9,248)
Trade payables (note 17)	**(1,172)**	(135)
Accruals	**(1,504)**	(1,098)
Derivatives in effective hedges:		
Interest rate swaps (note 14)	**(1,003)**	(311)
	(961,466)	(1,119,569)

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

As at 31 December 2019 the fair value of the Group's secured debt was £961.0 million (2018: £1,117.7 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 Chatham Financial Europe Limited (2018: 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.

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

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

Notes to the Group Financial Information continued

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

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

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

(a) Market risk – interest rate risk
The Group's interest bearing assets comprise only cash and cash equivalents. Changes in market interest rates therefore affect the Group's finance income.

The Group's 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 (2018: £50.0 million) of floating rate loans and interest rate caps on the remaining £24.8 million (2018: £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 fixed rate loans and loans where the interest rate risk is hedged by way of interest rate swaps, together totalling £905.9 million (2018: £1,066.0 million), are therefore not subject to interest rate risk. The Group is exposed to limited cash flow interest rate risk on its £24.8 million (2018: £26.5 million) of floating rate loans where the interest rate risk is hedged by way of interest rate caps. Interest on these loans is payable at variable rates up to the maximum established by the cap strike rate.

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, 2.7% (2018: 2.9%) by value of the Group's net assets are Euro denominated and as a result the Group is subject to foreign currency exchange risk. On an EPRA basis, the Euro net assets exposure is 3.5% (2018: 3.7%). This risk is partially hedged because within the Group's German operations, rental income, interest costs and the majority of both assets and liabilities are Euro denominated. An unhedged currency risk remains on the value of the Group's net investment in, and net returns from, its German operations.

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

	Year to 31 December 2019 £000	Year to 31 December 2018 £000
Effect on profit	**517**	460
Effect on other comprehensive income and equity	**3,805**	3,572

18. Financial assets and liabilities (continued)

Credit risk

Credit risk is the risk of financial loss to the Group if a counterparty fails to meet its contractual obligations as a result of financial stress. The principal counterparties are the Group's tenants (in respect of trade receivables arising under operating leases), banks and financial institutions (as holders of the Group's cash deposits) and the counterparties to the Group's investment property disposals.

The credit risk of trade receivables is considered low because the counterparties to the operating leases are believed by the Board to be high quality tenants capable of discharging their lease obligations and any lease guarantors are also of appropriate financial strength. On the 67% of the portfolio (at 31 December 2019 valuations) that has been owned by Group entities since 2007, over the last 12 years the rent has always been paid by the due date. Rent collection dates and statistics are benchmarked in internal 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 and financial institutions with credit ratings which are acceptable to the Board and which are kept under review at least each quarter and more often if required.

Inflation risk

Inflation risk arises from the impact of inflation on the Group's income and expenditure. 59% (2018: 52%) of the Group's passing rent at 31 December 2019 is subject to RPI-linked rent reviews, and those rents are subject to nil or upwards review, never downwards. The remaining 41% of passing rent is subject to fixed rental uplifts and is not exposed to fluctuations in the inflation rate. As a result, the Group is not exposed to a fall in rent in deflationary conditions. The Group is exposed to inflation risk on its running costs, which (with the exception of any advisory and incentive fees, the calculation of which is based on EPRA NAV) could increase in inflationary conditions. These costs totalled £2.4 million (2018: £2.2 million) in the current year (11% (2018: 10%) of total administrative expenses) and therefore the impact of any significant percentage increase in inflation would be minimal.

In September 2019 the UK Chancellor responded to the enquiry by the Economic Affairs Committee into the Retail Prices Index (RPI). In that response it was confirmed that RPI would continue to be published. However, the basis of calculation of RPI is widely accepted as being mathematically flawed and it is likely that the way that it is measured may change to make it a more accurate representation of the actual UK rate of inflation. Public consultation will commence in 2020 with any change in the calculation not occurring until 2025 at the earliest. It is therefore possible that there may be changes to the Group's RPI-linked income from such future date as the basis of calculation is changed. However, rents subject to RPI reviews should still track UK inflation, albeit without a mathematical flaw.

Liquidity risk

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

The Group seeks to manage its liquidity risk by ensuring that sufficient cash is available to meet its foreseeable needs. The Group's more material financial obligations are the payment of financing costs and any scheduled amortisation or repayments of its secured debt. Financing costs and scheduled amortisation are met out of rental income which, in all cases, provides ample headroom over the relevant amounts payable. Before entering into any financing arrangements, the Board assesses the resources that are expected to be available to the Group to meet its liabilities when they fall due including repayments at loan maturity. These assessments are made on the basis of both base case and stress tested scenarios.

Other liquidity needs are relatively modest and are managed principally through the deduction of much of the 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.

The Group prepares budgets and working capital forecasts which are reviewed by the Board at least quarterly to assess liquidity requirements and compliance with loan covenants. The Board also keeps under review the maturity profile of the Group's cash deposits in order to have reasonable assurance that cash will be available for the settlement of liabilities 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. During the year, 69% (2018: 75%) of the Group's headlease liabilities were recoverable from tenants and are not included in this analysis to the extent that they were recoverable.

18. Financial assets and liabilities (continued)
Liquidity risk (continued)

31 December 2019	Effective interest rate	Less than one year £000	One to two years £000	Two to five years £000	More than five years £000	**Total £000**
Financial assets:						
Cash and cash equivalents	0.6%	267,119	-	-	-	**267,119**
Trade and other receivables		2,924	-	-	-	**2,924**
Interest rate derivatives		-	3	40	-	**43**
		270,043	3	40	-	**270,086**
Financial liabilities:						
Fixed rate secured debt	5.1%	(47,968)	(50,442)	(576,096)	(363,559)	**(1,038,065)**
Floating rate secured debt	2.9%	(2,134)	(2,083)	(77,922)	-	**(82,139)**
Headlease liabilities		(502)	(502)	(1,507)	(6,871)	**(9,382)**
Accrued interest		(8,019)	-	-	-	**(8,019)**
Trade payables and accrued expenses		(2,676)	-	-	-	**(2,676)**
Interest rate derivatives	1.3%	(246)	(316)	(441)	-	**(1,003)**
		(61,545)	(53,343)	(655,966)	(370,430)	**(1,141,284)**

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		2,770	-	-	-	**2,770**
Interest rate derivatives		1	27	278	-	**306**
		104,516	27	278	-	**104,821**
Financial liabilities:						
Fixed rate secured debt	5.0%	(54,639)	(55,332)	(631,277)	(546,633)	**(1,287,881)**
Floating rate secured debt	2.7%	(2,291)	(2,361)	(82,666)	-	**(87,318)**
Headlease liabilities		(502)	(502)	(1,507)	(6,871)	**(9,382)**
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)**

Notes to the Group Financial Information continued

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 to safeguard shareholders' equity and avoid financial penalties. Borrowings are secured on each of six (2018: six) property portfolios by way of fixed charges over property assets, over the shares in the parent company of each ring-fenced borrower subgroup, and also by floating charges on the assets of the relevant subsidiary companies. The suitability of the extent of asset cover in the secured facilities forms a key part of debt negotiations and ongoing monitoring.

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

At 31 December 2019 and 31 December 2018, 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 described 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 advisable or required.

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

19. Headlease liabilities

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

Minimum headlease payments	**31 December 2019 £000**	31 December 2018 £000
Within one year	**1,786**	1,801
Between one year and five years	**7,166**	7,219
More than five years	**154,489**	157,138
	163,441	166,158
Less future finance charges	**(135,251)**	(137,647)
	28,190	28,511

The earliest expiry date of all the lease obligations is in more than five years. All but £0.5 million (2018: £0.5 million) 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 2d.

20. Deferred tax liability

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

	Year to 31 December 2019 £000	Year to 31 December 2018 £000
At the start of the year	**11,110**	10,238
Charge to the income statement (note 10)	**759**	747
(Credit)/charge to other comprehensive income	**(602)**	125
At the end of the year	**11,267**	11,110

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

Notes to the Group Financial Information continued

21. Share capital

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

	Year to 31 December 2019 Number	Year to 31 December 2018 Number
At the start of the year	**321,563,353**	230,536,874
Issue of ordinary shares:		
in settlement of 2018 incentive fee	**1,287,242**	-
in respect of March 2018 placing	**-**	86,438,000
in settlement of 2017 incentive fee	**-**	4,588,479
At the end of the year	**322,850,595**	321,563,353

Under the incentive fee arrangements described in note 26, a fee of £4.9 million (2018: £4.9 million) will become due in March 2020, assuming completion of the process of service of notice, acceptance of the calculation and independent valuation of the shares, by the issue of 1,184,551 (2018: 1,287,242) new ordinary shares following which there will be 324,035,146 (2018: 322,850,595) ordinary shares in issue. The cost of the incentive fee to the Group including irrecoverable VAT is £5.3 million (2018: £5.3 million), which has been charged to administrative expenses in the year.

22. Reserves

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

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

Other reserves represent:

- the cumulative exchange gains and losses on foreign currency translation;
- the cumulative gains or losses, net of tax, on effective cash flow hedging instruments; and
- the impact on equity of any shares to be issued after the balance sheet date, as described in note 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 2019				
At the start of the year	5,305	4,872	(200)	**9,977**
Currency translation movements	(2,000)	-	**-**	**(2,000)**
Fair value of derivatives (note 14)	-	-	(851)	**(851)**
Other comprehensive loss	(2,000)	-	(851)	**(2,851)**
Shares issued in the year	-	(4,869)	-	**(4,869)**
Shares to be issued	-	4,907	-	**4,907**
At the end of the year	3,305	4,910	(1,051)	**7,164**
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 (note 14)	-	-	(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**
At the end of the year	5,305	4,872	(200)	**9,977**

23. Operating leases

The majority of the Group's assets are investment properties leased to third parties under non-cancellable operating leases. The weighted average remaining lease term at 31 December 2019 is 21.0 years (2018: 20.9 years) and there are no tenant break options. The leases contain either fixed uplifts or upwards only RPI-linked uplifts, alongside periodic open market reviews on 11 of the 12 healthcare portfolio assets.

Contingent rental income arises as a result of RPI-linked uplifts on 41% of the Group's passing rent as at 31 December 2019. £0.9 million (2018: £1.0 million) of contingent rental income on RPI leases was recognised in the income statement in the year.

Future minimum rents receivable, translated at the relevant year end exchange rates, are as follows:

	31 December 2019 £000	31 December 2018 £000
Within one year	**110,697**	126,076
Between one year and five years	**456,783**	519,432
More than five years	**2,129,296**	2,376,858
	2,696,776	3,022,366

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

24. Net asset value per share

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

Diluted NAV per share includes within the denominator any shares that will be issued in future at the balance sheet date, including those in settlement of any incentive fee that may become payable as explained in note 26.

EPRA, the European Public Real Estate Association, publishes guidelines aimed at providing a measure of NAV on the basis of long term fair values. EPRA NAV 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 calculation of EPRA NAV per share uses as its denominator the same number of shares in issue as is used in calculating Diluted NAV per share.

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

	31 December 2019		31 December 2018	
	£000	**Pence per share**	£000	Pence per share
Basic NAV	**1,384,542**	**428.8**	1,281,588	398.5
EPRA adjustments:				
Dilution from shares to be issued for incentive fee	**-**	**(1.5)**	-	(1.5)
Diluted NAV	**1,384,542**	**427.3**	1,281,588	397.0
Deferred tax on German investment property revaluations	**11,267**	**3.5**	11,110	3.4
Fair value of interest rate derivatives	**1,084**	**0.3**	197	0.1
EPRA NAV	**1,396,893**	**431.1**	1,292,895	400.5

The number of shares used in the NAV per share calculations are as follows:

	31 December 2019 Number	31 December 2018 Number
Basic NAV	**322,850,595**	321,563,353
Diluted NAV and EPRA NAV	**324,035,146**	322,850,595

Notes to the Group Financial Information continued

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

Year to 31 December 2019	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	1,771	1,078,495	28,511	9,248	5	**1,118,030**
Cash flows:						
Repayment of secured debt from property sales	-	(154,519)	-	-	-	**(154,519)**
Interest and finance costs paid	-	-	(1,702)	(51,833)	(103)	**(53,638)**
Loan break costs	-	(27,868)	-	-	-	**(27,868)**
Scheduled amortisation of secured debt	(3,988)	-	-	-	-	**(3,988)**
Loan arrangement costs paid	-	(670)	-	-	-	**(670)**
Non-cash movements:						
Finance costs in the income statement	2,385	29,308	1,702	50,586	253	**84,234**
Finance costs in other comprehensive income	-	-	-	-	851	**851**
Derecognition of headlease liabilities on sold properties	-	-	(221)	-	-	**(221)**
Movement in headlease liabilities	-	-	(100)	-	-	**(100)**
Currency translation movements	8	(3,344)	-	(28)	-	**(3,364)**
Reclassifications	994	(994)	-	46	(46)	**-**
At the end of the year	1,170	920,408	28,190	8,019	960	**958,747**
Year to 31 December 2018						
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 arrangement costs paid	(454)	(2,007)	-	-	-	**(2,461)**
Purchase of interest rate caps	-	-	-	-	(220)	**(220)**
Non-cash movements:						
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	-	**650**
Reclassifications	4,156	(4,156)	-	46	(46)	**-**
At the end of the year	1,771	1,078,495	28,511	9,248	5	**1,118,030**

Notes to the Group Financial Information continued

26. Related party transactions and balances

Relationship between Company and Investment Adviser

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

Until 10 December 2019, the Investment Adviser was Prestbury Investments LLP ("PILLP"). From that date, the Investment Adviser is Prestbury Investment Partners Limited ("PIPL") following the novation of the Investment Advisory Agreement from PILLP to PIPL, following which the terms of the agreement remained unchanged. The ownership of PILLP and PIPL is identical and PIPL has the same resources available to it to perform the services required as PILLP had.

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 the Investment Adviser. They are also directors of and shareholders in PIPL.

Advisory fees payable to the Investment Adviser 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 between £1 billion and £1.5 billion, plus
- 0.5% per annum on EPRA NAV over £1.5 billion.

Following a proposal made by the Investment Adviser, the Independent Directors have agreed that, with effect from 1 April 2020, EPRA NAV for the purposes of calculation of the advisory fee will be reduced to the extent that the surplus realised on the disposal of a portfolio of hospitals in August 2019 remains available for deployment. The balance of the surplus cash at 31 December 2019 is £160.5 million and if, as anticipated, no funds are invested in acquisitions, liability management or special shareholder returns prior to 1 April 2020, the balance of the surplus is expected to be £158.3 million at that time.

During the year, advisory fees of £12.9 million (2018: £12.3 million) plus VAT were payable in cash to PILLP , of which £nil (2018: £0.1 million) was outstanding as at the balance sheet date, and advisory fees of £0.8 million (2018: £nil) plus VAT were payable in cash to PIPL, of which £0.8 million (2018: £nil) was outstanding as at the balance sheet date and is included in trade and other payables (note 17).

Incentive fee

The Investment Adviser may become entitled to an incentive fee intended to reward growth in Total Accounting Return ("TAR") above an agreed benchmark and to maintain strong alignment of the Investment Adviser's interests with those of shareholders. TAR is measured as growth in 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 (save for certain limited exceptions), with the restriction lifted on a phased basis over a period from 18 to 42 months from the date of issue. Shares may be released from the sale restriction in the event that shares need to be sold to settle the tax liability on the receipt of those shares, but this exemption has never been requested.

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

Notes to the Group Financial Information continued

26. Related party transactions and balances (continued)

A high water mark EPRA NAV per share of 400.5 pence per share was established at 31 December 2018, when a fee was last earned, therefore TAR had to exceed 40.1 pence per share in the year for the 2019 year before any incentive fee would be earned. Dividends of 16.3 pence per share were paid in the year, so any excess of EPRA NAV per share over and above 421.5 pence per share at 31 December 2019 represents above target TAR, of which the Investment Adviser earns 20% under the incentive fee arrangements. Since EPRA NAV is 431.1 pence per share (after accounting for the impact of the 2019 incentive fee), 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 incentive fees, that relate to the healthcare portfolio. For the year to 31 December 2019, the irrecoverable element amounted to 35% (2018: 42%) of the VAT liability so £0.4 million (2018: £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 (2018: £5.3 million): £4.9 million (2018: £4.9 million) satisfied by way of the issue of 1,184,551 shares to PIPL (2018: 1,287,242 shares to PILLP) plus £0.4 million (2018: £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 2019 fee to PIPL will result in dilution of shareholder returns of under 0.4% and this dilution is reflected in the 31 December 2019 EPRA NAV per share.

Assuming no changes in the Company's capital structure, dividends plus EPRA NAV per share growth will have to exceed 474.2 pence per share for the year ending 31 December 2020 before an incentive fee is earned for that year.

Dividends paid to related parties and key management personnel

Dividends were paid to related parties and key management personnel as follows:

	Year to 31 December 2019 £000	Year to 31 December 2018 £000
Nick Leslau *	**3,668**	3,303
Prestbury Incentives Limited †	**3,049**	2,305
Mike Brown	**193**	155
Sandy Gumm	**31**	26
Martin Moore	**19**	15
Ian Marcus	**14**	12
Jonathan Lane	**9**	8
Leslie Ferrar	**4**	3
	6,987	5,827

* comprising ordinary shares held by an LLP in which he has a 95% indirect interest and another company which he wholly owns.

† Nick Leslau, Mike Brown and Sandy Gumm are shareholders in and directors of Prestbury Incentives Limited, together with other key management personnel, Tim Evans and Ben Walford.

27. Events after the balance sheet date

On 21 February 2020, the Company paid a dividend of 4.2 pence per share amounting to £13.6 million. Of the amount paid, £2.2 million was a top-up dividend from the surplus disposal proceeds described in note 26.

On 11 March 2020 the terms of the Investment Advisory Agreement were varied in order to effect the reduction in the advisory fee explained in note 26 and announced to the stock exchange on 25 February 2020.

Unaudited Supplementary Information
Shareholder returns

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 plus dividends per share paid over a period expressed as a percentage of the share price at the start of the period. Total Accounting Return is a shareholder return measure calculated as the movement in EPRA NAV per share plus dividends per share over the period expressed as a percentage over the EPRA NAV at the start of the period.

When providing illustrations of future performance, the Company measures shareholder return by reference to illustrative EPRA NAV.

TAR – EPRA NAV performance

	Year to 31 December 2019 Pence per share	Year to 31 December 2018 Pence per share
EPRA NAV per share:		
at the start of the year	**400.5**	370.4
at the end of the year	**431.1**	400.5
Increase in EPRA NAV per share	**30.6**	30.1
Dividends per share	**16.3**	13.9
Increase in EPRA NAV per share plus dividends per share	**46.9**	44.0
TAR	**11.7%**	11.9%

TSR – share price performance

	Year to 31 December 2019 Pence per share	Year to 31 December 2018 Pence per share
Mid market closing share price:		
at the start of the year	**377.0**	360.8
at the end of the year	**434.0**	377.0
Increase in share price	**57.0**	16.2
Dividends per share	**16.3**	13.9
Increase in share price plus dividends per share	**73.3**	30.1
TSR	**19.4%**	8.3%

Unaudited Supplementary Information
EPRA measures (EPRA Guidelines 2016)

EPRA measures

	31 December 2019	31 December 2018
EPRA NAV per share	**431.1p**	400.5p
EPRA Triple Net Asset Value per share	**417.9p**	389.2p
EPRA Net Initial Yield	**4.94%**	5.04%
EPRA Topped Up Net Initial Yield	**4.94%**	5.05%
EPRA Vacancy Rate	**0%**	0%

	Year to 31 December 2019	Year to 31 December 2018
EPRA EPS	**16.9p**	16.6p
Adjusted EPRA EPS	**15.3p**	14.7p
EPRA Capital Expenditure	**£0.3m**	£435.5m
EPRA Cost Ratio excluding direct vacancy costs	**17.5%**	16.8%
EPRA Cost Ratio including direct vacancy costs	**17.6%**	16.9%
Adjusted EPRA Cost Ratio excluding direct vacancy costs	**14.9%**	14.1%
Adjusted EPRA Cost Ratio including direct vacancy costs	**15.0%**	14.2%

EPRA NAV per share

	31 December 2019		31 December 2018	
	£000	**Pence per share**	£000	Pence per share
Basic NAV (note 24)	**1,384,542**	**428.8**	1,281,588	398.5
EPRA adjustments:				
Dilution from shares to be issued for incentive fee	**-**	**(1.5)**	-	(1.5)
Diluted NAV	**1,384,542**	**427.3**	1,281,588	397.0
Deferred tax on German investment property revaluations	**11,267**	**3.5**	11,110	3.4
Fair value of derivatives	**1,084**	**0.3**	197	0.1
EPRA NAV	**1,396,893**	**431.1**	1,292,895	400.5

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 2019 Number	31 December 2018 Number
Basic NAV	**322,850,595**	321,563,353
Shares to be issued in satisfaction of incentive fee (note 26)	**1,184,551**	1,287,242
Diluted and EPRA NAV	**324,035,146**	322,850,595

Unaudited Supplementary Information
EPRA measures (EPRA Guidelines 2016) 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. This is calculated as follows:

	31 December 2019		31 December 2018	
	£000	**Pence per share**	£000	Pence per share
EPRA NAV (note 24)	**1,396,893**	**431.1**	1,292,895	400.5
Fair value of fixed rate debt	**(30,343)**	**(9.4)**	(25,176)	(7.8)
Deferred tax on German investment property revaluations	**(11,267)**	**(3.5)**	(11,110)	(3.4)
Fair value of derivatives	**(1,084)**	**(0.3)**	(197)	(0.1)
EPRA Triple NAV	**1,354,199**	**417.9**	1,256,412	389.2

The fair value of the fixed rate debt is defined by EPRA as a mark to market adjustment measured in accordance with IFRS 9 in respect of all debt not held at fair value in the balance sheet. 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 2019 £000	31 December 2018 £000
Investment property, all of which is completed and wholly owned, at independent external valuation (note 12)	**2,083,107**	2,306,709
Allowance for estimated purchasers' costs	**140,826**	155,628
Grossed up completed property portfolio valuation	**2,223,933**	2,462,337
Annualised cash passing rental income	**110,726**	124,989
Annualised non-recoverable property outgoings	**(866)**	(815)
Annualised net rents	**109,860**	124,174
Notional rent increase on expiry of rent free periods and other lease incentives	**48**	187
	109,908	124,361
EPRA Net Initial Yield	**4.94%**	5.04%
EPRA Topped Up Net Initial Yield	**4.94%**	5.05%

EPRA Vacancy Rate

	31 December 2019	31 December 2018
EPRA Vacancy Rate	**0%**	0%

There was only negligible vacant space as at both 31 December 2019 and 31 December 2018.

Unaudited Supplementary Information
EPRA measures (EPRA Guidelines 2016) continued

EPRA EPS

	Year to 31 December 2019 £000	Year to 31 December 2018 £000
Basic earnings attributable to shareholders (note 11)	**153,359**	147,513
EPRA adjustments:		
Investment property revaluation (note 12)	**(75,708)**	(98,167)
Profit on disposal of investment properties (note 7)	**(53,074)**	(183)
Cost of early repayment of debt on property sales (note 9)	**27,868**	-
Other early debt repayment costs (non-cash) (note 9)	**1,443**	-
German deferred tax on investment property revaluation (note 10)	**759**	747
Fair value adjustment of interest rate derivatives	**36**	25
EPRA earnings	**54,683**	49,935
Other adjustments:		
Rent Smoothing Adjustments (note 4)	**(10,564)**	(10,950)
Incentive fee (note 6)	**5,256**	5,278
Adjusted EPRA earnings	**49,375**	44,263

Weighted average number of shares in issue	**Number**	Number
Adjusted EPRA EPS	**322,540,246**	300,553,819
Adjustment for time weighting of shares issued in the year *	**1,494,900**	995,851
EPRA EPS	**324,035,146**	301,549,670
Shares to be issued in satisfaction of incentive fee (note 26)	**1,184,551**	1,287,242
Diluted EPRA EPS	**325,219,697**	302,836,912

* 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	**16.9**	16.6
Diluted EPRA EPS	**16.8**	16.5
Adjusted EPRA EPS	**15.3**	14.7

EPRA Capital Expenditure

Wholly owned property:	**Year to 31 December 2019 £000**	Year to 31 December 2018 £000
Acquisitions	**307**	435,540
Development	**-**	-
Expenditure on completed investment property held throughout the year:		
Creation of additional lettable area	**-**	-
Enhancing existing space	**-**	-
EPRA Capital Expenditure	**307**	435,540

The Group does not have any joint ventures so any EPRA capital expenditure relates to wholly owned properties. The £0.3 million expenditure on acquisitions in the year largely represents the purchase of the freehold of an existing leasehold property, while the £435.5 million expenditure on acquisitions in the prior year represents the purchase of two investment property 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 property portfolio except at Manchester Arena, where such costs relating to the structure and common areas are liabilities of the Group but are generally recoverable from tenants via service charges.

Unaudited Supplementary Information
EPRA measures (EPRA Guidelines 2016) continued

EPRA Cost Ratio

	Year to 31 December 2019 £000	Year to 31 December 2018 £000
Revenue (note 4)	**132,677**	125,874
Tenant contributions to property outgoings (note 4)	**(1,580)**	(1,384)
EPRA gross rental income	**131,097**	124,490
Non-recoverable property operating expenses (note 5) *	**1,549**	427
Less headlease costs included in non-recoverable property operating expenses	**(662)**	(315)
Administrative expenses (note 6)	**22,128**	20,575
EPRA costs including direct vacancy costs	**23,015**	20,687
Direct vacancy costs	**(95)**	(90)
EPRA costs	**22,920**	20,597
EPRA Cost Ratio including direct vacancy costs	**17.6%**	16.9%
EPRA Cost Ratio excluding direct vacancy costs	**17.5%**	16.8%

* included within the £1.3 million (2018: £0.5 million) of property costs charged to the income statement is £0.2 million (2018: £0.1 million) of headlease costs and other costs that are recoverable from the tenant.

The Group capitalises the incremental costs of negotiating and arranging new leases, which are then charged to the income statement over the term of the relevant lease. During the year, £nil (2018: £0.4 million) of these costs were capitalised, and £19,000 (2018: £36,000) was released from capitalised costs and charged to the income statement. With effect from the implementation of IFRS16 on 1 January 2019, rent review costs are charged to the income statement when they are incurred and non-recoverable property operating expenses include £0.4 million in respect of these costs in the year (2018: £nil).

Non recoverable property operating expenses for the year ended 31 December 2019 also include non-recurring costs of £0.2 million relating to a feasibility study for a capital project which has not commenced (and might not commence).

The Group has no capitalised overheads or other operating expenses and does not capitalise interest.

Adjusted EPRA Cost Ratio excluding non-cash items

The Group also calculates an Adjusted EPRA Cost Ratio excluding the following non-cash items to present a measure of cost efficiency that the Board considers 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 2019 £000	Year to 31 December 2018 £000
EPRA gross rental income	**131,097**	124,490
Rent Smoothing Adjustments (note 4)	**(10,564)**	(10,950)
Adjusted EPRA gross rental income excluding non-cash items	**120,533**	113,540
EPRA costs	**23,015**	21,002
Incentive fee settled in shares (note 26)	**(4,907)**	(4,872)
Adjusted EPRA costs including direct vacancy costs	**18,108**	16,130
Direct vacancy costs	**(95)**	(90)
Adjusted EPRA costs excluding direct vacancy costs	**18,013**	16,040
Adjusted EPRA Cost Ratio including direct vacancy costs	**15.0%**	14.2%
Adjusted EPRA Cost Ratio excluding direct vacancy costs	**14.9%**	14.1%

Unaudited Supplementary Information
EPRA measures (EPRA Guidelines 2016) continued

Like for like rental growth by portfolio

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

Passing rent	Leisure portfolio £000	Healthcare portfolio £000	Budget hotel portfolio £000	**Total portfolio £000**
At 1 January 2018	32,685	48,868	14,169	**95,722**
Disposals	-	-	(89)	**(89)**
Movement in Euro exchange rate	69	-	-	**69**
Like for like passing rent	32,754	48,868	14,080	**95,702**
Acquisitions	11,869	-	14,969	**26,838**
Rental uplifts	1,100	1,349	-	**2,449**
At 31 December 2018	45,723	50,217	29,049	**124,989**
Increase in like for like passing rent	3.4%	2.8%	-	**2.6%**
Portfolio valuation at 31 December 2018	826,670	984,845	495,194	**2,306,709**

Unaudited Supplementary Information
EPRA measures (EPRA Guidance 2016) continued

Like for like rental growth by country

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

Passing rent	UK £000	Germany £000	**Total portfolio £000**
At 1 January 2018	89,381	6,341	**95,722**
Disposals	(89)	-	**(89)**
Movement in Euro exchange rate	-	69	**69**
Like for like passing rent	89,292	6,410	**95,702**
Acquisitions	26,838	-	**26,838**
Rental uplifts	2,235	214	**2,449**
At 31 December 2018	118,365	6,624	**124,989**
Increase in like for like passing rent	2.5%	3.3%	**2.6%**
Portfolio valuation at 31 December 2018	2,194,159	112,550	**2,306,709**

Unaudited Supplementary Information
New EPRA measures (EPRA Guidelines October 2019)

New EPRA NAV best practice guidelines
The EPRA measures set out on the preceding pages have been prepared in accordance with the guidelines currently in force, the EPRA Best Practice Recommendations Guidelines November 2016. With effect from the financial year which commenced on 1 January 2020, new EPRA guidelines published in October 2019 establishing three new EPRA NAV measures will apply.

To aid comparison between the existing and new measures, and also between the results of the Company and others companies reporting under the new guidelines, the calculation of the new EPRA NAV measures and their reconciliation to the financial information is provided here. These calculations are based on our current understanding of how market practice in these new disclosures will develop.

New EPRA NAV measures	**31 December 2019 Pence per share**	31 December 2018 Pence per share
EPRA Net Reinstatement Value per share	**474.6**	448.7
EPRA Net Tangible Assets per share	**429.4**	398.8
EPRA Net Disposal Value per share	**417.9**	389.2
EPRA measures calculated on existing basis		
EPRA NAV per share	**431.1**	400.5
EPRA Triple NAV per share	**417.9**	389.2

EPRA NAV in £000

	EPRA Net Reinstatement Value		EPRA Net Tangible Assets		EPRA Net Disposal Value	
	31 December 2019 £000	31 December 2018 £000	**31 December 2019 £000**	31 December 2018 £000	**31 December 2019 £000**	31 December 2018 £000
Basic NAV (note 24)	**1,384,542**	1,281,588	**1,384,542**	1,281,588	**1,384,542**	1,281,588
EPRA adjustments:						
Dilution from shares to be issued for incentive fee	**-**	-	**-**	-	**-**	-
Diluted NAV	**1,384,542**	1,281,588	**1,384,542**	1,281,588	**1,384,542**	1,281,588
Deferred tax on German investment property revaluations (1)	**11,267**	11,110	**5,634**	5,555	**-**	-
Fair value of derivatives	**1,084**	197	**1,084**	197	**-**	-
Adjustment for real estate transfer tax (2)	**140,826**	155,628	**-**	-	**-**	-
Fair value of fixed rate debt (3)	**-**	-	**-**	-	**(30,343)**	(25,176)
EPRA NAV	**1,537,719**	1,448,523	**1,391,260**	1,287,340	**1,354,199**	1,256,412

Unaudited Supplementary Information
New EPRA measures (EPRA Guidelines October 2019) continued

New EPRA NAV best practice guidelines (continued)

EPRA NAV per share

	EPRA Net Reinstatement Value		EPRA Net Tangible Assets		EPRA Net Disposal Value	
	31 December 2019 Pence	31 December 2018 Pence	**31 December 2019 Pence**	31 December 2018 Pence	**31 December 2019 Pence**	31 December 2018 Pence
Basic NAV (note 24)	**428.8**	398.5	**428.8**	398.5	**428.8**	398.5
EPRA adjustments:						
Dilution from shares to be issued for incentive fee	**(1.5)**	(1.5)	**(1.5)**	(1.5)	**(1.5)**	(1.5)
Diluted NAV	**427.3**	397.0	**427.3**	397.0	**427.3**	397.0
Deferred tax on German investment property revaluations (1)	**3.5**	3.4	**1.7**	1.7	**-**	-
Fair value of derivatives	**0.3**	0.1	**0.3**	0.1	**-**	-
Adjustment for real estate transfer taxes (2)	**43.5**	48.2	**-**	-	**-**	-
Fair value of fixed rate debt (3)	**-**	-	**-**	-	**(9.4)**	(7.8)
	474.6	448.7	**429.3**	398.8	**417.9**	389.2

Notes:

1 Deferred tax arises only on the Group's German properties. There is no current intention to sell these assets. However the EPRA Guidance requires that, if the full deferred tax liability is to be added back to ERA Net Tangible Assets, the Group must have "clearly and specifically identified in its reporting that it intends to hold and does not in the long run intend to sell" such assets. A company may also look to its track record to demonstrate the extent to which deferred tax is likely to be crystallised. As crystallisation of deferred tax is only relevant to the German assets and as no non-UK assets have been sold, there is no track record to refer to. As neither of these tests is met, the EPRA Guidelines require that half of the deferred tax liability is added back in the adjustments to calculate EPRA Net Tangible Assets. The full extent of the liability is shown under the adjustments to calculate EPRA Net Reinstatement Value.

2 The EPRA Guidance includes the option to state EPRA Net Tangible Assets on the basis that 'optimisation' of transfer taxes is a likely outcome based on the experience of transactions in prior periods. The majority of the Group's purchases have not attracted full costs as they have been structured by sellers as corporate transactions and 47% of sales by value have not attracted full purchaser's costs. However, transactions are in main opportunistic and their structure depends to a large extent on what the counterparty wants, therefore the Company does not wholly control whether a given transaction will be a corporate or an asset deal. On that basis, full costs have been assumed in EPRA Net Tangible Assets, in order to avoid the need to speculate on likely structures. The full extent of the real estate transfer taxes assumption in the independent external valuations is disclosed within the EPRA Net Reinstatement Value calculation.

3 The EPRA guidance defines fair value of fixed rate debt consistently with the IFRS 13 definition applied in drawing up the financial information. As described in note 18 to the financial information, fair value is a lower number than the liquidation value of the Group's debt – that is the cost of early repayment of all of the Group's debt including fixed rate debt.

As described in note 26 to the financial information, EPRA NAV is the basis for calculating both the advisory and incentive fees payable to the Investment Adviser. The terms of calculation of these fees are set out in the Investment Advisory Agreement put in place at the time of the Company's listing in 2014. Under the terms of that contract, EPRA NAV is defined specifically as the measure drawn up in accordance with the 2011 EPRA Best Practice Guidelines (which were those in place when the agreement was entered into). The Remuneration Committee, the Board and the Investment Adviser have considered the impact of the new EPRA guidelines on the calculation of fees and have determined that the terms of the contract should remain unchanged. Consequently, EPRA NAV as it has been calculated from the Company's listing up to and including the 2019 financial statements will continue to form the basis of the fee calculations. The EPRA measure used for fee calculations will be published in the notes to the interim and annual reports for that purpose.

Unaudited Supplementary Information
Rent Smoothing Adjustments

The Group's accounting policy, in line with IFRS, requires the impact of any fixed or minimum rental uplifts to be spread evenly over the term of a lease and as a result there is a material mismatch between the rental cash flows and rental revenues shown in the income statement. The adjustments relate to the 41% of portfolio rents that are subject to fixed uplifts and the 6% of rents with minimum uplifts on RPI-linked reviews.

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

So as not to overstate the portfolio value, any movement in the receivable is offset against property revaluation movements and 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. Income in excess of cash flow is also taken out of Adjusted EPRA EPS so as not to artificially flatter the Group's dividend cover.

The impact of the Rent Smoothing Adjustments on the Group's balance sheet for the year ended 31 December 2019 is as follows:

	Receivable at 31 December 2019 £m	Maximum receivable at at midway point £m	Midway point of smoothing
Healthcare – Ramsay hospitals	**106.4**	111.8	March 2023
German leisure *	**34.3**	39.9	June 2026
Healthcare – Lisson Grove hospital	**11.1**	20.6	March 2035
Manchester Arena	**1.8**	8.9	June 2032
The Brewery	**1.7**	23.5	June 2041
Pubs	**0.4**	1.3	Dec 2029
	155.7	206.0	

* at the year end Euro conversion rate of €1:£0.8500.

The future impact of this adjustment would 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 2019 average Euro conversion rate of €1:£0.8769) is as follows:

	£m
2019	**10.5**
2020	**9.8**
2021	**7.2**
2022	**5.6**

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 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 Adviser	Prestbury Investment Partners Limited
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
Management Team	Nick Leslau, Mike Brown, Tim Evans, Sandy Gumm and Ben Walford, who are directors of the **Investment Adviser**
NAV	Net asset value
Net Initial Yield	Annualised net rents on 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
Weighted Average Unexpired Lease Term	The term to the first break or expiry of the leases in the portfolio, weighted by rental value