Annual Report 2014

Results for the nine months ended 31 December 2014

SECURE INCOME REIT PLC

Secure Income REIT Plc is a UK REIT which specialises in investing in real estate assets providing long term rental income and offering protection against inflation. It currently owns a £1.6 billion portfolio of 28 high quality assets generating very long term income from exceptional tenants, providing an ideal opportunity to capitalise on investor demand for secure income streams and a very strong foundation from which to build a sizeable and balanced portfolio that will deliver attractive returns for our shareholders.

The Company has an experienced board, chaired by Martin Moore, and is advised by Prestbury Investments LLP, which is owned and managed by a team led by Nick Leslau and Mike Brown.

Contents

Highlights

- EPRA net asset value per share up 50% in seven months since listing to 258.5 pence
- Portfolio valuation up 11.6% since listing to £1.63 billion; net initial yield of 5.4% and an equivalent yield of 7.0%
- Weighted average unexpired lease term of 25.1 years, with 57% of passing rent subject to annual fixed uplifts and 43% of passing rent subject to RPI linked upwards only rent reviews
- Net loan to value ratio of 70%, down from 80% at listing, providing gearing in a strong investment market
- 50% of passing rent guaranteed by Merlin Entertainments Plc, the second largest operator of visitor attractions in the world with a market capitalisation of £4.3 billion*, making it the 95th largest FTSE company
- 48% of passing rent guaranteed by Ramsay Health Care Limited, with a market capitalisation of £6.9 billion*, listed on the Australian Stock Exchange and one of the five largest private hospital groups in the world

* As at 11 March 2015.

	31 December 2014	Pro forma on listing 5 June 2014 (unaudited)
EPRA net asset value per share	**258.5p**	172.0p
EPRA net asset value	**£466.2m**	£289.0m
Net asset value	**£344.3m**	£121.0m
Adjusted EPRA earnings per share	**6.7p**	n/a

Chairman's Statement

"Since listing we have continued to see growing demand for assets with high quality, long term income streams in alternative property sectors and this momentum, coupled with our strategy of being geared into market recovery, has led to the exceptional maiden annual results we are able to report."

Martin Moore
Chairman

Dear shareholder,
I am delighted to report exceptional maiden annual results with a 50% rise in EPRA net asset value ("EPRA NAV") per share in just seven months since listing.

The Group owns over £1.6 billion of high quality freehold properties which enjoy a rare combination of annual rental uplifts secured against strong covenants on very long leases, with average unexpired lease terms of over 25 years. Such assets are increasingly valued in a world of extraordinarily low interest rates and bond yields, where investors are finding it extremely difficult to earn a reasonable level of income return. We are now witnessing bond yields turning negative in a number of European countries whilst interest rates are not only at their lowest in the UK since the Bank of England commenced setting rates in 1694, but have remained at this level for six years – the longest period without change for over 60 years.

The yield profile of the 31 December 2014 valuation shows the net initial yield of 5.4% rising shortly to 5.5% in early May following the fixed annual uplifts of our healthcare rents and to 5.6% eight weeks later following the uplift of rents on our UK leisure assets. Valuation yields understate the income return actually earned by the Group as they make a hypothetical allowance for purchaser's costs in the event the properties are sold. In practice, the income return we enjoy from our properties is higher: 5.7% today, forecast to rise to 5.9% by July based on the same year end valuation.

We consider this to be a very attractive level of return for income of 25 years duration, 98% of which is secured on the parent guarantees of two strong global businesses in Ramsay Health Care Limited and Merlin Entertainments Plc, which are valued at £6.9 billion and £4.3 billion respectively. The commercial property market (represented by the IPD UK Quarterly Index at the same 31 December 2014 valuation date) has an initial yield of 5.1% but with much less income security with an average unexpired lease term of just over 10 years. The benefit of the Group's guaranteed uplifts is reflected in the portfolio's equivalent yield, which stands at 7.0% against IPD at 6.1%.

I would add that the combination of long income duration and rising rents is not only well sought after in the current market but also proved highly resilient in more difficult economic circumstances, with the portfolio showing a return that is some 6.5% per annum higher than the IPD UK Quarterly Index during its period of private ownership from purchase in mid-2007 to listing.

A feature of the London market has been an exceptional level of interest from overseas investors and, following a number of unsolicited approaches, in February we chose to market our freehold interest in Madame Tussauds in Marylebone Road. This is one of London's top visitor attractions and an iconic property, available on the market as an individual asset for the first time since the business started trading on this site 130 years ago. While the Group's strategy remains firmly to invest in and hold for the long term high quality assets with long term income characteristics, Madame Tussauds is our largest asset and with the London market so buoyant we felt we must explore this sale opportunity to ensure we continue to optimise shareholder returns. If successful, the sale would improve the income return on the remainder of the portfolio.

A corollary of a highly competitive market is that suitable acquisition opportunities have proved both scarce and competitively priced. I made the point in our interim results that the Board not only chooses to be patient in waiting for the right investment opportunity but that it can afford to be so, with no dilution of returns given that it holds little cash on its balance sheet. Indeed, the Group was floated with a high level of leverage in a rising market with the anticipation that this would augment shareholder returns. This has certainly proved to be the case since listing, with a valuation gain of 11.6% leading to a 50% EPRA NAV per share increase. It has also reduced our net loan to value ratio from 80% to 70%, and if Madame Tussauds is sold this will significantly reduce our levels of net borrowings, as this property has a value in excess of £300 million and represents 19% of our property portfolio.

With interest rates at historic lows, it makes sense for us to investigate whether an early refinancing of the portfolio would be in shareholders' best interests. This would present an opportunity to lock into lower interest rates for a longer period, but at the cost of breaking our interest rate swaps which otherwise expire in 2017 when the associated debt matures. An early refinancing should bring forward the date we could commence paying a dividend ahead of our previous indication of 2017. We will report further to shareholders if our investigations lead us to conclude that an early refinancing is in the best interests of shareholders.

In the meantime we note that the search for yield has continued to drive up values over the opening months of this year which provides a favourable backdrop for the Group's activities during 2015.

Results and financial position

The financial statements presented in this report and accounts are for a nine month period ended 31 December 2014 with comparative figures at 31 March 2014, which predates the listing of the Company. The 31 March 2014 figures present the capital structure as it was prior to our listing on 5 June 2014 and consequently comparisons to the prior period are not particularly meaningful. Therefore we highlight in this report the growth in EPRA NAV per share since listing, when the current capital structure took effect. The growth achieved in that seven-month period is 50%, which is driven principally by the 95.3 pence per share property valuation uplift and 37.2 pence per share of rent net of property costs. After all financing and running costs of the Group, an increase in shareholder value of 86.5 pence per share since listing has been achieved. The portfolio uplift of 11.6% translates into significant NAV per share performance through the strategy of being geared into the recovery as detailed in our previous statements.

The Group's 6.7 pence of adjusted EPRA earnings per share comprises 1.9 pence per share attributable to the period up to and including listing and 4.8 pence per share attributable to the period post listing, which is made up as follows:

	Period from 5 June to 31 December 2014 Pence per share
Rental income net of property outgoings	37.2
Net finance costs	(29.9)
Administrative expenses and corporate costs	(2.2)
Tax	(0.3)
Adjusted EPRA EPS since listing	**4.8**

Further details of the Group's capital structure and performance are set out in the Strategic Report and the Investment Adviser's Report.

Outlook

The world currently lacks an adequate supply of investments able to generate a safe and secure income stream at reasonable levels. The resultant search for yield is driving up the prices of those remaining assets that share such characteristics and this is likely to continue whilst most countries around the world maintain low interest rates and QE suppresses bond yields. Of course there is always the possibility that events steer markets off course, but the early months of 2015 have seen a further continuation of this trend, which augurs well for the Company.

Martin Moore
Chairman
12 March 2015

Strategic Report

Strategy and investment policy
The Group is a property investment business specialising in owning long term, inflation protected secure income streams from real estate investments. A long term income stream is considered to have a weighted average term to maturity in excess of 15 years at the time of acquisition.

The existing portfolio comprises 28 freehold investment properties let for a weighted average term to first break or expiry of 25.1 years. It is considered by the Board to offer attractive geared returns from high quality real estate, with financially strong tenants operating with 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 returns through acquisitions;
- extend the debt maturity profile of the portfolio through efficient use of capital in refinancing the debt in due course; and
- ultimately reduce overall leverage in order to enhance income returns for investors.

There are no other significant UK REITs specialising in long leases across a range of property sectors. Against a backdrop of significant reduction in income security in the UK real estate market, caused by a marked decline in the average term to first tenant lease break or expiry, and mindful of the growing requirement amongst investors for long term, secure income flows, the Board aims to fill this gap in the market and build a substantial diversified long term income portfolio.

The Board believes that it will be able to seek acquisition opportunities from a range of sources including lenders, operating businesses, non-REITs with latent capital gains fettering sale prospects, and structures where the Company's shares may be used as currency to unlock value. The Group aims to build on its existing portfolio to create a balanced portfolio of long term, secure income streams from real estate investments across a range of property sectors. In this way, it expects to deliver attractive, risk-adjusted total returns to shareholders alongside its ambition to create a substantial and diversified REIT specialising in long term income. Throughout this process, the Directors' intention is to exercise strong capital discipline and use equity prudently to enhance returns for all shareholders.

Alton Towers hotel

Heide Park, Germany

Madame Tussauds, London

Business review

Key performance indicator – EPRA NAV per share

The principal financial outcome that the Board seeks to achieve is attractive growth in shareholder returns. Progress towards this objective is specifically measured through growth in EPRA NAV, which is a measure of the fair value of a company on a long term basis, ignoring the impact of hedging valuations and any deferred tax.

As the reporting period includes results both before and after listing, and as the capital structure of the Group prior to listing was very different to the structure since then, we believe that the most appropriate measure of growth for shareholders is progress in EPRA NAV per share since listing. The Group's EPRA NAV per share at 31 December 2014 was 258.5 pence, which represents a 50% increase over the unaudited pro forma EPRA NAV as at listing. In an effort to fairly reflect the capital reorganisation and effects of the listing, the following table summarises growth in EPRA NAV as adjusted for the reorganisation and listing.

	Nine months to 31 December 2014 Pence per share
EPRA NAV per share at 1 April 2014 adjusted for current capital structure	176.1
Investment property revaluation	95.3
Performance fee	(20.1)
Rental income* less finance and administrative costs	8.5
Tax	(0.9)
Currency translation movements	(0.4)
EPRA NAV per share at 31 December 2014	**258.5**

* Including 6.7 pence from the impact of rent smoothing adjustments in the period, arising from the Group's accounting policy to spread the impact of fixed rental uplifts evenly over the whole term of relevant leases, in accordance with SIC 15 "Operating Leases – Incentives". The impact of this accounting treatment is to reflect a receivable, included in the book value of investment property, for the amount of rent included in the income statement ahead of actual cash receipts. In order that the rent smoothing receivable does not, in combination with the book value of the investment properties, overstate the value of the property portfolio, any movement in the rent smoothing receivable is offset against property revaluation movements.

Key performance indicator – adjusted EPRA earnings per share

The Company intends to make distributions to shareholders once it generates sufficient profits. In order to monitor its ability to make distributions, the Board uses the Group's adjusted EPRA earnings per share as a key performance indicator. EPRA EPS excludes investment property revaluations, fair value movements in interest rate derivatives and deferred tax to give a measure of underlying earnings from core operating activities. An adjusted EPRA EPS figure is presented, also excluding any performance fee as that is largely derived from investment property revaluations, and the non-recurring costs of the reorganisation and listing, as the Board believes this enables a more consistent comparison of underlying earnings:

	At or prior to listing in June 2014 Pence per share	Since listing in June 2014 Pence per share	**Nine months to 31 December 2014 Pence per share**
Rental income net of property outgoings	11.5	37.2	**48.7**
Net finance costs	(10.0)	(29.9)	**(39.9)**
Performance fee	–	(21.1)	**(21.1)**
Administrative expenses and corporate costs	(1.8)	(2.2)	**(4.0)**
Tax	(0.4)	(0.3)	**(0.7)**
Unwinding discount on shareholder loans net of deferred tax (note 5)	0.8	–	**0.8**
EPRA EPS	**0.1**	**(16.3)**	**(16.2)**
Performance fee	–	21.1	**21.1**
One-off costs of reorganisation and listing	1.8	–	**1.8**
Adjusted EPRA EPS	**1.9**	**4.8**	**6.7**

Further details of the Group's financial performance are given in the Investment Adviser's Report on pages 8 to 15.

Strategic Report continued

Principal risks and uncertainties

Risk	Impact on the Group	Mitigation
Property valuation movements The Group invests in commercial property and so is exposed to movements in property valuations, which are subjective and may vary as a result of a variety of factors, many of which are outside the control of the Group.	Investment properties make up the majority of the Group's assets, so changes in their value can have a significant impact on EPRA NAV.	The Group uses experienced external valuers, whose work is reviewed by suitably qualified members of the Board and Investment Adviser, before being approved in the context of the accounts as a whole by the Audit Committee and the Board. The Board's objective is to seek to structure the Group's capital such that gearing is appropriate having regard to market conditions.
Tenant risk During the period the Group derived its rental income from three tenants with three guarantors, two of which accounted for 98% of passing rent. There can be no guarantee that they will remain able to comply with their obligations throughout the term of the relevant leases.	A default of lease obligations would have a material impact on the Group's revenue and hence its EPRA EPS, particularly as the specialised use of the properties may mean that re-letting takes time. Investment property valuations reflect the valuer's assessment of the future security of income. A loss of income would therefore impact EPRA NAV.	The lease guarantors are all listed companies with capital structures considered appropriate by the Board and with impressive long term earnings growth and share price track records. 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 under the terms of a lease.
Borrowing Certain Group companies have granted security to lenders in the form of mortgages over investment property and fixed and floating charges over other assets.	In the event of a breach of covenant, the Group may be required to pay higher interest costs or to make early repayment of borrowings in whole or in part, which would affect EPRA EPS. The Group might also be required to terminate some or all of its interest rate hedging instruments which could result in a cash cost, impacting EPRA NAV. Where the Group is unable to make repayment out of existing cash resources, it may be forced to sell assets to repay part or all of the Group's debt. It may be necessary to sell assets at below book value, which would impact EPRA NAV.	There are no loan to value tests over the remaining term of the facilities. The Board reviews compliance with interest cover covenants every quarter, including look forward tests for at least 12 months, and considers that there is sufficient headroom on relevant loan covenants.
Access to financing The Group's debt facilities are due for repayment in May and July 2017. This is likely to require new debt finance, asset sales, equity issues or a combination of these sources of finance. Access to such financing will depend on market conditions at the time.	The Group will be dependent upon access to financing from debt or equity markets or through asset sales to meet its repayment obligations. An inability to repay the debt in full could mean a reduction in the value of shareholders' equity. Debt finance may only be available at a higher interest cost, impacting EPRA EPS, while it may be necessary to sell assets at below book value, which would impact EPRA NAV.	The Board periodically reviews the availability of finance and the refinancing options available. There is very material equity value in the portfolios providing flexibility to conduct asset sales or other capital raising if necessary in the event that debt markets are not favourable at the time of refinancing.

Risk	Impact on the Group	Mitigation
Interest rate risk The Group has borrowed on a variable rate basis, with rates effectively fixed by way of interest rate swaps, and is therefore exposed to changes in interest rates in the event that swaps are terminated prior to maturity in mid-2017.	The current low interest rate environment has given rise to a significant theoretical mark to market liability relating to the Group's hedging instruments. This does not represent a cash liability unless and until the instruments are terminated, but in that case would be a cash cost that would impact EPRA NAV and EPRA EPS.	The Board periodically monitors the position of the loans and associated derivatives to ensure that the hedging remains effective. The Group's policy is that any future variable rate borrowing should also be appropriately hedged. The Board will consider the cost of terminating any derivatives with a view to only incurring such costs if it results, overall, in a beneficial outcome for shareholders.
Exchange rate risk The Group prepares its financial statements in Sterling but some of its business is conducted in Germany, where both assets and liabilities are Euro denominated, so it is subject to foreign currency exchange risk from exchange rate movements between Sterling and the Euro.	There could be an adverse impact on the Sterling valuation of unhedged investments and income flows, which would affect EPRA NAV and EPRA EPS respectively.	Exchange rate risk is partially hedged through the use of Euro denominated assets and liabilities, limiting the exposure to the Euro net asset value which at the year end rate of €1:£0.77877 amounts to just over 4% of EPRA NAV.
Tax risk The Group is subject to the UK REIT regime. A failure to comply with UK REIT conditions resulting in the loss of this status would make the whole Group subject to UK corporation tax.	If subject to UK corporation tax, the Group's current tax charge would increase, impacting EPRA EPS.	The Board reviews compliance with the UK REIT rules every quarter.
Liquidity risk Working capital must be managed to ensure that both the Group as a whole and all individual entities are able to meet their liabilities as they fall due.	A breach of covenant, or the insolvency of the Group as a whole or an individual entity, could result in a loss of net assets, impacting EPRA NAV and EPRA EPS.	Unless there is a tenant default (discussed under tenant risk above) the Group's cash flows are generally highly predictable. The cash position is reported to the Board 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.

Going concern

The Board regularly monitors the Group's ability to continue as a going concern. Included in the information reviewed at quarterly Board meetings are summaries of the Group's liquidity position, compliance with loan covenants and the financial strength of its tenants, together with forecasts of the Group's performance and cash flows. Based on this information, the Directors are satisfied that the Group and Company are able to continue in business for the foreseeable future and therefore have adopted the going concern basis in the preparation of these financial statements.

Signed on behalf of the Board on 12 March 2015.

Martin Moore
Chairman

Sandy Gumm
Director

Investment Adviser's Report

Prestbury Investments LLP advises Secure Income REIT Plc and is pleased to report on the operations of the Group for the nine months ended 31 December 2014. Consistent with the Chairman's Statement and Strategic Report, we focus in this report on results since listing last June.

The portfolio

The portfolio throughout the period to 31 December 2014 comprised 28 properties with secure, long term income and contractual uplifts derived from tenants whose businesses offer global spread and have performed very well over many years, demonstrating their strong defensive qualities.

Healthcare assets (50% of portfolio value)

The healthcare assets comprised 21 freehold private hospitals located throughout England, 20 of which are let to a subsidiary of Ramsay Health Care Limited, the listed Australian healthcare company, and the other to Groupe Sinoue, a French company specialising in mental health. The hospitals let to Ramsay comprise 96% of the healthcare assets' passing rent and 95% of their fair value.

The Ramsay hospitals are let on full repairing and insuring leases with a term to expiry at 31 December 2014 of 22.4 years without break. The rent increases by a fixed 2.75% per annum throughout the lease term in May each year, except in 2017 when it is increased to the higher of 2.75% or 88.5% of 65% of site earnings before interest, tax, depreciation, amortisation, rent and head office costs, and every fifth year thereafter when it is increased to the higher of 2.75% or open market value. The rent from the Ramsay hospitals is currently £45.9 million per annum.

The leases on the Ramsay hospitals are all guaranteed by Ramsay Health Care Limited, Australia's largest hospital operator, 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 11 March 2015 of £6.9 billion.

The tenant's rental obligations with regard to the central London psychiatric hospital in Lisson Grove are guaranteed by Orpea SA, the Parent Company of the Orpea Group, a leading European operator of nursing homes, post-acute care and psychiatric care, listed on Euronext Paris with a market capitalisation at 11 March 2015 of £2.6 billion. Orpea owns 45% of Group Sinoue.

With a current rent of £1.8 million per annum, the Lisson Grove hospital accounts for 2% of the Group's passing rent, and represents 2% of the gross property assets. The rent increases each year by 3%. A reversionary lease will take effect on expiry of the existing lease in May 2037 and extend the term by a further seven years, with fixed rental increases of 3% per annum throughout this extended term.

Total healthcare rent is currently £47.7 million per annum.

Leisure assets (50% of portfolio value)

The leisure assets comprise five well known visitor attractions and two hotels, located in England and Germany. The properties are all let to subsidiaries of Merlin Entertainments Plc, the guarantor of the leases. Merlin is a leisure group listed on the London Stock Exchange's FTSE 250 index with a market capitalisation at 11 March 2015 of £4.3 billion. Measured by the number of visitors, it is Europe's largest and the world's second largest operator of leisure attractions.

Nightingale hospital, London

Reading hospital

Rowley hospital

The UK leisure assets are:

- Madame Tussauds London
- Alton Towers theme park and the Alton Towers hotel
- Thorpe Park theme park
- Warwick Castle

In addition the leisure portfolio includes two German assets: Heide Park theme park and the Heide Park hotel, both located in Soltau, Saxony. The German assets, which generate Euro denominated rents, make up 11% of the leisure portfolio passing rent and 5% of the total Group rent.

Across the leisure portfolio the visitor attractions account for 88% of the passing rent and 89% of fair value, with hotels making up the balance.

The average unexpired lease term of the leisure assets is 27.5 years and the tenants have two rights to renew these leases for 35 years at the end of each term. The leases are full repairing and insuring leases and there are no break options. There are upwards only uncapped RPI-linked rent reviews every June throughout the term for the UK leisure portfolio and fixed annual increases of 3.34% every July throughout the term for the German properties. The 2014 rent reviews resulted in an average increase of 2.5% in the RPI-linked rents of the leisure assets, with the total rent currently £45.5 million per annum, including £5.0 million of Euro denominated German rents at a rate of €1:£0.77877.

Portfolio valuation yields at 31 December 2014

	London	Rest of UK	Germany	Total
Healthcare:				
Net initial yield	4.4%	5.6%	n/a	5.6%
Equivalent yield	5.8%	6.8%	n/a	6.8%
Reversionary yield	4.5%	5.8%	n/a	5.7%
Leisure:				
Net initial yield	4.8%	5.5%	6.5%	5.3%
Equivalent yield	6.5%	7.4%	8.7%	7.2%
Reversionary yield	4.9%	5.6%	6.8%	5.4%
Total portfolio:				
Net initial yield	4.7%	5.6%	6.5%	5.4%
Equivalent yield	6.4%	7.0%	8.7%	7.0%
Reversionary yield	4.8%	5.7%	6.8%	5.6%
Weighted average unexpired lease term	27.8 years	24.2 years	27.6 years	25.1 years

Portfolio valuation by location

	Healthcare		Leisure		Total		
	31 December 2014 £m	31 March 2014 £m	31 December 2014 £m	31 March 2014 £m	31 December 2014 £m	31 March 2014 £m	Fair value change over nine months
London	39.2	32.7	309.3	286.7	348.5	319.4	9.1%
Rest of UK	773.8	694.8	431.0	376.5	1,204.8	1,071.3	12.5%
Germany at constant Euro exchange rate	–	–	76.5	66.7	76.5	66.7	14.7%
Movement in Euro exchange rate	–	–	(4.4)	n/a	(4.4)	n/a	(6.6)%
	813.0	**727.5**	**812.4**	**729.9**	**1,625.4**	**1,457.4**	**11.5%**

Investment Adviser's Report continued

Portfolio valuation uplift in the period

The healthcare investment property valuations at 31 December 2014 reflect a weighted average net initial yield of 5.6% compared to 6.2% at 31 March 2014, resulting in a valuation uplift of £85.5 million (11.8%) in the period. The rental uplifts in May 2014 had already been reflected in the 31 March 2014 valuation.

The leisure investment property valuations at 31 December 2014 reflect a weighted average net initial yield of 5.3% compared to 5.8% at 31 March 2014. The net initial yield for the UK leisure assets is 5.2% compared to 5.6% at 31 March 2014 which, together with a 2.5% RPI rental uplift on 24 June 2014, has resulted in a valuation uplift of £77.1 million (11.6%) in the period. The fixed 3.34% rental income uplift on the German assets in July 2014 was reflected in the valuation at 31 March 2014, but a fall in the net initial yield from 7.3% to 6.5% has resulted in an uplift of €11.8 million (14.7%) in the Euro denominated valuation of those properties; currency translation movements have, however, reduced the Sterling equivalent by £4.4 million (6.6%), resulting in a net valuation uplift of £5.4 million (8.1%) in the German leisure assets over the period. Across the whole leisure portfolio, there has therefore been a valuation increase of £82.5 million (11.3%) in the period.

As a result of these valuation movements, the total portfolio uplift comprises:

	£m	Pence per share
Investment property revaluation movement	160.6	95.3
Currency translation movements on Euro denominated investment properties	(4.4)	(2.7)
Movement in rent smoothing adjustment included within rental income	11.2	6.7
Currency translation movements on Euro denominated rent smoothing amounts	0.6	0.4
	168.0	**99.7**

The rent smoothing adjustment arises from the Group's accounting policy to spread the impact of fixed rental uplifts evenly over the whole term of relevant leases. The adjustments relate to those rents on the healthcare assets which increase by 2.75% (on 96% of healthcare rents) and 3% (on 4% of healthcare rents) every May, and those rents on the German leisure assets which increase by 3.34% every July.

The impact of this accounting treatment is to reflect a receivable, included in the book value of investment property, for the amount of rent included in the income statement ahead of actual cash receipts. This receivable increases over the first half of each lease term then unwinds, reducing to zero over the second half of each lease term. The impact over time for each of the rental income flows subject to smoothing is as follows:

	Receivable at 31 December 2014 £m	**Maximum receivable at midway point £m**	**Midway point in lease term**
Healthcare	130.5	183.2	May 2023
German leisure*	23.9	39.1	Jan 2026
Total	**154.4**	**222.3**	

* At the period end Euro conversion rate of €1:£0.77877.

In order that the rent smoothing receivable does not, in combination with the book value of the investment properties, overstate the value of the property portfolio, any movement in the rent smoothing receivable is offset against property revaluation movements. As a result, this adjustment affects only the income statement presentation and does not change the Group's net assets.

Financial review

Basis of preparation of the financial statements

Note 2 to the Group financial statements sets out the basis of preparation of the financial information in this report. Because the results and net assets presented for the year to 31 March 2014 relate to a period where the capital structure and tax status of the Group were different to that which has been in place since the listing of the Company, we have not sought in this report to compare all the elements of the results for the nine months ended 31 December 2014 with those of prior periods, as the comparison is not considered to be meaningful. Instead we focus on results and movements in net assets since listing on AIM in June 2014.

EPRA net asset value

The Board measures the Group's progress primarily through the growth in EPRA net asset value ("EPRA NAV") per share over the period since listing. EPRA NAV strips out the impact of hedging revaluations and any deferred tax on investment property revaluations to provide a measure of the fair value of a company on a long term basis. The EPRA NAV per share at 31 December 2014 of 258.5 pence per share represents a 50% increase over the unaudited pro forma EPRA NAV for the shares issued at listing. In an effort to fairly reflect the capital reorganisation and effects of the listing, the following table summarises growth in EPRA NAV before and after listing:

	£m	Pence per share
EPRA NAV at 1 April 2014	283.1	177.1
Proceeds of share issue net of costs of share issue, listing and reorganisation	11.9	–
Dilution of existing shareholders from share issue	–	(2.0)
Fair value adjustment on capitalisation of shareholder loans prior to listing	1.6	1.0
EPRA NAV at 1 April 2014 adjusted for current capital structure	**296.6**	**176.1**
Investment property revaluation	160.6	95.3
Performance fee	(3.1)	(20.1)
Net results before investment property revaluation, performance fee, tax and currency translation movements	14.1	8.5
Tax	(1.4)	(0.9)
Currency translation movements	(0.6)	(0.4)
EPRA NAV at 31 December 2014	**466.2**	**258.5**

The movements in investment property valuations shown in the income statement are described above in the portfolio section of this report. The Group's net results for the period are explained in the Income Statement section below.

EPRA triple net asset value

The EPRA triple net asset value includes the mark to market values of debt and hedging instruments, and any inherent tax liabilities not provided for in the financial statements. This is calculated as follows:

	£m	Pence per share
EPRA NAV at 31 December 2014	466.2	258.5
Fair value of hedging instruments, net of German deferred tax	(117.0)	(64.8)
German deferred tax on investment property revaluations	(4.9)	(2.7)
EPRA triple net asset value at 31 December 2014	**344.3**	**191.0**

Investment Adviser's Report continued

Income statement

The income statement presented in these financial statements covers periods both before and after listing including a period of just over two months when the Group had a different capital structure and tax status. The following table distinguishes between the periods before and after the listing and capital restructuring:

	£m	Pence per share
Rental income net of property outgoings	19.1	11.9
Administrative expenses	(0.1)	–
Net financing costs	(16.6)	(10.4)
Investment property revaluation	(2.8)	(1.7)
Tax	0.6	0.4
Net result prior to listing	**0.2**	**0.2**
Costs of the reorganisation and listing	(2.9)	(1.8)
Dilution from issue of new shares	–	(2.1)
Tax credit on conversion to UK REIT	116.1	72.6
Net adjustment to results at listing	**113.2**	**68.7**
Investment property revaluation	163.4	98.2
Rental income net of property outgoings	61.8	37.2
Performance fees	(35.2)	(21.1)
Administrative expenses and corporate costs	(3.6)	(2.2)
Net financing costs	(49.8)	(29.9)
Tax	(2.3)	(1.4)
Net result since listing	**134.3**	**80.8**
Profit for the period	**247.7**	**149.7**

The rental income profile and the credit strengths of the businesses paying the rent are disclosed in the Portfolio section of this report, along with details of the investment property revaluations.

Administrative expenses charged to the income statement since listing include performance fees of £35.2 million, advisory fees of £2.7 million, other administrative expenses of £0.7 million and corporate costs of £0.2 million. As part of a balanced package of fees and incentive arrangements entered into between Prestbury and the Company at the time of listing, Prestbury is rewarded if and when the Company exceeds an EPRA NAV growth rate of 10% in each year, subject to meeting certain other detailed tests. In order for a performance fee to arise in the period, the EPRA NAV of the Group needed to grow by an annualised 10% from the 172 pence per share pro forma net asset value at the time of listing, to a minimum 182 pence per share. As the EPRA NAV of the Group actually grew by 50% in the period to 258.5 pence per share, the fee that arose amounted to £35.2 million as described in note 19.

As the Group's healthcare assets cannot be VAT elected, there is an element of irrecoverable VAT on all costs attributable to the healthcare business, including a £3.1 million irrecoverable VAT cost on the performance fee. As the fee itself is payable by way of a share issue, the only impact on the absolute net asset value is this irrecoverable VAT element. The net assets per share and earnings per share are diluted by 7.1% representing the 11.9 million shares to be issued to Prestbury in settlement of the fee. Sales of these shares are restricted, with the restriction only lifted on a phased basis over a period from 18 to 42 months from the date of listing, subject to a release in the event that Prestbury needs to sell shares to settle any tax liability on the fee income received.

Advisory fees were payable to Prestbury during the period, under an agreement entered into prior to listing by which it is entitled to receive cash fees based on a sliding scale relative to the Group's EPRA NAV, currently payable at 1.25% per annum of EPRA NAV. This amounted to a fee of £2.7 million in the period. Until July 2016, the cash required to satisfy this advisory fee is recovered from the pre-listing shareholders of the Company up to a maximum of £5.3 million per annum so for the period to 31 December 2014 the cash required to fund the advisory fee payment was met by those shareholders.

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

- the cost of the Board of seven Directors, four of whom are entitled to receive fees currently totalling £0.2 million per annum. The other three Directors are partners in the Investment Adviser and receive no remuneration from the Company; and
- other costs of being listed, including broker/nominated adviser fees, registrar fees and listing fees, which amount to a total of £0.5 million per annum.

External finance costs since listing comprise £45.3 million of interest payable, £1.7 million of amortised finance fees and £2.8 million of other fees.

The average interest rates paid during the period for each facility, excluding fees payable to lenders, were as follows:

	Average rate paid
Healthcare portfolio	6.6%
Leisure portfolio	6.9%
Total portfolio	**6.8%**

Effective from the date of listing, the terms of the Group's two bank loan facilities were amended in order to remove any LTV tests until loan maturity and to permit the capital reorganisation, listing and conversion to REIT status. The healthcare facility was also varied so that from that date it became an interest only loan, and a covenant release fee of £11.9 million became payable as a result, falling due in quarterly instalments commencing on 29 July 2014. This fee is being charged to the income statement evenly over the remaining term of the loan from June 2014 to July 2017, resulting in a £2.3 million charge in the period.

Both of the bank loans are floating rate facilities with interest rate risk managed by way of interest rate swaps, with the entire principal amount of each facility fixed for the term of the relevant loan. The market value of these interest rate swaps at 31 December 2014 was a liability of £117.6 million; this liability will not, however, be immediately payable unless the interest rate swap contracts are terminated and will otherwise be expected to reduce to zero over the remaining term of the contracts, which expire in line with the debt maturity dates in mid-2017.

Tax

The Group entered the UK REIT regime on 5 June 2014, so all of the Group's UK rental operations became exempt from UK corporation tax from that date, subject to the Group's continuing compliance with the UK REIT rules. The Group is otherwise subject to UK corporation tax.

The Company's election into the REIT regime meant that certain items of deferred tax will no longer crystallise. This resulted in the reversal through the income statement of a deferred tax liability of £117.3 million relating to unrealised UK capital gains tax, and the release through the statement of other comprehensive income of a deferred tax asset of £26.9 million relating to the Group's Sterling interest rate swaps. These are allocated to the pre-listing period in the results analysis in this report.

In the event that a UK REIT has financing costs that are not covered at least 1.25 times by profits, tax is payable at the UK corporation tax rate on the interest over that level, up to a cap of 20% of taxable profit. In the period from 5 June 2014 to 31 December 2014, the Group incurred a current tax charge of £0.7 million on such excess interest at a tax rate of 21%.

Realised profits from the Group's German rental operations are taxable in Germany, though in the period a tax credit of £0.1 million arose as a result of a number of historic adjustments. The Group also retains a deferred tax liability of £4.9 million relating to unrealised German capital gains tax and a deferred tax asset of £0.6 million relating to the Group's Euro interest rate swaps.

Investment Adviser's Report continued

Currency translation

The majority of the Group's operations are in the UK and the financial statements are therefore presented in Sterling. Just over 4% of the Group's EPRA NAV is in Germany, valued in and generating revenue in Euros. The debt financing these operations is also denominated in Euros, which acts as a partial hedge of the currency risk, but the Group remains exposed to translation differences on the results and net assets of these operations, with movements recognised in the statement of other comprehensive income. The Euro has weakened against Sterling over the period and as a result there was a net currency translation loss of £0.4 million in relation to the German operations.

Cash flow

The movement in cash over the period comprised:

	£m	Pence per share
Cash from operating activities	(1.0)	(0.6)
Net interest and finance costs paid	(19.6)	(12.2)
Repayment of secured debt – loan amortisation	(2.9)	(1.8)
Proceeds of the share issue on listing net of expenses	11.9	7.4
Dilution from share issue	–	(0.4)
Cash flow up to listing	**(11.6)**	**(7.6)**
Cash from operating activities	67.1	39.8
Net interest and finance costs paid (including covenant release fee)	(41.3)	(24.6)
Repayment of secured debt – loan amortisation	(3.2)	(1.9)
Amounts received in respect of advisory fee recovery	2.2	1.3
Cash flow since listing	**24.8**	**14.6**
Cash flow in the period	**13.2**	**7.0**
Cash at the start of the period	25.4	15.9
Effect of exchange rate movements	0.2	0.1
Cash at 31 December 2014	**38.8**	**23.0**

Comprising:	£m	Pence per share
Free cash	13.0	7.7
Cash reserved for regulatory capital	0.5	0.3
Cash secured under lending facilities	25.3	15.0
Cash at 31 December 2014	**38.8**	**23.0**

The investment properties of the Group 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 the premises where necessary. Consequently it is not expected that material capital expenditure will be required for the current portfolio.

The placing of shares at listing on 5 June 2014 raised £11.9 million, from gross proceeds of £15.0 million net of costs of £3.1 million. £0.2 million of those costs related to the issue of new shares so was charged to the share premium reserve, while the remaining £2.9 million related to the listing and the reorganisation, and was therefore charged to the income statement.

Financing

The Group's operations are financed by a combination of cash resources and non-recourse debt finance, where the assets at risk in the event of a loan default are limited to those within a specific ring-fenced structure. The healthcare assets and the leisure assets each secure separate non-recourse facilities.

The loan financing the healthcare assets at 31 December 2014 was an interest only Sterling facility of £608.9 million.

The loans financing the leisure assets at 31 December 2014 comprised a Sterling facility of £497.2 million and a Euro facility of £51.5 million (€66.1 million translated at the year end rate), with security cross-collateralised between the UK and German leisure assets. The leisure facilities amortise quarterly by the application of net portfolio cash flow in repayment of debt and as a result amortisation payments of £3.2 million have been made since listing.

The Group's gross and net debt at 31 December 2014 is as follows:

	Healthcare £m	Leisure £m	Portfolio total £m	Unsecured £m	Group total £m
Gross debt	608.9	548.7	1,157.6	–	1,157.6
Other secured fee liabilities	14.0	–	14.0	–	14.0
Secured and regulatory cash	(11.9)	(13.4)	(25.3)	(0.5)	(25.8)
Free cash	(1.6)	(0.8)	(2.4)	(10.6)	(13.0)
Net debt	**609.4**	**534.5**	**1,143.9**	**(11.1)**	**1,132.8**
Property value at 31 December 2014	**813.0**	**812.4**	**1,625.4**	**–**	**1,625.4**
Gross LTV	**76.6%**	**67.5%**	**72.1%**		
Net LTV	**75.0%**	**65.8%**	**70.4%**		**69.7%**

Secured cash is held in bank accounts under the control of the lenders. Free cash held within the secured portfolio structures is available to be applied for general corporate purposes for as long as there is no default under the relevant loan agreement. Free cash held by the Company outside the secure portfolio structures would not be at risk in the event of any default.

All facilities remain within the relevant financial covenants. There are no LTV tests before the loans mature, while interest cover is tested quarterly. When most recently tested in January 2015, there was headroom over the interest cover covenant thresholds in each facility of 13% or better.

There have been no defaults or potential defaults in either facility during the period or since the balance sheet date.

Nick Leslau
Chairman, Prestbury Investments LLP
12 March 2015

Board of Directors

Martin Moore (MRICS)
Non-executive Chairman

Martin Moore, 58, is a Chartered Surveyor who served as CEO of M&G Real Estate Limited (previously Prudential Property Investment Managers Limited) from 1996 to 2012. During that time, he ran the team and was responsible for setting strategy that grew the business in the UK and led to the establishment of platforms in North America, Continental Europe and Asia. He retired as Chairman of M&G Real Estate in 2013. He is a senior adviser to KKR and an Independent Non-executive Director of SEGRO Plc, F&C Commercial Property Trust Ltd and the M&G Asia Property Fund. He is also a Commissioner of English Heritage and a Trustee of the Guildhall School Trust. He is a past President and board member of the British Property Federation, a past Chairman of the Investment Property Forum and was a Commissioner of The Crown Estate for eight years to 2011.

Mike Brown
(BSc, Land Man, MRICS)
Non-executive Director

Mike Brown, 54, is Chief Executive Officer of Prestbury Investments LLP, Investment Adviser to the Group. A Chartered Surveyor with over 30 years' experience, he joined Prestbury in 2009 at the time of the flotation of Max Property Group Plc, a limited life opportunity fund which was sold to Blackstone in August 2014. Previously he was Deputy Chief Executive of Helical Bar Plc with responsibility for all their investment and trading activities from 1998 to 2009 and a Director of Threadneedle Property Fund Managers running their largest property fund from 1992 to 1998. Mike is also Chairman of the Property Advisory Committee to Weybourne Partners.

Leslie Ferrar
(CVO, FCS, BSc)
Independent Non-executive Director; Chairman of the Audit Committee

Leslie Ferrar, 59, is Non-executive Chairman of The Risk Advisory Group, a Non-executive Director of Penna Consulting Plc, a non-executive member of the HMRC Risk and Audit Committee and a member of the Audit Committee for the Sovereign Grant. A qualified Chartered Accountant, she trained at KPMG where she was appointed partner in 1988, a position she held for 17 years. During that time she led the firm's international expatriate practice and was a member of the international board that ran the global tax practice. Leslie is also a Trustee of the Diocese of Westminster, and she served as Treasurer to TRH The Prince of Wales and Duchess of Cornwall from January 2005 to July 2012.

Sandy Gumm
(BEc, CA, (ANZ))
Non-executive Director

Sandy Gumm, 48, is an Australian-qualified Chartered Accountant and Chief Operating Officer of Prestbury Investments LLP, Investment Adviser to the Group. She trained at KPMG in Sydney and worked for nine years at KPMG in Sydney and London before becoming Group Financial Controller of Burford Holdings Plc in 1995. She was appointed Finance Director of Prestbury Group in 1997 and became its Chief Operating Officer in 2007. She is a Trustee of registered charity Action Breaks Silence.

Jonathan Lane (MA)
Independent Non-executive Director; Chairman of Nominations Committee

Jonathan Lane, 56, is a Senior Adviser to Morgan Stanley and Chairman of EMEA Real Estate Investment Banking (REIB). He joined Morgan Stanley in 1999 where he served as Managing Director and co-head of REIB. Jonathan is a Non-executive Director of Grosvenor Liverpool Limited and is on the Advisory Board of Resolution Property Advisers. He is a member of the Policy Committee of the British Property Federation, a member of the Bank of England's Commercial Property Forum and was formerly a member of the Government Property Unit's Advisory Panel. He was a Non-executive Director of Songbird Estates Plc between 2008 and 2015. He holds a masters degree in Biochemistry from the University of Oxford and is a member of the Advisory Board of the University's Oxford Programme for the Future of Cities.

Nick Leslau
(BSc, Hons Est Man, FRICS)
Non-executive Director

Nick Leslau, 55, is Chairman of Prestbury Investments LLP, Investment Adviser to the Group. He is a Chartered Surveyor who has been Chairman and Chief Executive of Prestbury Investment Holdings Limited since it commenced business in 2000 and Chairman of Prestbury Investments LLP since its establishment in 2006. He was Chief Executive of Burford Holdings Plc for approximately ten years up to 1997 and Group Chairman and Chief Executive of Prestbury Group Plc from 1998. He has sat on many quoted and unquoted company boards including, most recently, Max Property Group Plc, and is a Member of the Bank of England Property Forum.

Ian Marcus (MA, FRICS)
Independent Non-executive Director; Senior Independent Director; Chairman of the Remuneration Committee

Ian Marcus, 56, is Chairman of the Bank of England's Commercial Property Forum, a member of the Real Estate Advisory Board of the Department of Land Economy at the University of Cambridge, a Senior Adviser to Eastdil Secured and Wells Fargo Securities, Chairman of The Prince's Regeneration Trust and a member of Redevco's Advisory Board. He is a Non-executive Director of The Crown Estate and Town Centre Securities Plc. Formerly Managing Director and Chairman of the European Real Estate Investment Banking division of Credit Suisse, he is a past president of the British Property Federation and a past Chairman of the Investment Property Forum.

The Investment Adviser

Nick Leslau, Tim Evans, Ben Walford, Sandy Gumm and Mike Brown of Prestbury Investments LLP,

The Company is advised on an exclusive basis by Prestbury Investments LLP ("Prestbury"), the majority of which is owned and controlled by Nick Leslau, Mike Brown, Sandy Gumm, Tim Evans, and Ben Walford, a team of property and finance professionals who between them have extensive experience in UK real estate over more than 30 years. They have a track record of having successfully created value for shareholders through previous economic cycles, including significant market outperformance during the recession of the early 1990s.

Biographies for Mike Brown, Sandy Gumm and Nick Leslau are presented on pages 16 and 17.

Tim Evans

Tim Evans, 46, MA Hons (Cantab), MRICS, is a Chartered Surveyor of 25 years' experience. Tim joined Prestbury Investment Holdings Limited as a senior surveyor in June 2002 and became Property Director in June 2005. Prior to joining Prestbury, Tim held positions with Jones Lang LaSalle, Hill Samuel Asset Management and MEPC Plc. Tim is the Property Director of Prestbury Investments LLP.

Ben Walford

Ben Walford, 36, BSc (Hons) Est Man, MRICS, is a Chartered Surveyor of more than ten years' experience. Ben joined Prestbury Investment Holdings Limited as a trainee surveyor in May 2002 and rose to become a Prestbury partner in 2011. Ben has a wealth of experience in property investment, refurbishment and design.

Nick, Mike, Tim, Ben and Sandy work closely with a 12-strong team of property, finance and administrative staff.

Corporate Governance Report

Corporate Governance Code

The Directors place a great deal of importance on ensuring that appropriately high standards of corporate governance are maintained. As the Company is quoted on AIM, it is not required to comply with the UK Corporate Governance Code (the "Code") so this report does not describe compliance with or departures from the Code. However, the Directors have had reference to the Code in determining appropriate policies and procedures where the Board considers it appropriate for the size and nature of the Group.

The corporate governance regime described in this report was largely established at the time of the Company's listing on AIM. This report therefore covers the period since listing.

Leadership

The role of the Board

The Board is responsible for the overall leadership of the Company and setting its values and standards, including approval of the Group's strategic aims and objectives, and oversight of its operations, with a view to ensuring:

- competent and prudent management;
- sound planning;
- maintenance of sound management and internal control systems;
- adequate accounting and other records; and
- compliance with statutory and regulatory obligations.

The Board meets at least every quarter to review the Group's performance against its strategic aims, objectives, business plans and budgets and ensures that any necessary corrective action is taken. Additional meetings are held as required to deal with the business of the Group in a timely manner.

Directors are expected to attend all meetings of the Board and all meetings of those committees on which they sit, as well as the Annual General Meeting ("AGM"). Meetings called outside the scheduled quarterly Board meetings may need to be convened at relatively short notice and therefore at times when not every Director is available. Every meeting has, however, been correctly convened with an appropriate quorum and with the Independent Non-executive Directors outnumbering the representatives of the management team. There were four scheduled quarterly meetings and two additional meetings during the period from listing to the date of this report.

Details of Directors' attendance at each of the Board and committee meetings during the period from listing to the date of this report are set out below. These attendance records relate to the scheduled meetings and not to the additional meetings held in the period:

	Board	Audit Committee	Remuneration Committee	Nominations Committee
Martin Moore	4/4	–	1/1	–
Mike Brown	4/4	–	–	1/1
Leslie Ferrar	4/4	2/2	1/1	–
Sandy Gumm	4/4	–	–	–
Jonathan Lane	4/4	2/2	–	1/1
Nick Leslau	4/4	–	–	1/1
Ian Marcus	4/4	2/2	1/1	–

Corporate Governance Report continued

Division of responsibilities
The Chairman is responsible for the operation of the Board. Day to day management of the Group is carried out by the Investment Adviser, Prestbury Investments LLP ("Prestbury"), under the terms of an Investment Advisory Agreement between the Company and Prestbury. Mike Brown, Sandy Gumm and Nick Leslau are respectively Chief Executive, Chief Operating Officer and Chairman of Prestbury.

Prestbury's activities are subject always to the oversight of the Board. Prestbury has only a very limited ability to transact business for the Group. The Investment Advisory Agreement allows Prestbury, without specific approval by the Board (subject to certain conditions), to investigate, negotiate and execute (or require any member of the Group to execute) an asset acquisition, an asset disposal or a financing or refinancing opportunity (including related hedging instruments) in respect of an investment opportunity or existing investment, in each case where the impact does not exceed either a net asset value of £10 million or a gross asset value of £20 million. There is, however, a schedule of matters reserved exclusively to the Board which includes, among other things, any transaction with an unusual risk profile, whatever its size, which would prevent Prestbury from transacting business outside the ordinary course even if it is below the discretionary limits. Any matters delegated to Prestbury remain subject to the Board's overall supervision and its review of Prestbury's effectiveness. Prestbury has not transacted any business within the discretionary limits between the date of its appointment as Investment Adviser and the date of this report.

Any matter (whether or not included in the schedule of matters reserved to the Board) that is required to be determined by the Independent Directors of the Company shall, from time to time, be decided by the Directors of the Company who are independent of the Investment Adviser. Any Director who is not so independent shall not participate in any such decision.

The Chairman
The Chairman, Martin Moore, sets the Board's agenda and ensures that adequate time is available for discussion of all agenda items, including strategic issues in particular. On the date of his appointment, the Chairman was considered to be independent within the meaning of the Code. Under the terms of the Code, a Chairman is considered not to be "independent" after the date of appointment purely by reason of being the company's Chairman.

Non-executive Directors
The Senior Independent Director is Ian Marcus, who acts as a sounding board for the Chairman and as an intermediary for the other Directors as necessary. The Senior Independent Director is available to shareholders if they have concerns which contact through the normal channels of Chairman or Investment Adviser have failed to resolve, or for which such contact is inappropriate. The Board and its committees do on occasion meet without the management team present, for instance when discussing the interim and full year results with the auditors.

Effectiveness
Composition of the Board
All Directors are Non-executive Directors. Three of the Directors (Nick Leslau, Mike Brown and Sandy Gumm) are connected to the Investment Adviser and are therefore not considered independent within the meaning of the Code. The Chairman was considered independent on appointment and the remaining Directors are considered to have been independent since their appointment. No Board meeting is quorate unless a majority of Directors present are independent of Prestbury.

Appointments to the Board
The Board as a whole is responsible for ensuring adequate succession planning for the Board so as to maintain an appropriate balance of skills. Changes to the structure, size and composition of the Board may be made following recommendations from the Nominations Committee, which operates under written terms of reference. This includes the selection of the Chairman of the Board and the Company Secretary, and the appointment of the Senior Independent Director to provide a sounding board for the Chairman and to serve as intermediary for the other Directors when necessary.

The Directors appointed during the reporting period were selected prior to listing and so prior to the establishment of the Nominations Committee. However, each Director was appointed only after consultation with the Company's brokers and major shareholders and after an induction conducted by the Company's brokers and corporate lawyers.

The Nominations Committee consists of three Directors who are appointed by the Board: Jonathan Lane, Nick Leslau and Mike Brown, whose biographies are shown on pages 16 and 17. It is chaired by Jonathan Lane.

Only members of the Nominations Committee have the right to attend committee meetings. However, other individuals such as the Company Secretary and external advisers may be invited to attend for all or part of any meeting, as and when appropriate and necessary. The Nominations Committee meets at least once a year and otherwise as required and the Committee Chairman attends the AGM to answer any shareholder questions on the committee's activities.

The responsibilities of the Nominations Committee for the Company and the Group as a whole, are as follows:

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

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

The committee then makes recommendations to the Board concerning:

- formulating plans for succession for Non-executive Directors (in particular for the key role of Chairman) and the Investment Adviser;
- suitable candidates for the role of Senior Independent Director;
- membership of the audit and remuneration committees, and any other Board committees as appropriate, in consultation with the Chairman of those committees;
- the reappointment of any Director at the conclusion of their specified term of office having given due regard to their performance and ability to continue to contribute to the Board in the light of knowledge, skills and experience required;
- the re-election by shareholders of Directors under the annual re-election provisions of the Code which are reflected in the retirement by rotation provisions in the Company's Articles of Association, having due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required and the need for progressive refreshing of the Board bearing in mind the anticipated life of the Company (particularly in relation to Directors being re-elected for a term beyond six years);
- any matters relating to the continuation in office of any Director at any time; and
- the appointment of any person as a Director.

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

Given the size of the Company and the nature of its Board, the Board does not consider it appropriate for the Nominations Committee to provide a separate report. There have been no Board vacancies since the committee was established.

Corporate Governance Report continued

Commitment
The Board is satisfied that all Directors are able to allocate sufficient time to the Company to discharge their responsibilities effectively. The Directors were advised on appointment of the expected time required to fulfil their roles and have confirmed that they are able to make that commitment. All material changes in any Director's commitments outside the Company are required to be and have been disclosed prior to the acceptance of any such appointment. The other material commitments of the Directors are shown in their biographies on pages 16 and 17.

Development
All Directors appointed in the period received a full, formal and tailored induction on joining the Board. The Chairman is responsible for ensuring that any ongoing training and development needs of the Directors are met.

Information and support
The Directors are provided with independent professional advice at the Company's expense where they judge it necessary to discharge their responsibilities. The Company Secretary is responsible for ensuring that the Board receives accurate, timely and clear information on the Group's activities.

Directors' and Officers' Liability Insurance cover of £5 million is maintained by the Company.

Evaluation
The Nominations Committee reviews the results of any Board performance evaluation processes that relate to the composition of the Board and reviews annually the time required from Directors. Performance evaluation is used to assess whether the Directors are spending enough time to fulfil their duties.

The Board is responsible for undertaking a formal and rigorous annual review of its own performance, that of its committees and individual Directors, and the division of responsibilities. It is also required to determine the independence of Directors in light of their character, judgement and relationships, authorising conflicts of interest where (and in the manner) permitted by the Company's Articles of Association. In performing this review, the Board takes account of any independent feedback provided by shareholders, including through the Company's Nominated Adviser and Broker.

Re-election
All Directors are subject to election by shareholders at the first AGM following their appointment, and subsequently to re-election at intervals of no more than three years. The Board considers that information sufficient for shareholders to make an informed decision on the re-election of Directors is included within this Annual Report.

Accountability
Financial and business reporting
The Board has reviewed whether the Annual Report, taken as a whole, presents a fair, balanced and understandable picture of the Group's position and prospects, and believes that it provides the information necessary for shareholders to assess its position, performance, business model and strategy. This covers an explanation of how the Company aims to generate or preserve value in the long term. This information is included in the Chairman's Statement on pages 2 and 3, the Strategic Report on pages 4 to 7, and the Investment Adviser's Report on pages 8 to 15.

A description of the Directors' responsibilities regarding the financial statements is set out in the Directors' Report on pages 30 and 31, while a description of the auditors' responsibilities is set out on page 32. A statement of the status of the Company as a going concern is set out in the Strategic Report on page 7.

Risk management and internal control
The Board is responsible for financial reporting and controls, which covers the approval of the Annual Report and Accounts, the dividend policy, any significant changes in accounting policies or practices, and treasury policies, including foreign currency exposure and the use of derivative financial instruments. During the period the Board has carried out an assessment of the principal risks facing the Group and how they are being mitigated, as described in the Strategic Report on pages 6 and 7.

In light of the Group's current position and principal risks, the Board has assessed the prospects of the Group for a period of 21 months from the date of this Annual Report, reviewing the Group's liquidity position, compliance with loan covenants and the financial strength of its tenants, together with forecasts of the Group's future performance. The Board has concluded there is a reasonable expectation that the Group will be able to continue in operation and meet its liabilities over that period.

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

The Board has considered the appropriateness of establishing an internal audit function and, having regard to the relatively simple nature of the Group's operations and the likely cost of such a function, has concluded that it is not necessary at this stage.

Audit Committee and auditors

The Audit Committee assists the Board in discharging its risk management and internal control responsibilities under written terms of reference. It comprises three Independent Directors, Leslie Ferrar, Jonathan Lane and Ian Marcus, who were appointed by the Board in consultation with the Chairman of the Audit Committee and whose biographies are shown on pages 16 and 17. It is chaired by Leslie Ferrar, who the Board considers to have recent and relevant financial experience, including an appropriate professional qualification.

Only members of the Audit Committee have the right to attend committee meetings. However, the auditors and key finance personnel from the Investment Adviser are invited to attend meetings on a regular basis and the Company Secretary and other non-members may be invited to attend all or part of any meeting as and when appropriate and necessary. The Committee Chairman reports formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities, and demonstrates how it has discharged those responsibilities.

The Audit Committee meets at least twice a year at appropriate intervals in the financial reporting and audit cycle. Outside the formal meeting programme, the Committee Chairman will maintain a dialogue with key individuals involved in the Company's governance, including the Chairman, the Investment Adviser, the property valuer and the lead audit partner.

More detail on the activities of the Audit Committee during the period is provided in the Audit Committee Report on pages 25 to 27.

Remuneration

The Board has established a Remuneration Committee, with written terms of reference. It comprises three Independent Directors and the Chairman of the Board may also serve on the committee as an additional member. The Remuneration Committee comprises Ian Marcus, Leslie Ferrar and Martin Moore, whose biographies are shown on pages 16 and 17, and is chaired by Ian Marcus.

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

The Remuneration Committee meets at least once a year and otherwise as required, and the Committee Chairman will attend the Annual General Meeting to answer any shareholder questions on the committee's activities. The report of the Remuneration Committee to shareholders is included on pages 28 and 29.

The Board annually considers the performance of all Directors and the appropriateness of their level of remuneration, having regard to the time commitment and responsibilities involved. The assessment of the performance of the Chairman is determined by the other Directors. The terms of the remuneration of the Investment Adviser are subject to a contract that has been in place since the Company's listing and a summary of the terms of that agreement are available on the Company's website.

The Board takes all reasonable steps to ensure compliance by the Directors with the provisions of the AIM Rules relating to dealings in securities of the Company and has adopted a share dealing code for this purpose. Further, the Board has taken steps to ensure that partners and staff of the Investment Adviser also comply with the terms of the share dealing code.

Corporate Governance Report continued

Relations with shareholders

Dialogue with shareholders

The Board is responsible for ensuring a satisfactory dialogue with shareholders based on the mutual understanding of objectives. It approves the resolutions and corresponding documentation to be put forward to shareholders at a general meeting, together with any circulars, prospectuses, listing particulars and press releases concerning matters decided by the Board.

The Company reports to shareholders at least twice each year in its Interim and Annual Reports, and makes announcements, where any price sensitive information requires disclosure, to the London Stock Exchange and on the Company's website. Any material presentations to investors are also made available on the Company's website.

In order to assist in communications with the Company's shareholders and to ensure compliance with the AIM rules, Stifel Nicolaus Europe Limited has been appointed as the Company's Nominated Adviser and Broker. Where there has been contact with shareholders, feedback is presented directly to the Board to ensure that the Board is aware of any issues raised by investors. The Company's shareholder profile and any material changes in shareholdings are reviewed by the Board at least four times per year and more often as appropriate.

All members of the Board are available to meet with investors as and when required. In practice, members of the Investment Adviser's team generally meet with investors but the Board considers that the provision of independent feedback to the Board ensures that the whole Board remains well informed of investors' views. Board members, including members of the Audit, Nominations and Remuneration Committees, and representatives of the Investment Adviser are available to meet with investors and to answer any questions at the Company's AGM.

Constructive use of the AGM

The AGM will be held on 3 June 2015 and gives all shareholders the opportunity to meet the Board while voting on the resolutions proposed. All Directors attend the AGM and are available to answer questions. The notice of meeting is included in this Annual Report on pages 64 and 65.

Signed on behalf of the Board on 12 March 2015.

Leslie Ferrar
Director

Audit Committee Report

Role of the Audit Committee

The Audit Committee's primary responsibility is to monitor the integrity of the financial statements of the Company and Group, covering Annual and Interim Reports and any other formal announcement relating to financial performance. The committee reviews that information and reports to the Board on significant financial reporting issues and judgements, having regard to matters communicated to it by the Investment Adviser and the auditors. In particular, the committee reviews and challenges where necessary:

- the consistency of, and any changes to, accounting policies both on a year-on-year basis and across the Group;
- the methods used to account for significant or unusual transactions where different approaches are possible;
- whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the auditors;
- the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made;
- all material information presented with the financial statements, such as the business review and the corporate governance statements relating to the audit and to risk management; and
- reviewing the Investment Adviser's report on regulatory compliance and the Group's risk register at least annually.

The Audit Committee also reviews the content of the Annual Report and financial statements to advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

The other key responsibilities of the Audit Committee are:

- overseeing the relationship with the auditors, including an assessment of their independence and the effectiveness of the external audit;
- reviewing the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems, including those of the Investment Adviser and its delegates as far as they are relevant to the Company; and
- reviewing the adequacy and security of the Company's arrangements for any relevant party to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters.

In overseeing the relationship with the auditors, the committee considers and makes recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, reappointment or removal of the auditors. If an auditor resigns, the committee is required to investigate the issues leading to this and decide whether any action is required. The committee also makes recommendations on the remuneration of the auditors, including fees for both audit and any non-audit services, ensuring that the level of fees is appropriate to enable an effective and high quality audit to be conducted. Where the auditors undertake non-audit work, the committee considers whether that work would be detrimental to the independence of the auditors. Lastly, the committee approves the auditors' terms of engagement, including the scope of the audit, and on an annual basis assesses their independence and objectivity, taking into account relevant UK professional and regulatory requirements and the relationship with the auditors as a whole, including the provision of any non-audit services.

Composition of the Audit Committee

The Audit Committee comprises Leslie Ferrar, Jonathan Lane and Ian Marcus, whose biographies are shown on pages 16 and 17, and is chaired by Leslie Ferrar.

Meetings of the Audit Committee

Two meetings of the Audit Committee took place during the period from listing until the date of this report, both of which were attended by all members of the committee as shown in the Corporate Governance Report on page 19.

External audit

The committee's review of the findings of the audit with the auditors covered:

- a discussion of any major issues which arose during the audit;
- a review of the key accounting and audit judgements;
- confirmation of the levels of errors, if any, identified during the audit; and
- an assessment of the effectiveness of the audit process.

Audit Committee Report continued

The committee met formally with the auditors twice during the period from listing to the date of this report: prior to the interim results announcement and after the audit at the reporting stage. Part of each meeting took place without the Investment Adviser being present, to discuss the auditors' remit and any issues arising from their work. The committee also attended the auditors' meeting with the independent property valuers.

No errors above the £50,000 threshold identified by the auditors as "clearly trivial" were identified as part of the audit process.

The committee has considered the performance, effectiveness and objectivity of the auditors through its regular meetings and communications with them. The committee's assessment is that the auditors have the necessary experience, independence and qualifications to deliver an effective audit, and that their ability to challenge and review the Investment Adviser and Board is sufficient and appropriate. The committee recommends that shareholders vote in favour of the reappointment of the auditors which is proposed as an ordinary resolution at the Company's forthcoming AGM.

During the current period and prior year, the auditors have conducted non-audit work in relation to the listing and capital reorganisation of the Company, which was carried out before the Audit Committee was established but which the committee does not consider was detrimental to the independence of the auditors.

The total fees charged by the auditors to the Group during the period were £0.4 million, as detailed in note 4 to the Group financial statements. The committee has also reviewed the fees paid to the auditors by the Investment Adviser and its associated companies, and does not consider them to be detrimental to the independence of the auditors.

Significant issues relating to the financial statements

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

Issue	Description
Investment property valuations (note 8 to the Group financial statements)	Investment property valuations are inherently subjective, but the Group operates in mature and liquid property markets in the UK and Germany, jurisdictions with well developed valuation processes and methodologies. The opinion of independent, external valuers is obtained at each reporting date, using recognised valuation techniques and the principles of IFRS 13 "Fair Value Measurement". The valuations at the balance sheet date were performed by CBRE Limited, which the Audit Committee believes to be suitably independent, competent and experienced to carry out the work. The committee attended a meeting between the auditors and CBRE, which included a detailed discussion of material fair value changes and a comparison of changes to external sources such as the Investment Property Databank. The meeting also included a review of current conditions and recent, relevant transactions to provide a context for the valuations and to allow an assessment of the assumptions and judgements made by CBRE. The committee's intention is to meet with the valuers at appropriate times in future to discuss their valuations. The committee considered that the inputs provided to CBRE for the valuations adopted in the financial statements were accurately extracted from the Group's accounting records. The committee also reviewed the level of disclosure in the relevant notes and believes that it meets the requirements of IFRS 13.
Hedge accounting and derivative valuations (note 14 to the Group financial statements)	The fair values of the Group's interest rate derivatives are determined by independent, external valuers at each balance sheet date, using recognised valuation techniques and the principles of IFRS 13. The valuations were performed by JC Rathbone Associates Limited, which the committee believes to be suitably independent, competent and experienced to carry out the work. The committee considered that the inputs provided to JC Rathbone Associates for the derivative valuations were accurately extracted from the Group's accounting records. The committee is satisfied that the derivatives satisfy the criteria for inclusion in level 2 of the IFRS 13 hierarchy and hence that the level of disclosure around the fair value methodology is appropriate. The committee also believes that the Group continues to meet the necessary tests to qualify for hedge accounting.

Issue	Description
Covenant release fee (note 14 to the Group financial statements)	The terms of the Group's healthcare bank loan facility were amended in the period, as a result of which the lender became entitled to a fee of £11.9 million payable over the term to maturity of the loan. The committee agreed that the modifications to the facility did not meet the "substantial modifications" test of IAS 39 "Financial Instruments: Recognition and Measurement", so it is appropriate to amortise the fee over the remaining term of the loan rather than expense it immediately to the income statement.
Expenses of the listing (note 15 to the Group financial statements)	The £3.1 million costs of the listing have been expensed to the income statement (£2.9 million) and the share premium account (£0.2 million). The committee reviewed the allocation of costs and believes that it is in line with the requirements of IAS 32 "Financial Instruments: Presentation" and the related IFRIC guidance.
Performance fee disclosure (note 19 to the Group financial statements)	The Investment Adviser is entitled to an annual performance fee if the Group's EPRA NAV exceeds a certain threshold agreed at the time of listing. Any performance fee is to be settled through the issue of shares to a subsidiary of the Investment Adviser. The committee has reviewed the calculation of this fee and believes that it is properly calculated in line with the terms of the Investment Advisory Agreement. As a related party transaction, the committee has also reviewed the level of disclosure around the fee and believes it is appropriate.
Comparative information	The Audit Committee has reviewed the circumstances of the Group's reorganisation prior to listing, whereby two entities under common control became a legal group headed by the Company. The committee has concluded that this reorganisation is a "combination under common control" and as a result is outside the scope of IFRS 3 "Business Combinations". As such it is considered appropriate that the principles of merger accounting, as set out under UK GAAP, are used to account for the reorganisation and these entities are treated as if they had always been part of a single group. No fair value adjustments are required as a result of this treatment. Accordingly, although these entities did not form a legal group for the comparative period reported herein, the committee believes it appropriate to report comparative figures comprising the net assets of all entities as if the subsequently formed legal group had been in existence throughout the prior year.
Going concern	The Board is required to consider whether the Group has adequate resources to continue in operational existence for the "foreseeable future", typically considered to be at least 12 months from the date of approval of the Annual Report. The Audit Committee has reviewed the work of the Investment Adviser on going concern, which included a summary of the liquidity position, compliance with loan covenants and the financial strength of its tenants, together with forecasts of the Group's cash flow over the period to December 2016. As a result, the committee has concluded that the going concern basis remains appropriate.

Risk management and internal control

During the period, the Audit Committee reviewed the Group's risk register, which is maintained by the Investment Adviser, and taking account of that review, together with its review of the Group's internal controls conducted prior to listing, has reviewed and approved any statements included in the Annual Report concerning internal controls and risk management.

The Audit Committee has reviewed the adequacy of the Company's arrangements for any relevant party to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The committee considers that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action. It has also reviewed the Company's and Investment Adviser's procedures for detecting fraud and for preventing bribery and considers them to be appropriate.

Signed on behalf of the Audit Committee on 12 March 2015.

Leslie Ferrar
Chairman of Audit Committee

Remuneration Committee Report

Role of the Remuneration Committee
The main responsibilities of the Remuneration Committee for the Company, its major subsidiary undertakings and the Group as a whole, are as follows:

- to determine and agree with the Board the framework or broad policy for any changes to the Investment Advisory Agreement; and
- to have responsibility for setting the remuneration policy for the Company's Chairman. The Board itself determines the remuneration of the Directors within the limits set in the Articles of Association.

In determining such remuneration policy, the Remuneration Committee takes into account all factors which it deems necessary including relevant legal and regulatory requirements, the provisions and recommendations of the Code considered to be relevant, and associated guidance. The objective is to attract, retain and motivate executive management of the quality required to run the Company and Group successfully without paying more than is necessary, having regard to views of shareholders and other stakeholders, alongside the risk appetite of the Company and alignment to the Company's long term strategic goals.

In order to obtain reliable, up to date information about remuneration in other companies of comparable scale and complexity, the Remuneration Committee may appoint remuneration consultants and commission or purchase any reports, surveys or information which it deems necessary at the expense of the Company but within any budgetary restraints imposed by the Board. During the current period and prior year, no remuneration consultants have been used by the committee.

Composition of the Remuneration Committee
The Remuneration Committee comprises Ian Marcus, Leslie Ferrar and Martin Moore, whose biographies are shown on pages 16 and 17, and is chaired by Ian Marcus.

Meetings of the Remuneration Committee
One meeting of the Remuneration Committee took place during the period from listing to the date of this report, which was attended by all members of the committee.

Directors' fees
The Independent Directors receive fixed fees for their services. The Directors connected to Prestbury share (with other members of the Prestbury team) in the advisory fees and any performance fees paid by the Company and do not receive any Directors' fees or other remuneration from the Company. Details of these advisory and performance fees are disclosed in note 19 to the Group financial statements.

The Directors' remuneration for the period, all of which represents fees for services provided, was as follows:

	Nine months to 31 December 2014 £000
Martin Moore	44
Mike Brown	–
Leslie Ferrar	23
Sandy Gumm	–
Jonathan Lane	21
Nick Leslau	–
Ian Marcus	21
Total	**109**

Martin Moore's fees are paid to MRM UK Consulting Services Limited under the terms of his service contract.

Directors are entitled to be reimbursed for reasonable expenses incurred in the performance of their duties, but no material amounts were paid to any Director in the period.

Directors' interests

The interests of the Directors and their families in the ordinary shares of the Company as at 31 December 2014 were as follows:

	Number of shares	Percentage of issued share capital
Martin Moore	57,471	0.03%
Mike Brown	574,712	0.34%
Leslie Ferrar	14,367	0.01%
Sandy Gumm	114,942	0.07%
Jonathan Lane	57,471	0.03%
Nick Leslau*	42,676,958	25.34%
Ian Marcus	28,735	0.02%

* 42,619,487 ordinary shares held by PIHL Property LLP and 57,471 ordinary shares held by the Saper Trust. Lesray LLP, a partnership in which Nick Leslau has a 42.6% legal interest and 50% of the voting rights, beneficially owns 81.7% of PIHL Property LLP. The Saper Trust is a trust whose beneficiaries include Nick Leslau.

There has been no change in these interests between 31 December 2014 and the date of this report.

Signed on behalf of the Remuneration Committee on 12 March 2015.

Ian Marcus
Chairman of Remuneration Committee

Directors' Report

The Directors present their report together with the audited financial statements for the nine months ended 31 December 2014.

Change of name and accounting reference date

The Company re-registered as a public company and changed its name from P1 Theme Park Holdings Limited to Secure Income REIT Plc on 27 May 2014. Its accounting reference date was also changed from 31 March to 31 December.

Directors

All Directors are Non-executive Directors.

In accordance with the Articles of Association, any person who is appointed as a Director by the Board shall retire at the next AGM and shall then be eligible for reappointment. As the following Directors were appointed by the Board on 27 May 2014, at this year's AGM resolutions will be tabled to reappoint Martin Moore, Mike Brown, Leslie Ferrar, Jonathan Lane and Ian Marcus.

The Company maintains £5 million of Directors' and Officers' Liability insurance for the benefit of the Directors, which was in place from 5 June 2014 and which continues in effect at the date of this report.

Details of the fees paid to Directors in the period and their interests in the share capital of the Company are set out in the Remuneration Committee report on pages 28 and 29.

Substantial shareholdings

As at 11 March 2015 the Directors have been notified that the following shareholders have a disclosable interest of 3% or more in the ordinary shares of the Company:

	Number of shares	Percentage of issued share capital
PIHL Property LLP	42,619,487	25.30%
Prestonfield P1 Limited	14,206,496	8.43%
Prestonfield P2 Limited	14,206,496	8.43%
Prestonfield P3 Limited	14,206,495	8.43%
West Coast Capital Prestven Investments Limited	14,206,497	8.43%
West Coast Capital Investments Limited	14,206,495	8.43%
West Coast Capital (Retail Parks) Limited	14,206,495	8.43%
Bluetouch Investments (Malta) Limited	10,654,874	6.33%
Brookstone Limited	10,654,874	6.33%
Dominic Silvester	10,654,874	6.33%

Political contributions

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

Other disclosures

Disclosures of financial risk management objectives and policies, exposure to financial risks and future developments are included in the Strategic Report on pages 6 and 7.

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial period. Under that law the Directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

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

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

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

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

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

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

Signed by order of the Board on 12 March 2015.

Sandy Gumm
Company Secretary

Group Independent Auditors' Report

Independent Auditors' Report to the members of Secure Income REIT Plc

We have audited the consolidated financial statements of Secure Income REIT Plc for the nine months ended 31 December 2014 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group Statement of Changes in Equity, the Group Balance Sheet, the Group Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the consolidated financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's ("FRC's") Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the consolidated financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2014 and of the Group's profit for the period then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial period for which the financial statements are prepared is consistent with the consolidated financial statements.

Matters on which we are required to report by exception

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

- we have not received all the information and explanations we require for our audit; or
- certain disclosures of Directors' remuneration specified by law are not made.

Other matter

We have reported separately on the Parent Company financial statements of the Company for the period ended 31 December 2014.

Russell Field (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Gatwick, United Kingdom
12 March 2015

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

Group Income Statement

	Notes	Nine months to 31 December 2014 £000	Year to 31 March 2014 £000
Gross rental income		**80,946**	107,331
Property outgoings		**(19)**	(23)
Gross profit		**80,927**	107,308
Administrative expenses		**(38,568)**	(339)
Corporate costs		**(294)**	–
Costs of the reorganisation and listing		**(2,888)**	–
Total administrative expenses		**(41,750)**	(339)
Investment property revaluation	8	**160,608**	4,706
Operating profit	4	**199,785**	111,675
Finance income	5	**36**	25
Finance costs	5	**(66,366)**	(95,044)
Profit before tax		**133,455**	16,656
Tax credit	6	**114,291**	15,145
Profit for the period		**247,746**	31,801

Earnings per share		Pence per share	Pence per share
Basic	7	**149.7**	24.6
Diluted	7	**139.7**	24.6

All amounts relate to continuing activities.

The notes on pages 38 to 57 form part of these financial statements.

Group Statement of Other Comprehensive Income

	Notes	Nine months to 31 December 2014 £000	Year to 31 March 2014 £000
Profit for the period		**247,746**	31,801
Items that may subsequently be reclassified to profit or loss:			
Fair value adjustment of interest rate derivatives in effective hedges		**21,837**	79,153
Tax effect of interest rate derivative valuation adjustment	12	**(26,918)**	(23,244)
Currency translation differences		**(370)**	(159)
Total comprehensive income for the period, net of tax		**242,295**	87,551

The notes on pages 38 to 57 form part of these financial statements.

Group Statement of Changes in Equity

	Share capital £000	Share premium reserve £000	Merger reserve £000	Capital contribution reserve £000	Other reserves £000	Cash flow hedging reserve £000	Retained earnings £000	Total £000
Period ended 31 December 2014								
At 1 April 2014	–	–	–	23,530	1,921	(114,120)	17,387	**(71,282)**
Profit for the period	–	–	–	–	–	–	247,746	**247,746**
Fair value adjustment of interest rate derivatives in effective hedges	–	–	–	–	–	21,837	–	**21,837**
Tax effect of interest rate derivative valuation adjustment	–	–	–	–	–	(26,918)	–	**(26,918)**
Currency translation differences	–	–	–	–	(370)	–	–	**(370)**
Total comprehensive income, net of tax	–	–	–	–	(370)	(5,081)	247,746	**242,295**
Issue of shares on capitalisation of shareholder loans	7,791	70,123	–	(17,492)	–	–	–	**60,422**
Issue of shares on acquisition of the Healthcare group	8,191	–	73,718	(18,435)	–	–	–	**63,474**
Capital reduction and cancellation	–	(70,123)	(73,718)	–	–	–	143,841	**–**
Reclassification on capitalisation of shareholder loans	–	–	–	12,397	–	–	(12,397)	**–**
Proceeds from share issue net of capitalised expenses	862	16,156	–	–	–	–	–	**17,018**
Shares to be issued	–	–	–	–	32,378	–	–	**32,378**
At 31 December 2014	16,844	16,156	–	–	33,929	(119,201)	396,577	**344,305**

	Share capital £000	Share premium reserve £000	Merger reserve £000	Capital contribution reserve £000	Other reserves £000	Cash flow hedging reserve £000	Retained earnings £000	**Total £000**
Year ended 31 March 2014								
At 1 April 2013	–	–	–	30,870	2,080	(170,029)	(21,754)	**(158,833)**
Profit for the year	–	–	–	–	–	–	31,801	**31,801**
Fair value adjustment of interest rate derivatives in effective hedges	–	–	–	–	–	79,153	–	**79,153**
Tax effect of interest rate derivative valuation adjustment	–	–	–	–	–	(23,244)	–	**(23,244)**
Currency translation differences	–	–	–	–	(159)	–	–	**(159)**
Total comprehensive income, net of tax	–	–	–	–	(159)	55,909	31,801	**87,551**
Reclassification of realised amount	–	–	–	(7,340)	–	–	7,340	**–**
At 31 March 2014	–	–	–	23,530	1,921	(114,120)	17,387	**(71,282)**

The notes on pages 38 to 57 form part of these financial statements.

Group Balance Sheet

	Notes	31 December 2014 £000	31 March 2014 £000
Non-current assets			
Investment properties	8	**1,625,435**	1,457,374
Deferred tax asset	12	**627**	28,506
		1,626,062	1,485,880
Current assets			
Trade and other receivables	10	**103**	69
Current tax recoverable		**401**	39
Cash and cash equivalents	11	**38,771**	25,367
		39,275	25,475
Total assets		**1,665,337**	1,511,355
Current liabilities			
Trade and other payables	13	**(41,035)**	(37,097)
Secured debt	14	**(4,908)**	(11,103)
Current tax payable		**(166)**	–
		(46,109)	(48,200)
Non-current liabilities			
Secured debt	14	**(1,152,407)**	(1,152,540)
Shareholder loans	14	**–**	(113,238)
		(1,152,407)	(1,265,778)
Interest rate derivatives	14	**(117,578)**	(138,706)
Deferred tax liability	12	**(4,938)**	(129,953)
		(1,274,923)	(1,534,437)
Total liabilities		**(1,321,032)**	(1,582,637)
Net assets/(liabilities)		**344,305**	(71,282)
Equity			
Share capital	15	**16,844**	–
Share premium reserve	16	**16,156**	–
Retained earnings	16	**396,577**	17,387
Cash flow hedging reserve	16	**(119,201)**	(114,120)
Other reserves	16	**33,929**	1,921
Capital contribution reserve		**–**	23,530
Total equity		**344,305**	(71,282)

		Pence per share	Pence per share
Adjusted basic NAV per share	18	**204.4**	32.1
Diluted NAV per share	18	**190.9**	32.1
EPRA NAV per share	18	**258.5**	177.1

The notes on pages 38 to 57 form part of these financial statements.

The Group financial statements were approved and authorised for issue by the Board of Directors on 12 March 2015 and were signed on its behalf by:

Martin Moore
Chairman

Sandy Gumm
Director

Group Cash Flow Statement

	Notes	Nine months to 31 December 2014 £000	Year to 31 March 2014 £000
Operating activities			
Profit before tax		**133,455**	16,656
Adjustments for non-cash items:			
Investment property revaluation	8	**(160,608)**	(4,706)
Movement in rent smoothing adjustment	8	**(11,287)**	(16,524)
Administrative expenses settled in shares		**32,378**	–
Finance income	5	**(36)**	(25)
Finance costs	5	**66,366**	95,044
Cash flows from operating activities before changes in working capital		**60,268**	90,445
Changes in working capital:			
Trade and other receivables		**(194)**	(52)
Trade and other payables		**6,770**	753
Cash generated from operations		**66,844**	91,146
German tax paid		**(743)**	(386)
Cash flows from operating activities		**66,101**	90,760
Investing activities			
Interest received		**36**	25
Cash flows from investing activities		**36**	25
Financing activities			
Repayment of secured debt		**(6,166)**	(10,056)
Interest and finance costs paid		**(60,882)**	(79,913)
Net proceeds of share issue		**14,131**	–
Cash flows from financing activities		**(52,917)**	(89,969)
Increase in cash and cash equivalents		**13,220**	816
Cash and cash equivalents at the beginning of the period		**25,367**	24,581
Effect of exchange rate changes		**184**	(30)
Cash and cash equivalents at the end of the period		**38,771**	25,367

The notes on pages 38 to 57 form part of these financial statements.

Notes to the Group Financial Statements

1. General information about the Group

The financial information set out in this report covers the nine-month period to 31 December 2014, with comparative amounts relating to the year to 31 March 2014, and includes the results and net assets of the Company and its subsidiaries, together referred to as the Group.

The Company is incorporated and domiciled in the United Kingdom. The address of the registered office and principal place of business is Cavendish House, 18 Cavendish Square, London, W1G 0PJ. The nature and scope of the Group's operations and principal activities are described in the Chairman's Statement on pages 2 and 3, the Strategic Report on pages 5 to 7, and the Investment Adviser's Report on pages 8 to 15.

The Company was listed on AIM on 5 June 2014. 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

Prior to 21 May 2014, the Company and SIR Hospital Holdings Limited (the holding company of the Group that owns the healthcare assets) were entities under common control but did not form a single legal group. On 21 May 2014, by virtue of a reorganisation, the groups headed by these two companies became a legal group headed by the Company. This reorganisation is deemed to be a "combination under common control" and as a result is outside the scope of IFRS 3 "Business Combinations". As such it is considered appropriate that the principles of merger accounting, as set out under UK GAAP, are used to account for the reorganisation and these entities are treated as if they had always been part of a single group. No fair value adjustments are required.

Accordingly, although these entities did not form a legal group for the comparative period reported herein, the comparatives comprise the net assets of all entities as if the subsequently formed legal group had been in existence throughout all periods reported on. In particular:

- earnings per share figures (including diluted, EPRA and adjusted EPRA EPS) have been calculated on the assumption that the capitalisation of shareholder loans which occurred in May 2014 had been in place throughout the whole period from 1 April 2013, with a corresponding effect on earnings and number of shares used in the EPS calculations (see note 7); and
- NAV per share figures (including adjusted basic, diluted and EPRA NAV) have been calculated on the assumption that the capitalisation of shareholder loans had been in place throughout the whole period from 1 April 2013 with a corresponding effect on the number of shares used in the NAV per share calculations (see note 18).

Except for the above EPS and NAV matters, the consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") adopted for use in the European Union.

b) Basis of preparation

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

Euro denominated results for the German assets have been converted to Sterling at an average exchange rate for the period of €1:£0.79916 (year to 31 March 2014: €1:£0.84337) and period end balances converted to Sterling at the 31 December 2014 exchange rate of €1:£0.77877 (31 March 2014: €1:£0.82629).

The Directors have, at the time of preparing the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and therefore continue to adopt the going concern basis of accounting in preparing the financial statements. Further details are given in the Strategic Report on page 7.

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

2. Basis of preparation and accounting policies continued

b) Basis of preparation continued

(i) Estimates and judgements

The preparation of financial statements requires the Directors to make judgements, estimates and assumptions that may affect the application of accounting policies and reported amounts of assets and liabilities as at each balance sheet date and the reported amounts of revenue and expenses during the reporting period. 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.

Certain accounting policies which have a significant bearing on the reported financial condition and results of the Group require subjective or complex judgements. The principal ongoing areas of judgement are:

- investment property valuation where, as described in note 8, the opinion of independent, external valuers has since listing been obtained at each reporting date using recognised valuation techniques and the principles of IFRS 13 "Fair Value Measurement". The opinion of an appropriately qualified Director was used in valuing the investment properties in the prior year; and
- the valuation of interest rate derivatives used to hedge interest rate exposures, shown in note 14, where the valuations are independently assessed by expert valuers on the basis of market rates and credit risk at each reporting date.

In addition, during the period the following specific matters also required judgement:

- whether the services to the Group that generated a performance fee of £35.2 million were provided by employees or non-employees;
- the allocation of £3.1 million of listing expenses between the income statement and the share premium account; and
- whether the amendment that resulted in an £11.9 million covenant release fee on one of the Group's loan facilities represented a "substantial modification" of the loan.

The Group's accounting policies for these matters, together with other policies material to the Group, are set out in paragraphs (c) to (j) below.

(ii) Adoption of new and revised standards

During the period, the Group has adopted IFRS 10 "Consolidated financial statements", IFRS 11 "Joint arrangements" and IFRS 12 "Disclosure of interests in other entities", along with the related amendments to IAS 27 (revised) "Separate financial statements" and IAS 28 (revised) "Investments in associates and joint ventures". The requirements of IFRS 10 have not changed the scope of the Group's consolidation and the Group has no associates or joint ventures, so the only impact of these new and revised standards on the financial statements results from IFRS 12, which expands the disclosures on subsidiary undertakings in note 9.

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

(iii) Standards and interpretations in issue not yet adopted

The IASB have issued the following standards that are mandatory for later accounting periods, subject to endorsement by the EU, and which are relevant to the Group but have not been adopted early:

	Effective date
IFRS 9 Financial instruments	1 January 2018
IFRS 15 Revenue from contracts with customers	1 January 2017

The Group's revenue is derived entirely from leases, which are outside the scope of IFRS 15. IFRS 9 deals with the classification and measurement of financial instruments but since the Group only has relatively straightforward hedging transactions using interest rate swaps, the Directors do not anticipate that the adoption of this standard will have a material impact on the Group's financial statements in the period of initial application, other than on presentation and disclosure.

The IASB and IFRIC have also issued or revised IFRS 14, IAS 1, IAS 16, IAS 19, IAS 38, IAS 39 and IAS 41 but these are not expected to have a material effect on the operations of the Group.

Notes to the Group Financial Statements continued

2. Basis of preparation and accounting policies continued

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 statements include the financial statements of its 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.

d) Property portfolio

(i) Investment properties

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

Valuations are calculated, in accordance with RICS Valuation – Professional Standards January 2014, by applying capitalisation yields to current and 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 provided in respect of investment properties.

Acquisitions and disposals 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 or disposal will occur. Gains 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.

(ii) Occupational leases

The Directors exercise judgement in considering the potential transfer of the risks and rewards of ownership in accordance with IAS 17 "Leases" for all properties leased to tenants and determines whether such leases are operating leases. A lease is classified as a finance lease if substantially all of the risks and rewards of ownership transfer to the lessee. If the Group substantially retains those risks, a lease is classified as an operating lease. All leases reflected in these financial statements are classified as operating leases.

(iii) Rental income

Revenue comprises rental income exclusive of VAT. Rental income is recognised in the income statement on an accruals basis. Contingent income, arising from RPI-linked rent reviews, is recorded in the income statement in the periods in which it is earned. Rental income from leases with fixed rent uplifts is recognised on a straight line basis over the term of the lease. Where income is recognised in advance of the related cash flows, an adjustment is made to ensure that the carrying value of the relevant investment property including accrued rent does not exceed the valuation.

e) Financial assets and liabilities

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

(i) Financial assets

Financial assets are recognised initially at their fair value and are classified into one of the categories set down in IFRS 7 "Financial Instruments: Disclosures" at the time of initial recognition. All financial assets currently qualify as "loans and receivables", which are measured at amortised cost using the effective interest method, less any impairment.

(ii) Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently at amortised cost.

(iii) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and financial institutions, and other short term highly liquid investments with original maturities of three months or less.

2. Basis of preparation and accounting policies continued

e) Financial assets and liabilities continued

(iv) Borrowings and finance charges

Secured debt is initially recognised at its fair value, net of any transaction costs directly attributable to its issue. Subsequently, secured debt is carried at amortised cost. Transaction costs are amortised over the life of the loan and charged to the income statement as part of the Group's financing costs, unless they represent a substantial modification of the loan in which case they are taken immediately to the income statement in full.

(v) Interest rate derivatives

The Group uses interest rate derivatives to hedge its exposure to cash flow interest rate risks. 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 hedging arrangements will generally be "highly effective" within the meaning of IAS 39 "Financial Instruments: Recognition and Measurement" and that the criteria necessary for applying hedge accounting will therefore be met. All derivatives held in the period covered by these financial statements have met these criteria. Hedges are assessed on an ongoing basis to ensure they continue to be effective.

The gain or loss on the revaluation of the portion of an instrument that qualifies as an effective hedge of cash flow interest rate risk is recognised directly in other comprehensive income through the cash flow hedging reserve. 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 financial instrument classified as held for trading because it is not an effective hedge is recognised directly in the income statement.

There has been no hedge ineffectiveness to recognise in the income statement in the current period or prior year, so all movements in the fair value of these instruments are reflected in other comprehensive income.

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 equity.

Current tax is the expected tax payable on taxable income for a reporting 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 subsidiary undertakings with a functional currency other than Sterling are translated into Sterling at the average rate for a reporting period.

The gains or losses arising on the end of year translation of the net assets of such subsidiary 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.

Notes to the Group Financial Statements continued

2. Basis of preparation and accounting policies continued

i) Share-based payments

The fair value of payments 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 by non-employees over the relevant accounting period. The estimated number of shares to be issued in satisfaction of the services provided is calculated using the average closing share price of the Company for that period.

j) Fair value measurements

Fair value is the price that would be received to sell 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 uses 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 highest and best use for that asset.

3. Operating segments

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

The Group owns two property portfolios. Although these are described individually within the Investment Adviser's report, the Board receives quarterly management accounts prepared on a basis which aggregates the performance of the portfolios and focuses on total returns on shareholders' equity. The Board has therefore concluded that the Group has operated in and was managed as one business segment, being property investment, in the current period and prior year.

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

	Nine months to 31 December 2014 £000	Year to 31 March 2014 £000
Revenue		
UK	**75,251**	99,319
Germany	**5,695**	8,012
	80,946	107,331
Investment properties		
UK	**1,553,364**	1,390,697
Germany	**72,071**	66,677
	1,625,435	1,457,374

Revenue, which reflects the impact of rent smoothing adjustments, includes £42.9 million (year to 31 March 2014: £57.8 million) relating to the Group's largest tenant, and £35.8 million (year to 31 March 2014: £47.2 million) relating to the Group's second largest tenant. No other single tenant or guarantor contributed more than 10% of the Group's revenue in either reporting period.

4. Operating profit

Operating profit is stated after charging:

	Nine months to 31 December 2014 £000	Year to 31 March 2014 £000
Audit of the Company's consolidated and individual financial statements	**75**	20
Audit of subsidiaries, pursuant to legislation	**90**	40
Non-audit services in connection with the listing	**273**	–

4. Operating profit continued

The Group had no employees other than the Directors, who are also the key management personnel, in either the current period or the prior year. Directors' remuneration, all of which represents fees for services provided, was as follows:

	Nine months to 31 December 2014 £000	Year to 31 March 2014 £000
Martin Moore	**44**	–
Leslie Ferrar	**23**	–
Jonathan Lane	**21**	–
Ian Marcus	**21**	–
Total charged to the income statement	**109**	–

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

5. Finance income and costs

	Nine months to 31 December 2014 £000	Year to 31 March 2014 £000
Recognised in the income statement:		
Finance income		
Interest on cash deposits	**36**	25
Finance costs		
Interest on secured debt	**(64,690)**	(83,535)
Shareholder loans: unwinding of discount to date of capitalisation (non-cash)	**(1,676)**	(11,509)
Total finance costs	**(66,366)**	(95,044)
Net finance costs recognised in the income statement	**(66,330)**	(95,019)

As required for disclosure by IFRS 7, included within interest on secured debt is an amount of £40.7 million (31 March 2014: £55.1 million) which has been reclassified from other comprehensive income in respect of the Group's interest rate derivatives in effective hedges.

On issue in 2007, interest free shareholder loans were measured at fair value using imputed interest rates of between 11.2% and 11.7%. The difference between the fair value of the loans on inception and their face values at that date was being unwound over the minimum term of the loans prior to their capitalisation in May 2014.

	Nine months to 31 December 2014 £000	Year to 31 March 2014 £000
Recognised in other comprehensive income:		
Fair value adjustment of interest rate derivatives in effective hedges	**21,837**	79,153
Total finance costs recognised in other comprehensive income	**21,837**	79,153

Net finance costs analysed by the categories of financial asset and liability shown in note 14 are as follows:

	Nine months to 31 December 2014 £000	Year to 31 March 2014 £000
Loans and receivables	**36**	25
Financial liabilities at amortised cost	**(66,366)**	(95,044)
Net finance costs recognised in the income statement	**(66,330)**	(95,019)

5. Finance income and costs continued

The Group's sensitivity to changes in interest rates, calculated on the basis of a 10 basis point increase or decrease in LIBOR, was as follows:

	Nine months to 31 December 2014 £000	Year to 31 March 2014 £000
Effect on other comprehensive income and equity	**3,993**	3,749

The Group receives interest on the majority of its bank balances but a 10 basis point change in LIBOR would have no material effect on finance income in the income statement. There would also be no significant impact on finance costs in the income statement because the floating rate secured debt is effectively hedged with interest rate swaps. Movements in interest rates would therefore only have an impact on the valuation of those interest rate swaps through other comprehensive income and equity. An increase in interest rates would result in a credit to other comprehensive income.

6. Tax

	Nine months to 31 December 2014 £000	Year to 31 March 2014 £000
Analysis of tax credit in the period		
Current tax (credit)/charge: German corporation tax	**(130)**	304
Current tax charge: UK REIT excess interest charge	**665**	–
Deferred tax credit (see note 12)	**(114,826)**	(15,449)
	(114,291)	(15,145)

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

	Nine months to 31 December 2014 £000	Year to 31 March 2014 £000
Profit before tax	**133,455**	16,656
Profit before tax multiplied by the standard rate of corporation tax in the UK of 21% (year to 31 March 2014: 23%)	**28,026**	3,831
Effects of:		
UK deferred tax released on conversion to REIT status	**(117,276)**	–
Investment property revaluation not taxable	**(36,098)**	–
Losses from qualifying property rental business disallowed	**4,908**	–
Movement in previously unrecognised tax losses	**3,231**	144
German deferred tax charge for the period	**1,823**	3,429
REIT excess interest charge	**665**	–
Costs of the reorganisation and listing not deductible for tax	**606**	–
German current tax (credit)/charge for the period	**(130)**	304
Double tax relief	**(58)**	(338)
Other items	**12**	(19)
Changes in indexation on investment property revaluations	**–**	(3,687)
Reduction in UK corporation tax rate	**–**	(18,809)
Tax credit for the period	**(114,291)**	(15,145)

The Group elected into the UK REIT regime with effect from 5 June 2014. Subject to continuing compliance with certain rules, the UK REIT rules exempt the profits of the Group's UK property rental business from corporation tax. Gains on the Group's UK properties are also exempt from tax, provided they are not held for trading or sold in the three years after completion of development. Corporation tax could also be payable were the shares in a subsidiary company to be sold.

6. Tax continued

To remain a UK REIT, there are a number of conditions to be met in respect of the Group's principal company, qualifying activity and balance of business. Since entering the REIT regime the Group has continued to meet these conditions. There are certain other conditions which if not met, do not result in expulsion from the REIT regime, including two with which the Group does not currently comply:

- within three years of entry into the REIT regime, a company must not be a close company. The Company was a close company when it entered the REIT regime, and continues to be so. The Board intends, in the course of implementing its investment strategy, to issue new shares or to place sufficient of the existing shares to new investors (or a combination of both) so that the shares of the Company are widely enough held to meet this requirement by 5 June 2017; and
- an interest cover test requires the profits of the tax exempt business of the Group to be at least 1.25 times its cost of financing. If this condition is not met, the Group is required to pay UK corporation tax on an amount equivalent to the excess interest costs or 20% of the tax exempt business profits if that is less. The Group has not met this test for the period between 5 June and 31 December 2014, so tax of £0.7 million is payable.

The Group is subject to German corporation tax on its German property rental business. Historically this has been at an effective rate of 21%, though during the period a tax credit has arisen as a result of changes to a number of underlying assumptions following discussions with local tax authorities. In addition, a deferred tax liability is recognised for the German capital gains tax that would potentially be payable on the sale of those investment properties, and a deferred tax asset is recognised against the interest rate derivatives hedging the loan facility secured on those properties (see note 14).

7. Earnings per share

Earnings per share is calculated as profit attributable to ordinary shareholders of the Company for each period divided by the weighted average number of ordinary shares in issue throughout each relevant period during which those profits were earned.

On 21 May 2014, by virtue of the reorganisation set out in note 2, the Company and SIR Hospital Holdings Limited (the "Combined Companies") became a legal group. During the year ended 31 March 2014 and in the current period until 20 May 2014, the Combined Companies were entities under common control. It is considered that the use of the actual number of shares of the Combined Companies in issue prior to 21 May 2014 as a denominator in the EPS calculation would not provide meaningful information. Instead, the weighted average number of shares in issue has been determined based on the number of shares that would have been in issue in each period had the shareholder loans to the Combined Companies been capitalised on the basis of one share for each £1 of shareholder loans at the time they were advanced. The profit attributable to the shareholders of the Combined Companies prior to 20 May 2014 has also been adjusted to remove the impact of the amount included in finance costs in respect of the shareholder loans together with the related deferred tax.

Diluted EPS reflects the shares that will need to be issued in settlement of the performance fee, as explained in more detail in note 19.

	Nine months to 31 December 2014 £000	Year to 31 March 2014 £000
Profit for the period	**247,746**	31,801
Adjusted for:		
Unwinding of discount on shareholder loans (note 5)	**1,676**	11,509
Deferred tax on the unwinding of discount on shareholder loans (note 12)	**(335)**	(4,045)
Adjusted profit for EPS	**249,087**	39,265

Notes to the Group Financial Statements continued

7. Earnings per share continued

	Nine months to 31 December 2014 Number	Year to 31 March 2014 Number
Weighted average number of shares in issue – basic EPS	**166,406,143**	159,823,056
Shares to be issued in settlement of performance fee	**11,900,432**	–
Weighted average number of shares in issue – diluted EPS	**178,306,575**	159,823,056

	Pence per share	Pence per share
Basic EPS	**149.7**	24.6
Diluted EPS	**139.7**	24.6

The European Public Real Estate Association ("EPRA") publishes guidelines for calculating adjusted earnings designed to represent core operational activities. As well as the standard EPRA earnings figure, an adjusted EPRA earnings calculation has also been presented, excluding the performance fee, which is largely derived from investment property revaluations, and the non-recurring costs of the reorganisation and listing. The Directors consider this enables a more consistent comparison of underlying earnings.

	Nine months to 31 December 2014 £000	Year to 31 March 2014 £000
Basic earnings attributable to shareholders	**249,087**	39,265
EPRA adjustments:		
Investment property revaluations	**(160,608)**	(4,706)
UK deferred tax released on conversion to REIT status	**(117,276)**	–
Other deferred tax on investment property revaluations	**1,823**	(12,787)
EPRA earnings	**(26,974)**	21,772
Other adjustments:		
Performance fee	**35,186**	–
Costs of the reorganisation and listing	**2,888**	–
Adjusted EPRA earnings	**11,100**	21,772

	Pence per share	Pence per share
EPRA EPS	**(16.2)**	13.6
Diluted EPRA EPS	**(15.1)**	13.6
Adjusted EPRA EPS	**6.7**	13.6
Diluted adjusted EPRA EPS	**6.2**	13.6

8. Investment properties

Freehold investment properties	Nine months to 31 December 2014 £000	Year to 31 March 2014 £000
Carrying value at the start of the period	**1,457,374**	1,437,489
Revaluation movement	**160,608**	4,706
Movement in rent smoothing adjustment	**11,287**	16,524
Currency translation movement	**(3,834)**	(1,345)
Carrying value at the end of the period	**1,625,435**	1,457,374

The properties were independently valued at £1,625.4 million as at 31 December 2014 by CBRE Limited, Commercial Real Estate Advisers, in their capacity as external valuers. The valuation was prepared on a fixed fee basis, independent of the portfolio value, and was undertaken in accordance with RICS Valuation – Professional Standards January 2014 on the basis of fair value, supported by reference to market evidence of transaction prices for similar properties.

8. Investment properties continued

The properties were valued at £1,457.4 million as at 31 March 2014 by Nick Leslau BSc (Hons) FRICS, a Chartered Surveyor and Director of the Company, on the basis of fair value.

The Group did not have any contractual obligations to purchase, construct or develop investment property at either balance sheet date. The responsibility for repairs and maintenance resides with the tenants.

All of the investment properties are held as security under fixed charges in respect of secured debt.

The historic cost of the Group's investment properties at both reporting dates was £1,315.1 million.

The Board determines the Group's valuation policies and procedures, and is responsible for overseeing the valuations. Valuations are based on information provided from the Group's financial and property reporting systems, such as current rents and the terms and conditions of lease agreements, and assumptions used by the valuer (based on market observation and their professional judgement) in the valuation model.

At each reporting date, certain partners and employees of the Investment Adviser, who have recognised professional qualifications and are experienced in valuing the types of property owned by the Group, initially analyse movements in the property valuations from the prior reporting date. Fair value changes (positive or negative) over a certain threshold are considered. Changes in fair value are also compared to external sources (such as the Investment Property Databank or other relevant benchmarks) for reasonableness. Once the Investment Adviser has considered the valuations, the results are discussed with the Group's Independent Auditors, focusing on properties with unexpected fair value changes and, if applicable, properties undergoing significant refurbishment. The Audit Committee also considers the valuation process as part of its overall responsibilities.

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

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

			Inputs	
Portfolio	**Fair value £000**	**Key unobservable input**	**Range**	**Weighted average**
At 31 December 2014:				
Healthcare	812,981	Net initial yield	4.4% – 5.8%	5.6%
		Reversionary yield	4.5% – 6.0%	5.7%
Leisure – UK	740,383	Net initial yield	4.8% – 6.5%	5.2%
		Reversionary yield	4.9% – 6.6%	5.3%
		Future RPI assumption	2.2% for 2015, 3.5% thereafter	2.2% for 2015, 3.5% thereafter
Leisure – Germany	72,071	Net initial yield	6.5%	6.5%
		Reversionary yield	6.8%	6.8%
At 31 March 2014:				
Healthcare	727,458	Net initial yield	5.2% – 6.5%	6.2%
		Reversionary yield	5.3% – 6.5%	6.3%
Leisure – UK	663,239	Net initial yield	5.0% – 7.0%	5.6%
		Reversionary yield	5.1% – 7.2%	5.8%
		Future RPI assumption	2.6% for 2014, 3.0% for 2015, 3.5% thereafter	2.6% for 2014, 3.0% for 2015, 3.5% thereafter
Leisure – Germany	66,677	Net initial yield	7.3%	7.3%
		Reversionary yield	7.5%	7.5%

Notes to the Group Financial Statements continued

8. Investment properties continued

The principal sensitivity of measurement to variations in the significant unobservable outputs is that decreases in net initial yield, decreases in reversionary yield and increases in RPI will increase the fair value.

Included within the carrying value of investment properties at 31 December 2014 is £154.4 million (31 March 2014: £142.7 million) in respect of the smoothing of fixed contractual rental uplifts. This balance arises through the Group's accounting policy in respect of leases with fixed uplifts, which requires the recognition of rental income on a straight line basis over the lease term. The difference between rents on a straight line basis and rents actually receivable are included within, but do not increase, the carrying value of investment properties.

All of the Group's revenue as reflected in the income statement is derived from rental income on investment properties. Property outgoings arising on investment properties, all of which generated rental income in each period, were £19,000 (year to 31 March 2014: £23,000).

9. Principal subsidiaries

The companies listed below were the principal subsidiary undertakings of the Company at 31 December 2014, all of which are wholly owned and incorporated in England.

Company name	Nature of business
SIR Theme Parks Limited	Intermediate parent company and borrower under secured debt facility
SIR ATH Limited	Property investment – leisure
SIR ATP Limited	Property investment – leisure
SIR MTL Limited	Property investment – leisure
SIR TP Limited	Property investment – leisure
SIR WC Limited	Property investment – leisure
SIR HP Limited*	Property investment – leisure
SIR Hospital Holdings Limited**	Intermediate parent company and borrower under secured debt facility
SIR Ashtead Limited	Property investment – healthcare
SIR Downs Limited	Property investment – healthcare
SIR Duchy Limited	Property investment – healthcare
SIR Euxton Limited	Property investment – healthcare
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 Mt Stuart Limited	Property investment – healthcare
SIR New Hall Limited	Property investment – healthcare
SIR Oaklands Limited	Property investment – healthcare
SIR Oaks Limited	Property investment – healthcare
SIR Pinehill Limited	Property investment – healthcare
SIR Reading Limited	Property investment – healthcare
SIR Renacres Limited	Property investment – healthcare
SIR Rivers Limited	Property investment – healthcare
SIR Rowley Limited	Property investment – healthcare
SIR Springfield Limited	Property investment – healthcare
SIR Winfield Limited	Property investment – healthcare
SIR Woodland Limited	Property investment – healthcare
SIR Yorkshire Limited	Property investment – healthcare

* Operating in Germany; all other companies operate in England.

** Directly owned by the Company; all other entities listed above are indirectly owned.

The Group has taken advantage of the exemption in section 410 of the Companies Act 2006 to disclose a list of the principal subsidiaries only. A full list of subsidiaries will be sent to Companies House with the next annual return.

The terms of the bank loans may, in the event of a covenant default, restrict the ability of certain subsidiaries to transfer funds to the Company, which is outside the relevant security groups.

10. Trade and other receivables

	31 December 2014 £000	31 March 2014 £000
Prepayments	**103**	69

11. Cash and cash equivalents

Included within the Group's cash balances at 31 December 2014 is £25.3 million (31 March 2014: £24.9 million) of cash in accounts held as fixed security by the providers of secured bank debt. In addition, as the Company is considered to be an internally managed Alternative Investment Fund, it is required to hold regulatory capital of £0.5 million at 31 December 2014, which is held separately in cash by the Company.

12. Deferred tax

The movements in deferred tax balances in each period were as follows:

	Unrealised gains on investment properties £000	Tax losses carried forward £000	Shareholder loans £000	Interest rate derivatives at fair value £000	Total £000
Balance at 1 April 2014	(120,636)	962	(9,317)	27,544	(101,447)
Credit/(charge) to the income statement (note 6)	115,453	(962)	335	–	114,826
Charge to other comprehensive income	–	–	–	(26,918)	(26,918)
Deferred tax released on capitalisation of shareholder loans	–	–	8,982	–	8,982
Currency translation differences	245	–	–	1	246
Balance at 31 December 2014	**(4,938)**	**–**	**–**	**627**	**(4,311)**

	Unrealised gains on investment properties £000	Tax losses carried forward £000	Shareholder loans £000	Interest rate derivatives at fair value £000	Total £000
Balance at 1 April 2013	(133,492)	2,345	(13,362)	50,788	(93,721)
Credit/(charge) to the income statement (note 6)	12,787	(1,383)	4,045	–	15,449
Charge to other comprehensive income	–	–	–	(23,244)	(23,244)
Currency translation differences	69	–	–	–	69
Balance at 31 March 2014	**(120,636)**	**962**	**(9,317)**	**27,544**	**(101,447)**

The deferred tax balances are classified for financial reporting purposes as follows:

	31 December 2014 £000	31 March 2014 £000
Deferred tax assets	**627**	28,506
Deferred tax liabilities	**(4,938)**	(129,953)
	(4,311)	(101,447)

13. Trade and other payables

	31 December 2014 £000	31 March 2014 £000
Tax and social security	**5,163**	2,219
Accruals and deferred income	**35,872**	34,878
	41,035	37,097

Notes to the Group Financial Statements continued

14. Financial assets and liabilities

Borrowings

	31 December 2014 £000	31 March 2014 £000
Amounts falling due within one year		
Secured bank loans	**6,853**	13,052
Unamortised finance costs	**(1,945)**	(1,949)
	4,908	11,103
Amounts falling due in more than one year		
Secured bank loans	**1,150,712**	1,153,628
Exit fee	**3,978**	3,158
Unamortised finance costs	**(2,283)**	(4,246)
	1,152,407	1,152,540
Shareholder loans	**–**	113,238
	1,152,407	1,265,778

Bank loans

The Group's secured debt arrangements as at 31 December 2014 were as follows:

	Healthcare	Leisure
Lender	Bank of Scotland Plc	Bank of Scotland Plc
Recourse beyond ring-fenced group holding the portfolio	None	None
Secured debt outstanding	£608.9m	£548.7m
Other secured liabilities	£14.0m	–
Fair value of secured properties	£813.0m	£812.4m
Gross LTV ratio	76.6%	67.5%
Net LTV ratio	75.0%	65.8%
Current repayment terms	Interest only	Capital/interest
Final repayment date	May 2017	July 2017

With effect from 5 June 2014, there are no scheduled capital repayments, only quarterly repayments from the surplus net income on the leisure assets. Any balances not settled by quarterly repayments are payable in full at the end of the terms of the loans in 2017. The secured debt due within one year includes an estimate of amortisation out of surplus net rental income (rental income less certain finance costs and administrative expenses) for the ensuing 12 months.

Interest has been hedged by way of interest rate swaps which fix the rate payable (inclusive of lenders' margin) at between 6.6% and 6.9%, equivalent to a blended 6.8%, until the loan maturity dates.

There is no material difference between the fair value of the secured debt and its carrying value at either balance sheet date, and 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 but not including the Company itself. There have been no defaults or breaches of any loan covenants during the current period or prior year.

The terms of one of the secured loans were altered with effect from 5 June 2014 such that a covenant release fee of £11.9 million became payable to the lender. The fee, which is being paid in quarterly instalments, is charged to the income statement over the remaining term of the loan. £9.5 million of this fee remained outstanding as at 31 December 2014.

At 31 December 2014, the leisure facilities comprised a Sterling facility of £497.2 million (31 March 2014: £500.6 million) and a Euro facility of £51.5 million (31 March 2014: £55.6 million), with security cross-collateralised between the UK and German leisure assets.

14. Financial assets and liabilities continued

Shareholder loans

Shareholder loans amounting to £159.8 million were capitalised on 20 and 21 May 2014 (see note 2). Prior to their capitalisation, the shareholder loans were unsecured, interest free, subordinated to the secured debt and had no fixed repayment date. The earliest date that the shareholder loans could be repaid was following the repayment of the secured debt. At 31 March 2014 there was no material difference between the fair value of the shareholder loans and their carrying value.

Interest rate derivatives

The fair values of the Group's interest rate derivatives were as follows:

	Notional amount		Fair value	
	31 December 2014 £000	31 March 2014 £000	**31 December 2014 £000**	31 March 2014 £000
5.1% swap (31 March 2014: amortising swap)	**608,920**	612,800	**(56,849)**	(67,507)
5.4% amortising swap	**304,008**	306,818	**(32,955)**	(38,463)
5.4% swaps	**196,622**	196,622	**(21,804)**	(25,227)
4.4% amortising swap*	**33,091**	35,600	**(3,579)**	(4,518)
4.4% swaps*	**21,529**	22,843	**(2,391)**	(2,991)
	1,164,170	1,174,683	**(117,578)**	(138,706)

* Denominated in Euros, converted at the relevant period end rate.

All of the above instruments expire between April and July 2017 and are included in non-current liabilities.

The Group uses all of its interest rate derivatives in risk management as cash flow hedges to protect against exposures to variability in future interest cash flows on bank loans which bear interest at variable rates. The amounts and timing of future cash flows are projected on the basis of their contractual terms.

Categories of financial instruments

	31 December 2014 £000	31 March 2014 £000
Financial assets		
Loans and receivables:		
Cash and cash equivalents (note 11)	**38,771**	25,367
	38,771	25,367
Financial liabilities		
Financial liabilities at amortised cost:		
Accrued interest	**(13,530)**	(13,264)
Secured bank loans	**(1,157,315)**	(1,163,643)
Shareholder loans	**–**	(113,238)
Derivatives in effective hedges:		
Interest rate derivatives	**(117,578)**	(138,706)
	(1,288,423)	(1,428,851)

At 31 December 2014, all financial assets and liabilities were measured at amortised cost except for interest rate derivatives which are measured at fair value. 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 JC Rathbone Associates Limited. All interest rate derivatives are classified as "level 2" as defined in IFRS 13 and their fair values are calculated using the present values of future cash flows, based on market forecasts of interest rates and adjusted for the credit risk of the counterparties. There were no transfers to or from other levels of the fair value hierarchy during the period or the prior year.

Notes to the Group Financial Statements continued

14. 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 objectives are to minimise the effect of these risks by using derivative financial instruments, particularly to manage exposure to fluctuations in interest rates. Such instruments are not employed for speculative purposes. The use of any derivatives is approved by the Board, which provides guidelines on acceptable levels of interest rate risk, credit risk and liquidity risk.

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

Market risk

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

(a) Market risk – interest rate risk

The Group's interest bearing assets comprise only cash and cash equivalents which do not generate significant amounts of interest, so changes in market interest rates do not have any significant direct effect on the Group's income.

The Group is exposed to cash flow interest rate risk from its variable rate borrowings. The Group's policy is to fix the interest rate on all of its secured debt by entering into interest rate derivatives (at present, all interest rate swaps) in order to mitigate this risk. 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. For the period ended 31 December 2014 and year ended 31 March 2014, after taking into account the effect of interest rate swaps, all of the Group's borrowings were at a fixed rate of interest. The Group's remaining sensitivity to changes in interest rates is disclosed in note 5.

Trade and other payables are interest free and have payment terms of less than one year, so it is assumed that there is no interest rate risk associated with these financial liabilities.

(b) Market risk – currency risk

The Group prepares its financial statements in Sterling. Some of the Group's assets are located in Germany and as a result the Group is subject to foreign currency exchange risk due to exchange rate movements between Sterling and the Euro, though this risk is partially hedged because both assets and liabilities are held in Euros, and both revenue and expenditure arise in Euros. An unhedged currency risk therefore exists on the value of the Group's net investment in, and 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 Sterling against the Euro, was as follows:

	Nine months to 31 December 2014 £000	Year to 31 March 2014 £000
Effect on profit	**204**	113
Effect on other comprehensive income and equity	**1,046**	483

Credit risk

Credit risk is the risk of financial loss to the Group if a counterparty fails to meet its contractual obligations. The principal counterparties are the Group's tenants (in respect of trade receivables arising under operating leases) and banks (acting either as hedging counterparties or as holders of the Group's cash deposits). The credit risk of trade receivables is limited because the counterparties to the operating leases are considered by the Board to be high quality tenants with lease guarantors of appropriate financial strength, and rent over at least the last seven years has historically always been paid on or before its due date. Recovery details and statistics are benchmarked in Board reports to identify any problems at any early stage, and if necessary rigorous credit control procedures will be applied to facilitate the recovery of trade receivables. The Group does not hold any financial assets which are either past due or impaired.

The Group's credit risk on hedging instruments and cash deposits is limited because the counterparties are banks with credit ratings which are acceptable to the Board and are kept under review each quarter.

14. Financial assets and liabilities continued

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance costs and principal repayments on its debt instruments. 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 ongoing liquidity needs (excluding debt repayment obligations) are very modest and are managed principally through the deduction of operating costs from rental receipts, before any surplus is applied in payment of interest and part repayment of debt as required by the credit agreements relating to the Group's secured debt.

Before entering into any debt instrument, the Board assesses the resources that are expected to be available to the Group to meet the liabilities when they fall due. These assessments are made on the basis of both conservative and downside scenarios. The Group prepares budgets and working capital forecasts which are reviewed by the Board at least quarterly to assess ongoing cash 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.

31 December 2014	Effective interest rate £000	Less than one year £000	Between one and two years £000	Between two and five years £000	Total £000
Financial assets:					
Cash and cash equivalents	0.3%	38,771	–	–	**38,771**
Financial liabilities:					
Accrued interest		(13,530)	–	–	**(13,530)**
Secured debt	2.5%	(22,420)	(42,057)	(1,172,006)	**(1,236,483)**
Interest rate derivatives	4.3%	(42,978)	(48,054)	(26,546)	**(117,578)**
		(78,928)	(90,111)	(1,198,552)	**(1,367,591)**

31 March 2014	Effective interest rate £000	Less than one year £000	Between one and two years £000	Between two and five years £000	Total £000
Financial assets:					
Cash and cash equivalents	0.3%	25,367	–	–	**25,367**
Financial liabilities:					
Accrued interest		(13,264)	–	–	**(13,264)**
Secured debt	2.5%	(25,434)	(48,392)	(1,200,135)	**(1,273,961)**
Shareholder loans	–	–	–	(159,823)	**(159,823)**
Interest rate derivatives	4.3%	(44,917)	(46,372)	(47,417)	**(138,706)**
		(83,615)	(94,764)	(1,407,375)	**(1,585,754)**

Capital risk management in respect of the financial period

The Board's primary objective when monitoring capital is to safeguard the Group's ability to continue as a going concern, while ensuring it remains within its banking covenants so as to safeguard secured assets and avoid financial penalties. Borrowings are secured on the property portfolio by way of fixed charges and also by floating charges on the assets of the relevant subsidiary companies. The Group is subject to the externally imposed capital requirements disclosed in note 11.

At 31 December 2014 the capital structure of the Group consisted of debt (which included the borrowings disclosed in note 14), cash and cash equivalents (see note 11), and equity attributable to the shareholders of the Company (comprising share capital, retained earnings and the other reserves referred to in note 16).

14. Financial assets and liabilities continued

As part of the Group's management of its capital structure, consideration is given to the cost of capital. In order to maintain or adjust the capital structure, the Group keeps under review the amount of any dividends or other returns to shareholders, and monitors the extent to which the issue of new shares or the realisation of assets may be required.

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

15. Share capital

Share capital represents the aggregate nominal value of shares issued. At 31 December 2014, the Company had an issued and fully paid share capital of 168,443,772 ordinary shares of £0.10 each (31 March 2014: one ordinary share of £1).

On 16 April 2014, the Company's one ordinary share in issue of £1 was subdivided into ten ordinary shares of £0.10 each, such shares having the same rights and being subject to the same restrictions as the existing ordinary share of £1.

Non-interest bearing shareholder loans of £77.9 million were capitalised on 20 May 2014 in exchange for the issue of 77,914,338 ordinary shares of £0.10 each at a value of £1 each. The excess over nominal value was credited to the share premium account. The Directors of the Company considered that the market value of the loans as at the date of capitalisation was equal to their face value.

On 21 May 2014, the Company entered into a sale and purchase agreement pursuant to which it issued 81,908,717 ordinary shares of £0.10 each at a value of £1 each to Prestbury 1 Limited Partnership in consideration for the transfer of the entire issued share capital of SIR Hospital Holdings Limited to the Company. The merger relief principles of the Companies Act 2006 were applied in connection with this acquisition such that the excess consideration over nominal value was not credited to the share premium account. The investment in SIR Hospital Holdings Limited was transferred at fair value and accordingly the credit was taken to the merger reserve.

On 23 May 2014, the Company, by written resolution, approved a reduction in the £70.1 million standing to the credit of the share premium account at that date and the cancellation of the £73.7 million standing to the credit of the merger reserve. The amounts were transferred to retained earnings and are treated as realised profits.

The Company was re-registered as a public company limited by shares on 27 May 2014 and was admitted to trading on AIM on 5 June 2014, raising £15.0 million before expenses through a placing of 8,620,689 new ordinary shares of £0.10 each at a price of 174 pence per share. The excess over nominal value was credited to the share premium account. Transaction costs of £3.1 million were incurred on this transaction.

Under the terms of a Commitment Agreement described in note 19, the Company's shareholders prior to listing have each agreed to subscribe in cash for one ordinary share per quarter to cover the fees payable to the Investment Adviser during the year. During the period, 18 ordinary shares of £0.10 each have been issued under this arrangement for total proceeds of £2.2 million. The excess over nominal value was credited to the share premium account. The remaining £0.3 million of advisory fees recognised in the income statement for the period will be invoiced in early 2015.

As a result of these transactions, the movement in the number of shares in issue over the period was as follows:

	Nine months to 31 December 2014 Number	Year to 31 March 2014 Number
At the start of the period	**1**	1
Subdivision of ordinary share	**9**	–
Capitalisation of shareholder loans	**77,914,338**	–
Issue of ordinary shares prior to listing	**81,908,717**	–
Issue of ordinary shares on listing	**8,620,689**	–
Issue of ordinary shares since listing under Commitment Agreement	**18**	–
At the end of the period	**168,443,772**	1

16. Reserves

The nature and purpose of each of the reserves included within equity at 31 December 2014 is as follows:

- Share premium reserve: represents the surplus of the gross proceeds of share issues over the nominal value of the shares, net of the direct costs of equity issues.
- Other reserves: represents the cumulative exchange gains and losses on the translation of the Group's net investment in its German operations, as well as the impact on equity of the shares to be issued after the balance sheet date, as described in note 19, under the terms of both the Commitment Agreement and the performance fee arrangements.
- Cash flow hedging reserve: represents cumulative gains or losses, net of tax, on effective cash flow hedging instruments.
- Retained earnings: represent the cumulative profits and losses recognised in the income statement, together with any amounts transferred or reclassified from the other Group reserves.

17. Operating leases

The Group's principal assets are investment properties which are leased to third parties under non-cancellable operating leases. The average remaining lease term is 25.1 years and the leases contain either fixed or RPI-linked uplifts, with no break options. Contingent rental income arises as a result of the RPI-linked uplifts and amounted to £1.0 million (year to 31 March 2014: £1.2 million) in the period. The future minimum lease payments receivable under the Group's leases, translated at the relevant period end exchange rates, are as follows:

	31 December 2014 £000	31 March 2014 £000
Within one year	**94,190**	92,398
Between one year and five years	**392,413**	384,907
More than five years	**2,355,051**	2,399,896
	2,841,654	2,877,201

18. Net asset value per share

Net asset value per share is calculated as the net assets of the Group attributable to shareholders at each balance sheet date, divided by the number of shares in issue at that date as follows:

	31 December 2014 Number	31 March 2014 Number
Number of shares in issue – basic NAV per share	**168,443,772**	159,823,056
Shares to be issued in settlement of performance fee (note 19)	**11,900,432**	–
Number of shares in issue – diluted NAV per share	**180,344,204**	159,823,056

On 21 May 2014, by virtue of the reorganisation explained in note 2, the Company and SIR Hospital Holdings Limited (the "Combined Companies") became a legal group. During and at the end of the year ended 31 March 2014, and in the current period until 20 May 2014, the Combined Companies were entities under common control. It is considered that the use of the actual number of shares of the Combined Companies in issue at 31 March 2014 as a denominator in the NAV per share calculations above would not provide meaningful information. Instead, the number of shares in issue at that date has been determined based on the number of shares that would have been in issue had the shareholder loans been capitalised into shares on the basis of one share for each £1 of shareholder loans. The basic NAV has also been adjusted to reflect what it would have been had these loans been capitalised at that date.

Diluted NAV per share is adjusted for any shares that will be issued in settlement of performance fees payable, as explained in more detail in note 19. The diluted NAV per share at 31 December 2014 was 190.9 pence per share (31 March 2014: 32.1 pence per share).

Notes to the Group Financial Statements continued

18. Net asset value per share continued

The European Public Real Estate Association ("EPRA") has issued guidelines aimed at providing a measure of net asset value on the basis of long term fair values. The EPRA measure excludes items that are considered to have no impact in the long term, such as the fair value of interest rate derivatives and deferred tax balances. The Group's EPRA NAV is calculated as follows:

	31 December 2014		31 March 2014	
	£000	**Pence per share**	£000	Pence per share
Basic NAV	**344,305**	**204.4**	(71,282)	(44.6)
Capitalisation of shareholder loans	**–**	**–**	113,238	70.9
Deferred tax on shareholder loans	**–**	**–**	9,317	5.8
Adjusted basic NAV	**344,305**	**204.4**	51,273	32.1
EPRA adjustments:				
Deferred tax on investment property revaluations	**4,938**	**2.7**	120,636	75.5
Fair value of interest rate derivatives	**117,578**	**65.2**	138,706	86.7
Deferred tax on interest rate derivatives	**(627)**	**(0.3)**	(27,544)	(17.2)
Dilution from shares issued for performance fee	**–**	**(13.5)**	–	–
EPRA NAV	**466,194**	**258.5**	283,071	177.1

19. Related party transactions and balances

Commitment Agreement

On 29 May 2014, in connection with its listing, the Company entered into a Commitment Agreement with its existing investors at that time in order to fund (in whole or in part) the Company's payment of its contracted advisory fee to Prestbury during the period from listing on 5 June 2014 to 10 July 2016 (the "Commitment Agreement Period").

Under the terms of the Commitment Agreement, the cash funding of the advisory fees is required to be satisfied by way of subscription for shares. Each existing investor has agreed to subscribe for one share per quarter over the Commitment Agreement Period amounting to an aggregate of 18 new shares in the Company during this reporting period. The total subscription price payable by the existing investors for the shares to be issued to them in any quarter is equal to the advisory fee payable by the Company to Prestbury in respect of that quarter (subject to a maximum aggregate subscription price of £1.3 million per quarter).

Advisory fees payable

Nick Leslau, Mike Brown and Sandy Gumm are Directors of the Company and also hold partnership interests in, and are Chairman, Chief Executive and Chief Operating Officer respectively of, Prestbury Investments LLP ("Prestbury"), which is Investment Adviser to the Group under the terms of an agreement dated 30 May 2014 (the "Investment Advisory Agreement"). Under the terms of the Investment Advisory Agreement, advisory fees of £2.7 million were payable in cash to Prestbury in respect of the period to 31 December 2014, £0.2 million of which was outstanding as at the balance sheet date.

Performance fee payable

Under the terms of the Investment Advisory Agreement, a wholly owned subsidiary of Prestbury may become entitled to a performance fee which rewards growth and aligns Prestbury's interests with those of shareholders. The fee entitlement is calculated annually, with any fee payable settled in shares in the Company subject to certain limited exceptions. It is calculated as the lower of:

(i) 20% of the excess of shareholder returns over a 10% annual return with the hurdle automatically resetting each year to 10% over the previous year's EPRA NAV per share plus cumulative distributions paid since listing; and

(ii) 20% of the excess of year end EPRA NAV per share plus cumulative distributions paid over the "high watermark", being EPRA NAV per share plus cumulative distributions per share as at the last time a performance fee was paid (or 172 pence per share, being the pro forma EPRA NAV per share at the time of listing, if a performance fee has yet to be earned).

For a performance fee to arise in the period, the EPRA NAV per share of the Group had to exceed 182 pence per share at 31 December 2014. Since this has been achieved, 20% of shareholder returns in excess of that level are attributable to Prestbury, payable by the issue of shares. Sales of these shares are restricted, with the restriction only lifted on a phased basis over a period from 18 to 42 months from the date of listing, subject to a release in the event that Prestbury needs to sell shares to settle any tax liability on the fee income it recognises.

19. Related party transactions and balances continued

The performance fee which has been charged in the income statement for the period from listing to 31 December 2014 amounts to £35.2 million (representing a fee of £32.1 million plus irrecoverable VAT of £3.1 million). The fee is largely offset in the Group's net asset value by an increase in reserves representing the shares to be issued in satisfaction of the fee, with only the irrecoverable VAT settled in cash. In order to satisfy the £32.1 million fee, 11,900,432 shares (c. 7.1% of the Company's issued share capital) will be issued at the average mid-market closing share price of the Company for the period to 31 December 2014 of 270 pence per share. Recognising the cost of the performance fee in these financial statements only impacts the net asset value of the Group to the extent of the irrecoverable VAT but, by reflecting the shares to be issued, it further reduces the Group's net asset value per share and earnings per share.

Share purchase agreement

As described in note 15, on 21 May 2014 the Company entered into a sale and purchase agreement with Prestbury 1 Nominee Limited (as nominee) and Prestbury 1 Limited Partnership (as beneficial owner), pursuant to which the Company issued 81,908,717 ordinary shares of £0.10 each (at a value of £1 each) to Prestbury 1 Nominee Limited as nominee for Prestbury 1 Limited Partnership in consideration for the transfer of the entire issued share capital of SIR Hospital Holdings Limited (formerly P1 Hospital Holdings Limited) to the Company. All of the members of Prestbury 1 Limited Partnership at the time of the sale and purchase agreement thereby became shareholders in the Company and still hold these shares, amounting to 95% of the issued share capital of the Company at 31 December 2014.

Company Independent Auditors' Report

Independent Auditors' Report to the members of Secure Income REIT Plc
We have audited the Parent Company financial statements of Secure Income REIT Plc for the period ended 31 December 2014 which comprise the balance sheet and related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors
As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements
In our opinion the Parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2014;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion the information given in the Strategic Report and Directors' Report for the financial period for which the Parent Company financial statements are prepared is consistent with the Parent Company financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Other matter
We have reported separately on the consolidated financial statements of the Company for the period ended 31 December 2014.

Russell Field (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Gatwick, United Kingdom
12 March 2015

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

Company Balance Sheet

	Notes	31 December 2014 £000	31 March 2014 £000
Fixed assets			
Investment in subsidiary undertakings	C	**81,909**	–
Current assets			
Loan to subsidiary undertaking	D	**77,539**	77,485
Trade debtors		**1,994**	–
Other debtors	G	**30,253**	24
Cash at hand and in bank		**11,017**	–
		120,803	77,509
Creditors: amounts falling due within one year			
Corporation tax		**(166)**	–
Accruals and deferred income		**(251)**	(30)
Net current assets		**120,386**	77,479
Total assets less current liabilities		**202,295**	77,479
Creditors: amounts falling due in more than one year			
Shareholder loans		**–**	(77,914)
Net assets/(liabilities)		**202,295**	(435)
Capital and reserves			
Share capital	E	**16,844**	–
Share premium reserve		**16,156**	–
Other reserve		**32,378**	–
Retained earnings		**136,917**	(435)
Shareholders' funds/(deficit)	F	**202,295**	(435)

The notes on page 60 form part of the Company financial statements.

The Company financial statements were approved and authorised for issue by the Board of Directors on 12 March 2015 and were signed on its behalf by:

Martin Moore
Chairman

Sandy Gumm
Director

Notes to the Company Balance Sheet

A. Basis of preparation

The Company's financial statements have been prepared in accordance with applicable laws and United Kingdom accounting standards, on a going concern basis and under the historic cost convention. The principal accounting policies relevant to the Company have been applied consistently in the current and prior year as follows:

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

The Company has taken advantage of the exemption within section 408 of the Companies Act 2006 not to present its own profit and loss account. The loss for the period dealt with in the financial statements of the Company was £6,489,000 (year to 31 March 2014: loss of £4,000).

For periods beginning on or after 1 January 2015, a new UK GAAP accounting framework has taken effect. In the year to 31 December 2015, the Company intends to prepare the Company financial statements in accordance with FRS 102 and will use the disclosure exemptions in FRS 102 unless objections are received from shareholders.

B. Auditors' remuneration

The remuneration of the auditors in respect of the audit of the Company for the period was £60,000 (year to 31 March 2014: £20,000). Fees payable for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

C. Investment in subsidiary undertakings

The Company's wholly owned direct subsidiaries are SIR Theme Park Subholdco Limited and SIR Hospital Holdings Limited, which are incorporated and operating in England. The principal subsidiary entities indirectly owned by the Company are disclosed in note 9 to the Group financial statements.

The movement in the period was as follows:

	Nine months to 31 December 2014 £000	Year ended 31 March 2014 £000
At the start of the period	**–**	–
Additions	**81,909**	–
At the end of the period	**81,909**	–

D. Loan to subsidiary undertaking

The loan to subsidiary undertaking is unsecured, bears no interest and has no fixed repayment date.

E. Share capital

Details of the share capital of the Company are disclosed in note 15 to the Group financial statements.

F. Reconciliation of movement in shareholders' funds/(deficit)

	31 December 2014 £000	31 March 2014 £000
Opening shareholders' deficit	**(435)**	(431)
Capitalisation of shareholder loans	**77,914**	–
Issue of shares on acquisition of the Healthcare group	**81,909**	–
Proceeds from share issue net of capitalised expenses	**17,018**	–
Shares to be issued	**32,378**	–
Loss for the period	**(6,489)**	(4)
Closing shareholders' funds/(deficit)	**202,295**	(435)

G. Related party transactions

As described in note 19 to the Group financial statements, a performance fee of £32.1 million plus VAT is payable by the Company for the period from listing to 31 December 2014 of which £29.8 million has been recharged to certain subsidiaries and is included within other debtors at the balance sheet date. Details of other related party transactions are disclosed in note 19 to the Group financial statements.

Property Portfolio as at 12 March 2015

Property	Portfolio	Region	Address
Valued over £300 million			
Madame Tussauds	Leisure	London	Marylebone Road, London NW1 5LR
Valued between £100–200 million			
Alton Towers theme park	Leisure	Rest of UK	Alton, Staffs ST10 4DB
Rivers hospital	Healthcare	Rest of UK	High Wych Road, Sawbridgeworth, Herts CM21 0HH
Thorpe Park theme park	Leisure	Rest of UK	Staines Road, Chertsey, Surrey KT16 8PN
Valued between £50–100 million			
Alton Towers hotel	Leisure	Rest of UK	Alton, Staffs ST10 4DB
Ashtead hospital	Healthcare	Rest of UK	The Warren, Ashtead, Surrey KT21 2SB
Heide Park theme park	Leisure	Germany	Heide Park 1, 29614 Soltau, Lower Saxony, Germany
Springfield hospital	Healthcare	Rest of UK	Lawn Lane, Springfield, Chelmsford, Essex CM1 7GU
Yorkshire clinic	Healthcare	Rest of UK	Bradford Road, Bingley, West Yorks BD16 1TW
Valued between £25–50 million			
Duchy hospital	Healthcare	Rest of UK	Peventinnie Lane, Treliske, Truro, Cornwall TR1 3UP
Fitzwilliam hospital	Healthcare	Rest of UK	Milton Way, South Bretton, Peterborough PE3 9AQ
Fulwood hospital	Healthcare	Rest of UK	Midgery Lane, Fulwood, Preston, Lancs PR2 9SZ
New Hall hospital	Healthcare	Rest of UK	Bodenham, Salisbury, Wiltshire SP5 4EY
Nightingale hospital	Healthcare	London	11-19 Lisson Grove, Marylebone, London NW1 6SH
Oaks hospital	Healthcare	Rest of UK	120 Mile End Road, Colchester, Essex CO4 5XR
Pinehill hospital	Healthcare	Rest of UK	Benslow Lane, Hitchin, Herts SG4 9QZ
Reading hospital	Healthcare	Rest of UK	Wensley Road, Coley Park, Reading, Berks RG1 6UZ
Warwick Castle	Leisure	Rest of UK	Warwick, Warwicks CV34 4QU
Winfield hospital	Healthcare	Rest of UK	Tewkesbury Road, Longford, Gloucester GL2 9WH
Woodlands hospital	Healthcare	Rest of UK	Rothwell Road, Kettering, Northants NN16 8XF
Valued below £25 million			
Euxton Hall hospital	Healthcare	Rest of UK	Wigan Road, Euxton, Chorley, Lancs PR7 6DY
Heide Park hotel	Leisure	Germany	Heide Park 1, 29614 Soltau, Lower Saxony, Germany
Mount Stuart hospital	Healthcare	Rest of UK	St Vincent's Road, Torquay, Devon TQ1 4UP
North Downs hospital	Healthcare	Rest of UK	46 Tupwood Lane, Caterham, Surrey CR3 6DP
Oaklands hospital	Healthcare	Rest of UK	19 Lancaster Road, Salford, Manchester M6 8AQ
Renacres hospital	Healthcare	Rest of UK	Renacres Lane, Halsall, Ormskirk, Lancs L39 8SE
Rowley hospital	Healthcare	Rest of UK	Rowley Park, Stafford, Staffs ST17 9AQ
West Midlands hospital	Healthcare	Rest of UK	Coleman Hill, Halesowen, West Midlands B63 2AH

Glossary

EPRA	European Public Real Estate Association
EPRA EPS	A measure of earnings per share designed by EPRA to present underlying earnings from core operating activities
EPRA NAV	A measure of net asset value 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 earnings for the period after tax attributable to members of the Parent Company divided by the weighted average number of shares in issue in the period
Equivalent yield	The constant capitalisation rate which, if applied to all cash flows from an investment property, equates to the fair value
ERV	Estimated rental value, which is the open market rental value expected to be achievable at the date of valuation
Gross LTV	LTV calculated on the gross loan amount and any other secured liabilities
IFRS	International Financial Reporting Standards adopted for use in the European Union
Net initial yield	Annualised net rents on investment properties as a percentage of the investment property valuation, less purchaser's costs
LTV	The outstanding amount of a loan as a percentage of property value
NAV	Net asset value
Net LTV	LTV calculated on the gross loan amount and any other secured liabilities, less cash balances
Reversionary yield	The anticipated yield to which the net initial yield will rise once the rent reaches the ER V

Notice of Annual General Meeting

Secure Income REIT Plc ("the Company")

NOTICE is hereby given that the Annual General Meeting of the shareholders of the Company will be held at Cavendish House, 18 Cavendish Square, London W1G 0PJ on 3 June 2015 at 2pm for transacting the following business:

Ordinary resolutions

1. To receive and approve the Strategic Report, the Report of the Directors and the Financial Statements of the Company for the period ended 31 December 2014 together with the report of the auditors thereon.
2. To consider and if thought fit reappoint Martin Moore as a Director of the Company who was appointed as a Director by the Board on 27 May 2014 and who, in accordance with Article 65.1 of the articles of association of the Company (the "Articles") and, being eligible, offers himself for reappointment.
3. To consider and if thought fit reappoint Mike Brown as a Director of the Company who was appointed as a Director by the Board on 27 May 2014 and who, in accordance with Article 65.1 of the Articles and, being eligible, offers himself for reappointment.
4. To consider and if thought fit reappoint Leslie Ferrar as a Director of the Company who was appointed as a Director by the Board on 27 May 2014 and who, in accordance with Article 65.1 of the Articles and, being eligible, offers herself for reappointment.
5. To consider and if thought fit reappoint Jonathan Lane as a Director of the Company who was appointed as a Director by the Board on 27 May 2014 and who, in accordance with Article 65.1 of the Articles and, being eligible, offers himself for reappointment.
6. To consider and if thought fit reappoint Ian Marcus as a Director of the Company who was appointed as a Director by the Board on 27 May 2014 and who, in accordance with Article 65.1 of the Articles and, being eligible, offers himself for reappointment.
7. To reappoint BDO LLP as the auditors until the conclusion of the next Annual General Meeting.
8. That the Directors be authorised to fix the remuneration of the auditors.
9. That the Directors' fees be approved.

Special resolution

10. That the Company be generally and unconditionally authorised to make market purchases (within the meaning of section 693(4) of the Companies Act 2006 (the "Act")) of ordinary shares of 10 pence each in the capital of the Company ("ordinary shares") on such terms as the Directors think fit, and where such shares are held as treasury shares, the Company may use them for the purposes set out in Section 727 of the Act, provided that:

    (a) the maximum number of ordinary shares hereby authorised to be purchased is 27,033,596;
    (b) the minimum price, exclusive of any expenses, which may be paid for an ordinary share is 10 pence;
    (c) the maximum price, exclusive of any expenses, which may be paid for each ordinary share is an amount equal to the higher of: (i) 105% of the average of the middle market quotations for an ordinary share, as derived from the London Stock Exchange Daily Official List, for the five business days immediately preceding the day on which the ordinary share is purchased; and (ii) the amount stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation 2003; and
    (d) the authority hereby conferred shall, unless previously revoked or varied, expire at the conclusion of the next Annual General Meeting of the Company (except in relation to the purchase of ordinary shares the contract for which was concluded before the expiry of this authority and which will or may be executed wholly or partly after such expiry).

By order of the Board

Sandy Gumm
Company Secretary
Dated: 12 March 2015

Notice of Annual General Meeting continued

Notes:

1. Every holder has the right to appoint some other person(s) of their choice, who need not be a shareholder as his proxy to exercise all or any of his rights to attend, speak and vote on their behalf at the meeting. If you wish to appoint a person other than the Chairman, please insert the name of your chosen proxy holder in the space provided in the proxy form. If the proxy is being appointed in relation to less than your full voting entitlement, please enter the number of shares in relation to which they are authorised to act as your proxy. If the "number of shares" box is left blank your proxy will be deemed to be authorised in respect of your full voting entitlement (or if the proxy form has been issued in respect of a designated account for a shareholder, the full voting entitlement for that designated account).

2. To appoint more than one proxy you may photocopy the proxy form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.

3. In the case of a corporation, the proxy must be given under its common seal or signed by a duly authorised officer, attorney or other person authorised to sign it. A proxy need not be a member.

4. The completion and return of the proxy form will not prevent you from attending in person and voting at the Annual General Meeting should you subsequently decide to do so. If you attend the meeting in person, your proxy appointment will automatically be terminated. A vote withheld option is provided on the proxy form to enable you to instruct your proxy to abstain on any particular resolution. However, it should be noted that a "vote withheld" is not a vote in law and will not be counted in the calculation of the proportion of the votes "For" and "Against" a resolution.

5. Any corporation which is a shareholder can appoint one or more corporate representatives who may exercise on its behalf of all its powers as a shareholder provided that they do not do so in relation to the same shares.

6. Only those shareholders entered on the register of shareholders of the Company at 6:00 pm on 1 June 2015 shall be entitled to attend and vote at the Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of shareholders after 6:00 pm on 1 June 2015 shall be disregarded in determining the rights of any person to attend or vote at the Annual General Meeting.

7. To be valid, the instrument appointing a proxy and the power of attorney or other authority (if any) under which it is executed (or a notarially certified copy of such power or authority) must be received by the Company's Registrars, Capita Asset Services at FREEPOST CAPITA PXS, not less than 48 hours before the time for holding the meeting. A postage stamp will not be required when mailing from the UK. Please note that the Freepost address must be completed in block capitals and that delivery using this service can take up to five business days. Alternatively the form of proxy can be posted to the following address but a stamp will be required: Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.

8. Shares held in CREST may be voted through the CREST voting service. To appoint one or more proxies or to give an instruction to a proxy via the CREST system, CREST messages must be received by the issuer's agent (ID number RA10) not later than 48 hours before the time appointed for holding the meeting.

9. During the meeting there will be an opportunity for shareholders, proxies or corporate representatives to ask questions relevant to the business of the meeting.

Company Information

Registered office	Cavendish House, 18 Cavendish Square, London W1G 0PJ
Directors	Martin Moore, Non-executive Chairman Mike Brown Leslie Ferrar, Chairman of the Audit Committee Sandy Gumm Jonathan Lane, Chairman of the Nominations Committee Nick Leslau Ian Marcus, Senior Independent Director and Chairman of the Remuneration Committee
Company Secretary	Sandy Gumm
Investment Adviser	Prestbury Investments LLP Cavendish House, 18 Cavendish Square, London W1G 0PJ
Nominated Adviser and Broker	Stifel Nicolaus Europe Limited 150 Cheapside, London EC2V 6ET
Auditors	BDO LLP 2 City Place, Beehive Ring Road, Gatwick, West Sussex RH6 0PA
Property valuers	CBRE Limited Henrietta House, Henrietta Place, London W1G 0NB
Derivatives valuers	JC Rathbone Associates Limited 12 St James's Square, London SW1Y 4LB
Registrar	Capita Registrars Limited The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU
Website	www.SecureIncomeREIT.co.uk
Email enquiries	enquiries@SecureIncomeREIT.co.uk

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SECURE INCOME REIT PLC