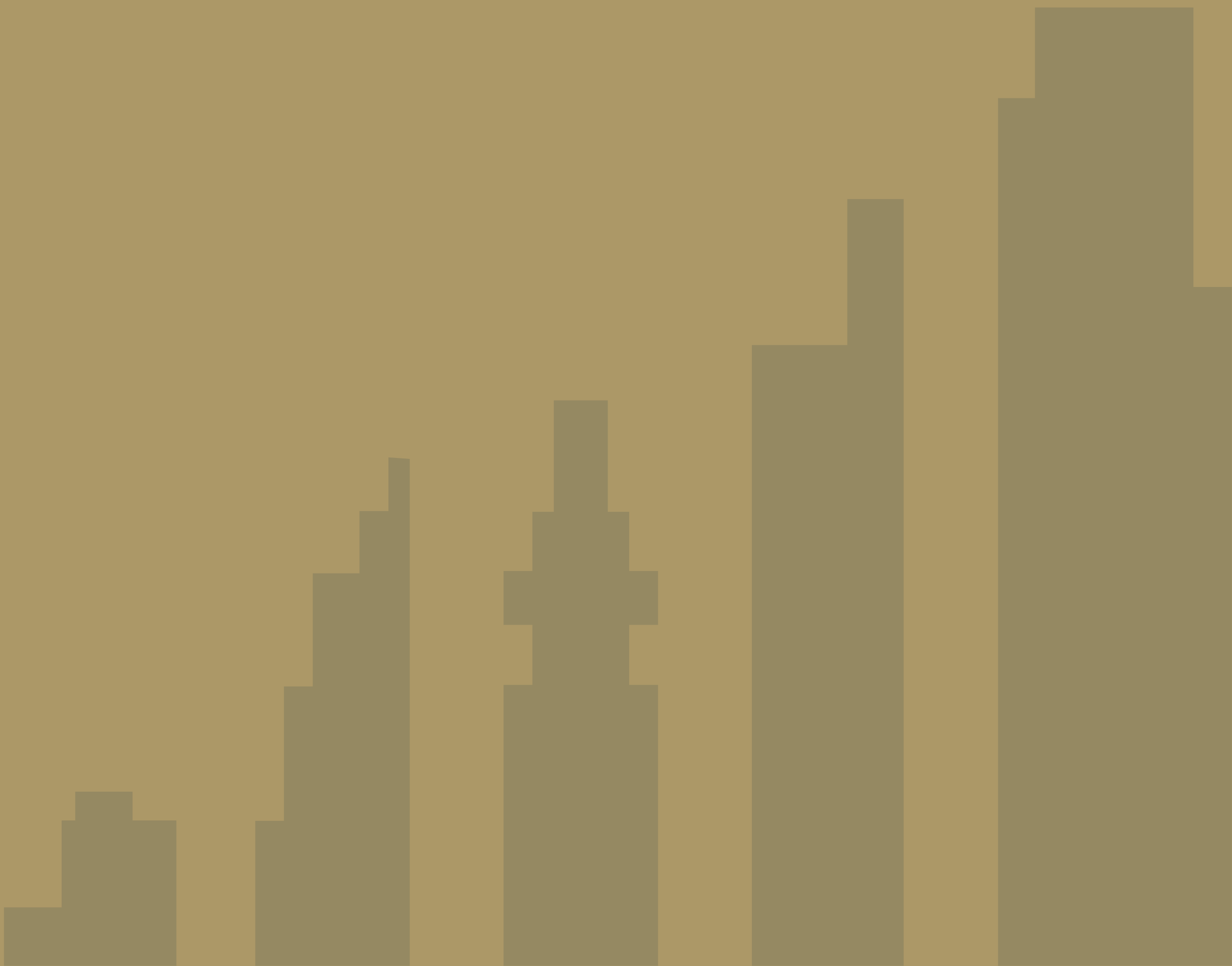


Annual Report 2016

Year ended 31 December 2016

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. As at 31 December 2016 it owned a £1.64 billion portfolio of 81 high quality assets generating very long term income from financially strong, predominantly listed global businesses. It provides an ideal opportunity to capitalise on investor demand for secure income streams and a 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, Mike Brown and Sandy Gumm.

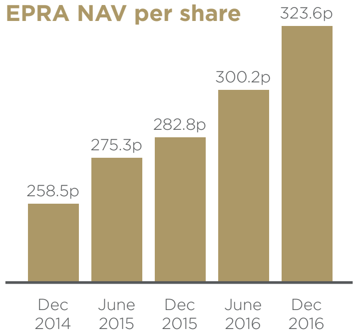
Contents

Highlights

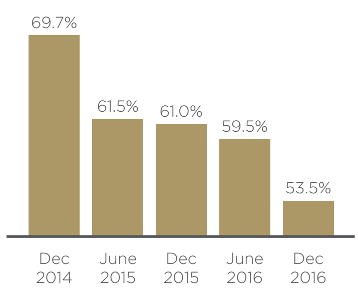
- EPRA NAV per share up 14.4% to 323.6 pence over the year to 31 December 2016
- Adjusted EPRA EPS up over 330% to 11.3 pence for the year, up from 2.6 pence
- Quarterly distributions commenced in August 2016:
  - currently yielding an annualised 4.1% on 31 December 2016 EPRA NAV, with predictable growth prospects underpinned by annual contractual fixed and RPI linked rental uplifts
  - expectation of uplift in dividend following majority of 2017 rent review cycle to an annualised c. 14 pence per share in August 2017, yielding c. 4.3% on December 2016 EPRA NAV
- Total EPRA NAV per share growth plus dividends returned 16.5% and Total Shareholder Return a sector leading 30% for the year
- Net Loan To Value ratio further reduced to 53.5%, down from 61.0% at 31 December 2015
- Continuing to deliver the strategy through a £196 million portfolio acquisition and two oversubscribed share placings in the year:
  - March 2016: £282 million secondary placing at 255 pence per share to widen shareholder base and increase liquidity in shares
  - October 2016: £140 million placing of new shares at 298.6 pence per share to part finance the purchase of 55 Travelodge hotels at a net initial yield of 7%, diversifying the portfolio, enhancing dividend yield, extending the weighted average unexpired lease term and lowering LTV
- Portfolio valuation up 7.0% like for like since 31 December 2015; total portfolio of £1.64 billion, valued at a blended net initial yield of 5.3%
- Highly defensive portfolio of assets producing £92.6 million of passing rent and with a weighted average unexpired lease term of 23.1 years with no tenant breaks
- External management team significantly aligned, with a 15.4% stake representing over £110 million invested at 31 December 2016 EPRA NAV

	31 December 2016	31 December 2015	Change in year
Net assets	**£737.4m**	£504.4m	up 46.2%
EPRA net assets	**£745.9m**	£510.1m	up 46.2%
EPRA net asset value per share	**323.6p**	282.8p	up 14.4%
Adjusted EPRA earnings per share	**11.3p**	2.6p	up 334.6%
Dividends per share	**5.8p**	–	

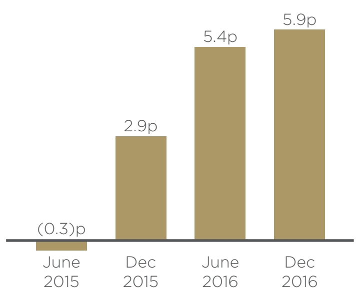
EPRA NAV per share



Net LTV



Adjusted EPRA EPS (six months)



Chairman's Statement

"2016 has been another year of significant progress for our business. The Company has reported a sector leading Total Shareholder Return for the year through the impact of the share issue and acquisition, growth in earnings and valuations, and commencing dividend payments. It is well placed to continue to deliver."

Martin Moore, Chairman

Dear shareholder,
Following the successful refinancing and reduction of leverage during the 2015 financial year, 2016 was another year of significant progress and delivery of the strategy for our business.

Our intention to widen the shareholder base and improve liquidity in the shares was realised in March last year through the successful secondary placing by six of the Company's original shareholders of some 61% of the Company's shares. In October we raised £140 million in a placing at 298.6 pence per share to part finance the acquisition for £196 million of a portfolio of 55 hotels which are let to Travelodge on long leases. Through the impact of the share issue and acquisition, together with earnings and valuation growth, the Company has delivered strong shareholder returns in 2016, increasing EPRA NAV per share by 14.4%, initiating quarterly dividend payments in August 2016 at a current annualised yield of 4.1% on EPRA NAV, further reducing the Group's Net Loan To Value ratio to 53.5%, significantly improving liquidity in the shares and assembling an enlarged and supportive shareholder base.

Results and financial position
The Group's EPRA NAV at 31 December 2016 is 323.6 pence per share, having grown by 40.8 pence per share since 31 December 2015 and which, when added to the dividends paid in the year, results in a 16.5% return over the year.

	£m	Pence per share
EPRA NAV at 31 December 2015	510.1	282.8
Share placing to fund Hotels acquisition	140.0	–
Investment property revaluation*	85.0	39.2
Other retained earnings*	25.3	8.5
Costs of share placing	(2.5)	(1.1)
Dividends paid	(12.0)	(5.8)
EPRA NAV at 31 December 2016	**745.9**	**323.6**

* amounts reported in the Group income statement adjusted by £12.8 million (6.7 pence per share) to remove the spreading of fixed rental uplifts over the term of the lease. The adjustment reduces rental income and increases revaluation movement in equal amounts.

We have seen a significant valuation uplift in the year, amounting to a 7.0% increase on the portfolio owned throughout 2016. Including the Travelodge hotels portfolio acquired in the year, we report a blended net initial portfolio yield of 5.3% at 31 December 2016. After the majority of the 2017 rent reviews that will occur between May and July this year, that yield will increase to an estimated 5.4% by July 2017.

Adjusted EPRA EPS is 11.3 pence per share for the year, a very substantial increase above the prior year reflecting the positive impact of lower financing costs following the asset disposals and debt refinancing in the second half of 2015 and average rental uplifts in the year of 2.3%, together with the purchase of the Travelodge portfolio towards the end of October 2016.

The prospects for growth in the dividend and in Total Shareholder Return are underpinned by the Group's unusually long leases, with over 23 years unexpired and no tenant break options, and by the high degree of income certainty inherent in the rent review structures. 58% of the Group's rental income is subject to annual minimum fixed rental uplifts averaging 2.8% per annum with the remaining 42% of rental income subject to uncapped, upwards only RPI linked uplifts. The Company therefore generates annually increasing income even if there is no inflation, as well as the ability to capture further income growth during inflationary times.

Having financed the Travelodge acquisition by way of the £140 million equity issue together with debt finance at a portfolio loan to cost ratio of 31% and following the uplift in valuation of the portfolio across the board, we ended 2016 having further reduced our Net Loan To Value ratio to 53.5%, down from 61% at the end of 2015. Interest cover has also improved from 1.6 times at the end of 2015 to 1.9 times at the end of 2016. We remain focussed on structural safety in our credit facilities. With fixed interest costs and our annually increasing property income, we remain confident that we can continue to deliver attractive returns to our shareholders.

Outlook

2016 was a bad year for the credibility of forecasters and showed how widely held views can fail to predict the outcome of key events or the market's reaction to them. The few who foresaw Brexit and a Trump victory were unlikely to have anticipated the stock market rallies or the subsequent upgrade in economic forecasts. Bullish investors and economists were typically right for the wrong reasons, outperforming the bears who were wrong for the right reasons and may yet be proved right. So how best to approach 2017, with European elections and yet another Greek debt restructuring looming whilst a mercurial new President seeks to reform US foreign and trade policy? How will Brexit unfold? Negotiations will extend well beyond 2017 and there is a wide range of outcomes. Indeed, we may have to wait until 2019 or beyond to know the precise nature of the UK's exit and the extent to which this impacts on the commercial property market. Scenarios stretch all the way from a relief rally as Mrs May secures her ambition of a smooth Brexit to a recessionary shock as the UK "crashes out" of the EU should the Government's "no deal is better than a bad deal" stance meet an equally intransigent EU. Intermediate scenarios create a variety of likely property losers with City office occupation exposed to any restrictions placed on investment banking activity and retail property vulnerable to any squeeze in real incomes caused by the fall in the Pound. Strong views may abound but in practice investors are being asked to place their bets far in advance with little visibility as to the likely outcome. This extended period of uncertainty will encourage the Bank of England to keep interest rates lower for longer despite rising inflation. This should maintain, if not intensify, the search for yield, especially where there is some form of inflation protection.

If we are to take one lesson from 2016 it should be that we are now living in an era of unpredictable events and it is unwise for investors to assume that they will be able to anticipate correctly all the twists and turns that lie ahead. Mainstream commercial property prices have stabilised much more quickly than many anticipated, but it is still far too early to know whether this will be the full extent of any correction. Our tenants are less exposed to the volatile areas of the economy and property market and are continuing to grow their businesses, property footprints and profitability. But of still greater importance to us is that their balance sheets are strong, the vast majority are multinational businesses not solely exposed to the UK economy and their lease commitments run for many, many years. Our rents will rise in line with the RPI or fixed annual uplifts irrespective of whether the economy is expanding or contracting. Of course we very much hope that the UK continues to prosper and that Brexit negotiations are a success, but critically our cash flows are not dependent upon this. This gives rise to something rather unusual at a time of heightened uncertainty – a highly predictable and rising income return. Our investors can enjoy this attractive cash flow without needing to make a judgement on the timescale and outcome of Brexit or other events unfolding on the world's stage.

Properties that contain all the valued characteristics in our portfolio are relatively scarce. We support our Investment Adviser in maintaining its discipline in applying stringent selection criteria. In practice this leads to the vast majority of potential deals being declined on grounds of covenant strength, lease length, sector, quality of underlying real estate or pricing. October's £196 million Travelodge acquisition does, however, demonstrate that patience can be rewarded with well-priced purchases that enhance the Company's returns and dividend yield. In the meantime, our £1.64 billion portfolio is difficult to replicate and increased competition for well let alternative assets is continuing to push up prices, which is reflected in our valuations and performance since flotation in 2014.

Martin Moore
Chairman
9 March 2017

Investment Adviser's Report

Prestbury Investments LLP advises Secure Income REIT Plc and is pleased to report on the Group's operations for the year ended 31 December 2016.

Portfolio

The portfolio comprises 81 properties with secure, long term income and contractual uplifts offering inflation protection, producing £92.6 million of passing rent at 31 December 2016. The majority of the rent is derived from tenants whose businesses offer global spread and which have performed very well over many years, demonstrating strong defensive qualities. The portfolio is fully let for a weighted average term of 23.1 years from 31 December 2016 on full repairing and insuring leases with no break options.

Healthcare assets (54% of portfolio value)

The healthcare assets comprise 20 freehold private hospitals: a portfolio of 19 located throughout England let to a subsidiary of Ramsay Health Care Limited, the listed Australian healthcare company, and a property in central London let to Groupe Sinoué, a French company specialising in mental health. Passing rent on the healthcare portfolio is as follows:

	31 December 2016 £m	31 December 2015 £m
Acute hospitals guaranteed by Ramsay Health Care Limited	**45.6**	44.4
Lisson Grove psychiatric hospital guaranteed by Orpea SA	**1.9**	1.9
	47.5	46.3

The leases on the Ramsay hospitals are all guaranteed by Ramsay Health Care Limited, the listed parent company of one of the top five private hospital operators in the world and a constituent of the ASX 50 index of Australia's largest companies, with a market capitalisation at 8 March 2017 of £8.5 billion.

The Ramsay hospitals are let on full repairing and insuring leases with a term to expiry at 31 December 2016 of 20.4 years without break. The rent increases in May each year by a minimum of a fixed 2.75% per annum throughout the lease term. In addition, at Secure Income REIT's option, rent could be increased in May 2017 to the higher of a 2.75% per annum uplift or 57.525% of site earnings before interest, tax, depreciation, amortisation, rent and head office costs, and every fifth year thereafter to the higher of a 2.75% per annum uplift and open market rental value. As a result of the minimum fixed uplift, the passing rent on this sub-portfolio will increase to at least £46.9 million on 3 May 2017.

The lease on the London psychiatric hospital in Lisson Grove is guaranteed by Orpea SA, the listed 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 8 March 2017 of £4.3 billion. Orpea owns 45% of Groupe Sinoué, which is the parent company of the tenant.

The Lisson Grove hospital is let on a full repairing and insuring lease with a term to expiry at 31 December 2016 of 27.6 years without break. The rent increases in May each year by a fixed 3.0% per annum throughout the lease term. As a result, the passing rent on the property will increase from £1.9 million to £2.0 million on 3 May 2017.

Leisure assets (34% of portfolio value)

The leisure assets comprise four well known visitor attractions and two hotels, located in England and Germany, including two of the UK's top three theme parks. The UK assets are Alton Towers theme park and the Alton Towers hotel, Thorpe Park theme park and Warwick Castle, while the German assets are Heide Park theme park (the largest in Northern Germany) and the Heide Park hotel, both located in Soltau, Saxony. Passing rent on the leisure portfolio is as follows:

	31 December 2016 £m	31 December 2015 £m
UK	**25.5**	25.1
Germany (at 31 December 2016 exchange rate)	**5.9**	5.8
	31.4	30.9

The properties are all let to substantial operating subsidiaries of Merlin Entertainments Plc, the guarantor of the leases. Merlin is a FTSE 100 company with a market capitalisation at 8 March 2017 of £5.0 billion. Measured by the number of visitors, it is Europe's largest and the world's second largest operator of leisure attractions.

The average unexpired lease term of the leisure assets is 25.5 years without break and the tenants have two successive rights to renew these leases for 35 years at the end of each term. The leases are on full repairing and insuring terms. There are upwards only uncapped RPI-linked rent reviews every June throughout the term (based on RPI over the twelve months to April each year) for the UK leisure portfolio, which in 2016 resulted in an increase of 1.3%. The German properties are subject to fixed annual increases of 3.34% every July throughout the term, as a result of which the German rents will increase to £6.1 million on 29 July 2017 (translated at the 31 December 2016 exchange rate).

Hotel assets (12% of portfolio value)
The hotel assets comprise 55 Travelodge hotels, located in England and Scotland, let to Travelodge Hotels Limited which is the main operating company within the Travelodge Group trading in the UK, Ireland and Spain. Travelodge is the UK's second largest budget hotel brand, which owned 525 hotels and over 39,000 rooms as at 31 December 2015.

The average unexpired lease term is 26.3 years with no tenant break clauses, and the leases are on full repairing and insuring terms with Travelodge also responsible for reimbursing the Group for head lease rentals and any other amounts owing to the landlords of the 17 leasehold properties. There are upwards only uncapped RPI-linked rent reviews every five years throughout the term, the majority of which settled in October 2016 resulting in passing rent of £13.7 million at the balance sheet date.

Portfolio valuation yields at 31 December 2016

	UK	Germany	Total
Healthcare:			
Net initial yield	5.0%	–	5.0%
Running yield following May 2017 fixed uplifts*	5.1%	–	5.1%
Leisure:			
Net initial yield	5.2%	5.8%	5.3%
Running yield following June and July 2017 reviews and fixed uplifts†	5.3%	5.9%	5.5%
Hotels:			
Net initial yield	6.5%	–	6.5%
Running yield at 31 December 2016†	6.6%	–	6.6%
Total portfolio:			
Net initial yield	5.3%	5.8%	5.3%
Running yield by July 2017*†	5.4%	5.9%	5.4%
Weighted average unexpired lease term	23.0 years	25.1 years	23.1 years

* this takes no account of any uplift on the open market review
† assuming RPI linked rents increase in line with the estimates of the external valuers, which amounted to 2.0%

Portfolio valuation by location

	31 December 2016 £m	31 December 2015 £m
Healthcare		
England	**892.9**	834.4
Leisure		
England	**454.2**	441.6
Germany at constant Euro exchange rate	**82.6**	73.5
Movement in Euro exchange rate	**13.9**	–
Hotels		
England	**160.2**	–
Scotland	**37.9**	–
	1,641.7	1,349.5

Investment Adviser's Report continued

Portfolio valuation uplift in the year

Across the whole portfolio, there has been a valuation increase of £85.0 million before currency movements in the year. This figure includes the adverse impact of the increase in the rate of English SDLT from 4% to 5% during the year, which reduced the 2016 valuations by £11.9 million.

The healthcare valuations at 31 December 2016 reflect a weighted average net initial yield of 5.0% compared to 5.2% at 31 December 2015. Together with the 2.8% increase in passing rent and net of the increase in the SDLT rate, the result is a valuation uplift of £58.5 million (7.0%) in the year.

The UK leisure valuations at 31 December 2016 reflect a weighted average net initial yield of 5.2% compared to 5.4% at 31 December 2015. Together with the 1.3% increase in passing rent and net of the increase in the SDLT rate, the result is a valuation uplift of £12.6 million (2.9%) in the year. The German leisure valuations at 31 December 2016 reflect a weighted average net initial yield of 5.8% compared to 6.3% at 31 December 2015 which, together with the 3.34% increase in rent, resulted in a valuation uplift of €12.3 million (12.3%) in the year; currency translation movements have also increased the Sterling equivalent, resulting in a net Sterling valuation uplift of £22.9 million (31.2%) in the German leisure assets over the year.

The hotel valuations at 31 December 2016 reflect a weighted average net initial yield of 6.5%, resulting in a valuation uplift of £3.8 million (2.0%) over the cost of the portfolio, with rents unchanged between the completion of the acquisition in October 2016 and the balance sheet date.

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

	Year to 31 December 2016 £m	Year to 31 December 2015 £m
Investment property revaluation movement	**85.0**	83.4
Currency translation movements on Euro denominated investment properties	**12.8**	(4.0)
	97.8	79.4

In addition to these movements, a rent smoothing adjustment arises on investment property revaluations from the Group's accounting policy, consistent with International Financial Reporting Standards, to spread the impact of fixed rental uplifts evenly over the term of each relevant lease. The adjustments relate to those rents on the healthcare assets which increase by 2.75% (on 96% of healthcare rents) and 3.0% (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 2016 £m	**Maximum receivable at midway point £m**	**Midway point in lease term**
Healthcare – acute hospitals	137.3	165.2	May 2022
Healthcare – Lisson Grove	7.3	20.6	Nov 2025
German leisure*	28.8	40.3	Jan 2025
	173.4	**226.1**	

* at the year end Euro conversion rate of €1:£0.8583

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, increasing rental income and reducing property revaluation movements, and does not change the Group's net assets. The annual impact of this adjustment is known with certainty unless there are acquisitions, disposals or lease variations. The additional revenue and reduced valuation movement recognised during the year and for each of the next three financial years is as follows:

	Healthcare £m	German leisure* £m	Total £m
2016	10.6	2.2	**12.8**
2017	9.3	2.0	**11.3**
2018	7.9	1.8	**9.7**
2019	6.6	1.6	**8.2**

* at the 2016 average Euro conversion rate of €1:£0.8174

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 four ring-fenced subgroups. Each facility is self-contained, with no cross default provisions between the four of them. The weighted average interest cost is 5.1% per annum and the weighted average term to maturity is 7.5 years from 31 December 2016. Key terms of the facilities outstanding at 31 December 2016 are as follows:

	Healthcare	Healthcare	Leisure	Hotels
Loan principal at 31 December 2016	£218.8m	£312.2m	£378.4m*	£60.0m
Number of assets securing loan	9	11	6	55
Fixed interest rate	4.29%	5.30%	5.68%	2.71%
Annual cash amortisation assuming full covenant compliance	£1.0m	£3.2m	£3.7m (years 6 and 7)	None
Final repayment date	September 2025	October 2025	October 2022	October 2023

* comprising £316.8 million of senior and mezzanine Sterling loans secured on the UK assets and €71.8 million of senior and mezzanine Euro denominated loans secured on the German assets (translated at the year end exchange rate of €1:£0.8583) with all Leisure portfolio loans cross-collateralised. The amortisation in each of years six and seven of the loan term comprises £3.2 million on the Sterling facility and €0.7 million on the Euro facility.

The Group's gross and net debt at 31 December 2016 was as follows:

	Healthcare £m	Healthcare £m	Leisure £m	Hotels £m	Portfolio total £m	Unsecured £m	Group total £m
Gross debt	218.8	312.2	378.4*	60.0	969.4	–	969.4
Secured cash	(5.3)	(6.6)	(7.8)	(2.8)	(22.5)	–	(22.5)
Free cash	(0.2)	–	(1.7)	(4.0)	(5.9)	(62.6)	(68.5)
Net debt	**213.3**	**305.6**	**368.9**	**53.2**	**941.0**	**(62.6)**	**878.4**
Property valuation	**399.0**	**493.9**	**550.7**	**198.1**	**1,641.7**		**1,641.7**
Net LTV	**53.4%**	**61.9%**	**67.0%**	**26.9%**	**57.3%**		**53.5%**
Interest cover†	**226%**	**159%**	**146%**	**842%**	**189%**		

* including €71.8 million of Euro loans translated at the year end exchange rate of €1:£0.8583
† interest cover for these purposes is measured as current passing rent divided by current annualised interest cost

Following scheduled amortisation payments in January 2017, the total gross debt at the date of this report, including Euro denominated debt at the 31 December 2016 exchange rate, is £968.3 million. The extent of headroom on financial covenants at the balance sheet date is analysed in the business review on the following pages. There have been no defaults or potential defaults in any facility during the year or since the balance sheet date.

Investment Adviser's Report continued

Business review

Key performance indicator – Total Accounting Return

The principal financial outcome that the Board seeks to achieve is attractive growth in shareholder returns. The Board monitors both Total Accounting Return, which is the movement in EPRA NAV per share plus distributions, and Total Shareholder Return, which is the share price movement plus distributions. The principal focus for the Board is on Total Accounting Return.

The Group's EPRA NAV per share at 31 December 2016 was 323.6 pence, which represents a 14.4% increase over the year. This amounts to a 40.8 pence per share uplift which, together with 5.8 pence per share of dividends, totals a 46.6 pence per share Total Accounting Return, equivalent to a 16.5% return over the year.

	Year to 31 December 2016		Year to 31 December 2015	
	£m	**Pence per share**	£m	Pence per share
EPRA NAV at start of year	**510.1**	**282.8**	466.2	258.5
Investment property revaluation*	**85.0**	**39.2**	83.4	46.3
Net results: rental income* less administrative expenses and finance costs	**24.3**	**12.6**	13.3	7.4
Currency translation movements	**4.0**	**2.3**	(1.2)	(0.7)
Costs of secondary placing (March 2016)	**(2.0)**	**(1.1)**	–	–
October 2016 share placing:				
Gross proceeds	**140.0**	**–**	–	–
Costs	**(2.5)**	**(1.1)**	–	–
Distributions paid	**(12.0)**	**(5.8)**	–	–
Incentive fee – 1.5% dilution from shares to be issued	**(1.1)**	**(5.3)**	–	–
Profit on sale of investment properties	**–**	**–**	24.0	13.3
Tax: UK REIT excess interest charge	**–**	**–**	(1.3)	(0.8)
Early debt repayment costs	**–**	**–**	(74.3)	(41.2)
EPRA NAV at end of year	**745.9**	**323.6**	510.1	282.8
Growth in EPRA NAV	**235.8**	**40.8**	43.9	24.3
Dividends	**12.0**	**5.8**	–	–
Total Accounting Return	**247.8**	**46.6**	43.9	24.3
Total Accounting Return – percentage		**16.5%**		9.4%

* adjusted by 6.7 pence (2015: 7.2 pence) to remove from the gross rent and revaluation uplift amounts reported in the income statement of rent smoothing adjustments. These adjustments arise from the requirements of the accounting standards to spread the impact of fixed rental uplifts evenly over the term of relevant leases. The rent smoothing adjustments reflected in these financial statements increase rental income and reduce property valuation gains, and are adjusted in this table to better reflect the Group's actual rental income flows.

EPRA NAV takes the balance sheet measure of net asset value and excludes items that are considered to have no relevance to the assessment of long term performance. The Board considers EPRA NAV to be an appropriate measure as it provides for clearer and more consistent comparisons between the Company's performance and that of its peer group than the balance sheet measure of NAV.

In accordance with the EPRA guidance, to calculate EPRA NAV the Group's NAV is adjusted to exclude deferred tax on investment property revaluations relating to the German assets and is also adjusted for the dilutive impact of the shares to be issued in satisfaction of incentive fees payable in the period. The latter adjustment arises because, despite the incentive fee being accounted for in the results for the year, basic net asset value per share does not include the impact of the shares to be issued in satisfaction of that fee. EPRA NAV per share removes that apparent inconsistency and is reconciled to the balance sheet net asset value measured in accordance with IFRS in note 21 to the financial statements.

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

	Year to 31 December 2016		Year to 31 December 2015	
	£m	**Pence per share**	£m	Pence per share
NAV at start of year	**504.4**	**279.7**	344.3	190.9
Investment property revaluation*	**85.0**	**39.2**	83.4	46.3
Net results: rental income* less administrative expenses and finance costs	**24.3**	**12.5**	11.1	6.1
Currency translation movements	**3.0**	**1.7**	(0.9)	(0.5)
Costs of secondary placing (March 2016)	**(2.0)**	**(1.1)**	–	–
October 2016 share placing:				
Gross proceeds	**140.0**	**0.8**	–	–
Costs	**(2.5)**	**(1.1)**	–	–
Distributions paid	**(12.0)**	**(5.8)**	–	–
Incentive fee	**(1.1)**	**(0.6)**	–	–
Profit on sale of investment properties	**–**	**–**	24.0	13.3
Tax: deferred tax and UK REIT excess interest charge	**(1.7)**	**(0.8)**	(2.4)	(1.3)
Revaluation of interest rate swaps net of early debt repayment costs	**–**	**–**	44.9	24.9
NAV at end of year	**737.4**	**324.5**	504.4	279.7

* adjusted for rent smoothing as described on page 8

The key elements of the movements in net asset value presented under IFRS are substantially the same as those shown using the EPRA measure, with the principal differences being the exclusion of movements in deferred tax and interest rate swap revaluations from the EPRA measure, and the exclusion of the dilutive impact of the incentive fee share issue from the IFRS measure.

Key performance indicator – Adjusted EPRA earnings per share

The Company initiated quarterly payments of cash distributions to shareholders in August 2016 and its intention is to distribute its Adjusted EPRA EPS through payment of a fully covered cash dividend, paid quarterly.

EPRA EPS excludes from basic EPS any investment property revaluations, profits on the sale of investment properties, fair value movements in any interest rate derivatives and deferred tax, to give a measure of underlying earnings from core operating activities.

Adjusted EPRA EPS excludes any incentive fee (largely derived from investment property revaluations) and any significant non-recurring costs (namely the £2.0 million costs of the secondary placing in 2016). It is further adjusted to remove the effect of smoothing the fixed rental uplifts in order not to artificially flatter dividend cover calculations.

The Group's earnings per share measured in accordance with IFRS is reconciled to EPRA EPS and to Adjusted EPRA EPS in note 9 to the financial statements.

Investment Adviser's Report continued

The composition of the EPRA EPS measures is as follows:

	Year to 31 December 2016 £m	Year to 31 December 2016 Pence per share	Year to 31 December 2015 £m	Year to 31 December 2015 Pence per share
Rental income net of property outgoings:				
Portfolio owned throughout the period	**90.7**	**47.6**	88.6	49.1
Hotels portfolio purchased in October 2016	**2.4**	**1.1**	–	–
Properties sold in 2015	**–**	**–**	10.8	6.0
Net finance costs	**(49.6)**	**(25.9)**	(72.3)	(40.0)
Administrative expenses and corporate costs	**(11.1)**	**(5.8)**	(8.1)	(4.5)
Incentive fee and irrecoverable VAT thereon	**(10.5)**	**(5.5)**	–	–
Tax	**–**	**–**	(1.3)	(0.8)
EPRA earnings	**21.9**	**11.5**	17.7	9.8
Rent smoothing	**(12.8)**	**(6.7)**	(13.0)	(7.2)
Incentive fee	**10.5**	**5.5**	–	–
One-off costs of secondary share placing	**2.0**	**1.0**	–	–
Adjusted EPRA earnings	**21.6**	**11.3**	4.7	2.6

Since the Group's financing costs changed materially as a result of the refinancing in 2015, the table below shows adjusted EPRA EPS before and after completion of the refinancing.

	Year to 31 December 2016 Pence per share	Year to 31 December 2015 Pence per share
Rental income net of property outgoings, excluding rent smoothing	**42.0**	11.1
Net finance costs	**(25.9)**	(6.8)
Administrative expenses and corporate costs	**(4.8)**	(1.1)
Adjusted EPRA EPS since completion of refinancing*	**11.3**	3.2
Rental income net of property outgoings, excluding rent smoothing	**–**	36.8
Net finance costs	**–**	(33.2)
Administrative expenses and corporate costs	**–**	(3.4)
Tax	**–**	(0.8)
Adjusted EPRA EPS prior to completion of refinancing*	**–**	(0.6)
Adjusted EPRA EPS for the year	**11.3**	2.6

* completion of final tranche of refinancing on 2 October 2015

Adjusted EPS was 5.4 pence per share in the first half of the year and 5.9 pence per share in the second half. Quarterly cash dividend payments were initiated in August 2016 and two quarterly dividends totalling 5.8 pence per share were paid during the latter half of the year.

The Group's basic EPS, calculated in accordance with IFRS and without the EPRA adjustments, amounts to 48.2 pence per share in the year and 20.4 pence per share in the prior year. The IFRS measure is substantially higher in each of these years as it includes the impact of the investment property revaluations which amounted to 37.7 pence per share in 2016 and 39.1 pence per share in 2015. Basic EPS in 2015 also included 13.3 pence per share from profits on disposals of investment properties and a cost of 41.2 pence per share of early debt repayment costs incurred in connection with the 2015 refinancing.

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

Adjusted EPRA EPS – administrative expenses

As an externally managed business, the majority of the Group's overheads are covered by the advisory fees paid to the Investment Adviser. It is the Investment Adviser that then meets all office running costs and remuneration for the whole management and support team. In addition, in years where returns to investors have exceeded a benchmark (which is a compound growth rate of 10% per annum above the EPRA NAV the last time any incentive fee was paid, which in 2016 is a threshold EPRA NAV of 307.7 pence per share at 31 December 2016), the Investment Adviser receives 20% of the surplus above that priority return to shareholders. The Investment Adviser's share of the surplus is paid by way of an incentive fee, payable in shares following publication of the Group's audited annual results. Any such shares received are not permitted to be sold, save in certain limited circumstances, for a period of between 18 and 42 months following the end of the year for which they were earned.

The total of the Group's administrative expenses for the year was as follows:

	Year to 31 December 2016		Year to 31 December 2015	
	£m	**Pence per share**	£m	Pence per share
Advisory fees	**7.8**	**4.1**	6.9	3.8
Other recurring administrative expenses	**0.7**	**0.4**	0.7	0.4
Corporate costs	**0.6**	**0.3**	0.5	0.3
Recurring administrative expenses	**9.1**	**4.8**	8.1	4.5
Costs of the March 2016 secondary placing	**2.0**	**1.0**	–	–
Incentive fee payable in shares	**9.4**	**4.9**	–	–
VAT on incentive fee payable in cash	**1.1**	**0.6**	–	–
Administrative expenses for the year	**21.6**	**11.3**	8.1	4.5

The advisory fees payable to the Investment Adviser are calculated on a sliding scale based on the Group's EPRA NAV. Fees are payable at 1.25% per annum on EPRA NAV up to £500 million, plus 1.0% on EPRA NAV from £500 million to £1 billion plus 0.75% thereafter. The fee for the 2016 year amounted to £7.0 million plus VAT (2015: £6.5 million plus VAT). The annualised fee payable on the Group's EPRA NAV at 31 December 2016 would be £8.7 million plus VAT (a total cost of c. £9.6 million) in the theoretical situation where the Group's EPRA NAV remained constant throughout the year.

Until July 2016, the cash required to satisfy the advisory fee was subsidised by the pre-listing shareholders of the Company up to a maximum of £1.3 million per quarter. During the year, £2.8 million of the cash required to fund advisory fee payments was met by those shareholders. There are no further cash contributions due to subsidise the fees.

The other recurring administrative expenses are principally professional fees, including tax compliance and audit fees, which are billed directly to Group companies.

Because VAT cannot be applied to the rents on the Healthcare assets, there is an element of irrecoverable VAT incurred on the Group's running costs and included within the relevant line item in the table above. The proportion of VAT on general running costs disallowed averaged 59% during the year and is currently 51%.

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

- the cost of the four Independent Directors, whose fees totalled £0.2 million in the year (2015: £0.2 million) with the other three Directors being partners in the Investment Adviser and receiving no remuneration from the Company; and
- other costs of being listed, such as the fees of the Nominated Adviser required under AIM Rules, registrar fees and ongoing AIM listing fees, which amounted to £0.4 million in the year.

Investment Adviser's Report continued

Adjusted EPRA EPS – net financing costs
Finance costs are analysed between the current debt facilities and those in place before the 2015 refinancing as follows:

	Year to 31 December 2016		Year to 31 December 2015	
	£m	Pence per share	£m	Pence per share
Interest payable on facilities in place at 31 December 2016	**48.0**	**25.1**	12.5	6.9
Amortisation of costs of arranging facilities in place at 31 December 2016 (non-cash)	**1.7**	**0.9**	0.5	0.3
Finance costs on facilities in place at 31 December 2016	**49.7**	**26.0**	13.0	7.2
Finance costs on previous facilities	**–**	**–**	59.4	32.8
Interest income on cash deposits	**(0.1)**	**(0.1)**	(0.1)	–
Net finance costs for the year	**49.6**	**25.9**	72.3	40.0

The average interest rate paid during the year was 5.2% per annum (2015: 6.4% per annum) and the weighted average is currently 5.1% per annum. The Group's interest costs on all secured facilities are at fixed rates throughout their terms, providing certainty over the term of each facility of the Group's largest expense item.

Adjusted EPRA EPS – currency translation
The majority of the Group's assets are located in the UK and the financial statements are therefore presented in Sterling. 4.7% (2015: 4.2%) of the Group's EPRA NAV comprises assets and liabilities relating to properties located in Germany, valued in and generating net earnings in Euro. The fact that property assets and the secured debt are Euro denominated acts as a partial hedge of the currency risk, but the Group remains exposed to translation differences on the net results and net assets of these operations which are not hedged, with movements recognised in the statement of other comprehensive income.

The German properties are valued at €112.4 million as at 31 December 2016, with the Euro denominated secured debt amounting to €71.8 million. The Euro strengthened against Sterling over the year by nearly 17% and as a result there was a net currency translation gain of £4.1 million in EPRA NAV in relation to the German operations (2015: loss of £1.2 million).

Adjusted EPRA EPS – tax
The Group operates under the UK REIT regime, so its UK and German rental operations (which make up the majority of the Group's earnings) are exempt from UK corporation tax, subject to the Group's continuing compliance with the UK REIT rules. The Group is otherwise subject to UK corporation tax.

German tax is payable on realised profits from the Group's German rental operations and the resulting tax charge for the year was £0.2 million (2015: £0.2 million). The balance sheet also includes a deferred tax liability of £8.5 million (2015: £5.7 million) relating to unrealised German capital gains tax on the investment properties which would only be crystallised on a sale of those assets. There are currently no plans to sell any of the Group's assets.

UK REIT rules restrict the extent to which financing costs are treated as tax deductible against profits. In the prior year the Group incurred a tax charge of £1.3 million on such excess interest. Following the refinancing in October 2015, this interest cover test has been met and there was therefore no UK tax charge for the 2016 financial year.

Key performance indicator – Net Loan To Value ratio
The Board monitors the Group's Net Loan To Value ratio with a view to creating a capital structure that will withstand varying market conditions. During 2016, the Net LTV fell from 61.0% to 53.5% reflecting the impact of both the acquisition of the Travelodge portfolio at a lower LTV than the existing portfolio and the property valuation uplifts in the year.

Key performance indicator – headroom on debt covenants

The extent to which financial covenants are tested varies amongst the four credit facilities. In order to provide the required robustness of the capital structure, debt covenants have been negotiated with the aim of protecting the Group as far as possible from movements in investment property valuations which are not related to changes in the rental cash flows:

- the £312.2 million Healthcare facility and the £60.0 million Hotels facility, which together account for 38% of gross secured debt, are subject to LTV and interest cover tests throughout the loan term;
- the £218.8 million Healthcare facility, 23% of total gross secured debt, is not tested for LTV until September 2019 and is subject to an interest cover cash trap test throughout the loan term; and
- the £378.4 million Leisure facilities, which account for 39% of total secured debt, are not subject to any LTV default covenant or interest cover tests throughout the loan term, though there are LTV levels which could trigger a cash trap or full cash sweep from August 2018.

The Board reviews the headroom on all financial covenants at least quarterly. The headroom on key financial covenants at 31 December 2016 is set out below, together with the net initial valuation yield, the fall in valuation or the fall in projected rent that would trigger the relevant covenant at the first test date:

	Actual at 31 December 2016	Covenant	Initial yield triggering LTV test*	Valuation headroom on LTV test	Rental headroom over ICR test
Leisure facilities (£378.4 million loans at 31 December 2016)					
Cash trap LTV test (from August 2018 – 1% per annum loan amortisation if triggered)	69%	<80.0%	6.7%	14%	
Cash trap LTV test (from August 2018 – full cash sweep if triggered)	69%	<85.0%	7.1%	19%	
Healthcare facility (£218.8 million loan at 31 December 2016)					
LTV test (from September 2019)	55%	<80.0%	8.0%	31%	
Cash trap projected debt service cover test (full cash sweep if triggered)	207%	>150%			27%
Healthcare facility (£312.2 million loan at 31 December 2016)					
Cash trap LTV test (full cash sweep if triggered)	63%	<80.0%	6.3%	21%	
LTV test	63%	<85.0%	6.7%	26%	
Cash trap projected interest cover test (full cash sweep if triggered)	164%	>140%			15%
Projected interest cover test	164%	>120%			27%
Historic interest cover test	158%	>120%			25%
Hotels facility (£60.0 million loan at 31 December 2016)					
Partial cash trap LTV test (50% of surplus cash swept to lender if triggered)	30%	Between 40% and 45%	8.5%	24%	
Cash trap LTV test (full cash sweep if triggered)	30%	<45%	9.6%	33%	
LTV test	30%	<50%	10.7%	39%	
Cash trap projected interest cover test (full cash sweep if triggered)	843%	>300%			64%
Projected interest cover test	843%	>250%			70%
Cash trap historic interest cover test (full cash sweep if triggered)	816%	>300%			63%
Historic interest cover test	816%	>250%			69%

* assuming RPI linked rents increase in line with the RPI swap curve as at 3 March 2017

Investment Adviser's Report continued

Key performance indicator – uncommitted cash

The Board considers that the ability to manage potential debt covenant breaches is at least as important as the level of the Net LTV ratio. The Group has negotiated headroom on financial covenants considered appropriate to the business and also certain cure rights, including the ability to inject cash into ring-fenced financing structures in the event of actual or prospective breaches of LTV covenants. Consequently, along with managing the execution risk inherent in arranging and documenting credit facilities, the Board regularly monitors the Group's levels of uncommitted cash. Uncommitted cash is measured as cash balances outside ring-fenced structures secured to lenders, net of any creditors or other cash commitments and net of any cash required to be retained under the regulatory capital rules of the AIFMD regime.

The Group's uncommitted cash was £64.3 million as at 31 December 2016, compared to £52.7 million as at 31 December 2015.

Cash flow

The movement in cash over the year comprised:

	Year to 31 December 2016		Year to 31 December 2015	
	£m	**Pence per share**	£m	Pence per share
Cash from operating activities	**74.4**	**38.9**	69.8	38.7
Net interest and finance costs paid	**(48.9)**	**(25.6)**	(86.7)	(48.1)
Repayment of secured debt – scheduled amortisation	**(4.4)**	**(2.3)**	(5.4)	(3.0)
Issue of ordinary shares net of costs	**137.5**	**60.5**	–	–
Loan drawn down	**60.0**	**26.4**		
Loan costs paid on new facilities	**(1.6)**	**(0.8)**	(14.4)	(8.0)
Acquisition of investment properties	**(196.0)**	**(86.3)**	–	–
Costs of the secondary share placing	**(2.0)**	**(1.1)**	–	–
Amounts received in respect of advisory fee subsidy from pre-listing investors	**2.8**	**1.6**	5.0	2.8
Dividends paid	**(12.0)**	**(5.8)**		
Sale of investment properties	**–**	**–**	379.3	210.3
Accelerated repayment of secured debt on refinancing	**–**	**–**	(244.4)	(135.5)
Early debt repayment costs	**–**	**–**	(60.3)	(33.4)
Cash flow in the year	**9.8**	**5.5**	42.9	23.8
Cash at the start of the year	**81.6**	**45.3**	38.8	23.0
Effect of exchange rate movements	**0.3**	**0.2**	(0.1)	–
Dilution from share issue	**–**	**(10.7)**	–	(1.5)
Cash at the end of the year	**91.7**	**40.3**	81.6	45.3

Comprising:	**£m**	**Pence per share**	£m	Pence per share
Free cash	**68.5**	**30.1**	55.6	30.9
Cash secured under lending facilities	**22.5**	**9.9**	25.6	14.2
Cash reserved for regulatory capital	**0.7**	**0.3**	0.4	0.2
Cash at the end of the year	**91.7**	**40.3**	81.6	45.3

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, no capital expenditure, property maintenance or insurance costs have been incurred and it is not expected that material costs of that nature will be incurred on the portfolio in future.

Nick Leslau
Chairman, Prestbury Investments LLP
9 March 2017

Strategic Review

Strategy and investment policy

The Group specialises in generating secure long term income streams from real estate investments and its policy is to distribute earnings by way of fully covered quarterly cash dividends.

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 further build a substantial diversified long term income portfolio providing stable and growing income and capital returns for its shareholders.

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 portfolio held at 31 December 2016 comprises 81 assets: 64 held freehold and 17 leasehold investment properties let for a weighted average term of 23.1 years from 31 December 2016 with no break options. All properties are fully let on full repairing and insuring leases. 42% of the current income is subject to RPI linked upwards only rent reviews (the majority of it on an annual review cycle) and 58% is subject to minimum fixed annual uplifts.

Income security is assessed by reference either to the financial strength of the tenants or to the extent of asset cover provided by way of residual asset value.

The Board believes that the Company offers attractive geared returns from high quality real estate, with financially strong tenants operating with well established brands in industry sectors with strong defensive characteristics. Having listed in 2014 and refinanced the Group's entire secured debt in 2015 to reduce the cost of debt and extend its term to maturity, in 2016 the Board has built on the existing portfolio through the £196 million acquisition of 55 Travelodge hotels.

The Board's intention is for the Company to continue to hold a diversified portfolio of long term, secure income streams from real estate investments across a range of property sectors, enhancing prospects for attractive total returns through earnings accretive acquisitions.

The Board believes that it will be able to seek acquisition opportunities from a range of sources including operating businesses, non-REITs with latent capital gains fettering sale prospects, and opportunities where the Company's shares may be used as currency to unlock value. Throughout this process, the Directors' intention is to exercise strong capital discipline, using equity accretively and debt prudently to enhance returns for shareholders.

Lisson Grove hospital

Oxford Peartree Travelodge

Strategic Review continued

Principal risks and uncertainties

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

Risk and change in assessment since prior year	Impact on the Group	Mitigation
Property valuation movements The Group invests in commercial property and so is exposed to movements in property valuations which are subjective and may vary as a result of a variety of factors, many of which are outside the control of the Board. No change since prior year.	Investment properties make up the majority of the Group's assets, so changes in their value can have a significant impact on EPRA NAV, with valuation changes magnified by the impact of gearing. The Board notes the relative resilience in value demonstrated by the Group's assets through the wider capital market declines of 2008 to 2011.	The Group uses experienced external valuers whose work is reviewed by suitably qualified members of the Investment Adviser and the Audit Committee before being considered in the context of the accounts as a whole by the Audit Committee and the Board. The Board seeks to structure the Group's capital such that gearing is appropriate having regard to market conditions and LTV covenant levels, with appropriate cure rights within debt facilities.
Tenant risk During the year the Group derived its rental income from four tenant groups, three of which have the benefit of parent company guarantors. The two largest tenant groups account for 83% of passing rent as at the balance sheet date (2015: 98%). Although the Board considers the tenant and guarantor groups to be financially strong, there can be no guarantee that they will remain able to comply with their obligations throughout the term of the relevant leases, and will not suffer any insolvency events. No change since prior year.	A default of lease obligations would have a material impact on the Group's revenue and hence its EPRA EPS. The specialised use of the properties may mean that re-letting takes time. Investment property valuations reflect a valuer's assessment of the future security of income. A loss of income would therefore impact EPRA NAV. It could also result in penalties, restricted cash flows out of secured debt groups or ultimately default under secured debt agreements.	85% of current rental income is contractually backed by large listed companies with capital structures considered by the Board to be strong and with impressive long term earnings growth and share price track records. The balance of the income is payable by a substantial private business also considered by the Board to be financially strong in the context of the lease obligations. The Board reviews the financial position of the tenants and guarantors at least every quarter, based on publicly available financial information and any other trading information which may be obtained either under the terms of the leases or informally.

Risk and change in assessment since prior year	Impact on the Group	Mitigation
Borrowing Certain Group companies have granted security to lenders in the form of mortgages over all of the Group's investment property and fixed and floating charges over certain other assets. No change since prior year.	In the event of a breach of a debt covenant, the Group may be required to pay higher interest costs, to increase debt amortisation out of free cash flow arising on a particular portfolio or to make early repayment of debt, which would affect cash flows and EPRA EPS. In certain circumstances the Company's ability to make cash distributions to shareholders may be reduced or curtailed. Where a Group company is unable to make loan repayments out of existing cash resources, it may be forced to sell assets to repay part or all of the Group's debt. It may be necessary to sell assets at below book value, which would impact EPRA NAV. Early debt repayments are likely to crystallise early repayment penalties which would also impact EPRA NAV.	The Group's borrowing arrangements comprise four ring-fenced subgroups with no cross-guarantees between them and no recourse to other assets outside the secured subgroups. Two facilities have an annual LTV default covenant and another has a default LTV covenant starting in September 2019. One has no LTV default tests. Group borrowing arrangements also include interest cover or debt service cover tests which are in the main tested quarterly. The Board reviews compliance with all financial covenants at least every quarter, including look forward tests for at least twelve months, and considers whether there is sufficient headroom on relevant loan covenants. The Board reserves unsecured cash outside ring-fenced debt structures which would be available to be used to cure certain covenant defaults to the extent of the uncommitted cash available.
Exchange rate risk The Group prepares its financial statements in Sterling but some of its assets are located in Germany, where its assets and liabilities are largely Euro denominated. The surplus of Euro denominated asset value over liability value is subject to fluctuations from exchange rate movements. This currency exposure is not hedged. No change since prior year.	There could be an adverse impact on the Sterling valuation of unhedged investments and income flows, which would affect cash flows, EPRA NAV and EPRA EPS.	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 exchange rate amounts to 4.7% of EPRA NAV as at 31 December 2016 (2015: 4.2%).
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 result in property income being subject to UK corporation tax. Reduced following the widening of the shareholder base in 2016 to meet the REIT requirement of not being a close company.	If subject to UK corporation tax, the Group's current tax charge would increase, impacting cash flows, EPRA NAV and EPRA EPS, and reducing cash available for distributions.	The Board reviews compliance with the UK REIT rules at least every quarter.

Principal risks and uncertainties continued

Risk and change in assessment since prior year	Impact on the Group	Mitigation
Liquidity risk Working capital must be managed to ensure that both the Group as a whole and all individual entities are able to meet their liabilities as they fall due. With highly predictable income and costs, there is limited scope for unexpected liquidity pressures outside the tenant risks noted above. However, there is a risk that the OECD's Base Erosion and Profit Shifting ("BEPS") proposals could affect the Group's cash flows. Reduced since prior year as the UK's legislative response to the BEPS proposals has now been published in draft and while there remains a risk that the final legislation will have an impact on the Group's ability to treat all interest as deductible, at this stage it is considered unlikely that there will be a material impact on the Group.	A breach of a lending 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, and reducing cash available for distributions. BEPS proposals could be implemented in such a way as to increase the Group's Property Income Distribution ("PID") requirement beyond the surplus cash flow available. It is, however, considered unlikely that the recently published draft legislation would increase the PID requirement so as to exceed the current level of anticipated cash distributions.	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 at least quarterly; projections at least two years ahead are included in the Group budget and are updated for review when the interim and annual reports are approved. The Group has uncommitted cash reserves out of which increases in required PIDs above the cash flow generated from operations could be met in the medium term, or a scrip dividend alternative could be offered.

The last twelve months have seen increased volatility and uncertainty in UK and global markets, including following the UK's vote to leave the EU, the ultimate impact of which is still unknown. This has at times created volatility and uncertainty in equity, debt, property and foreign exchange markets. Delivery of the Group's growth aspirations depends on access to capital markets and external factors including market volatility can have an impact on the ability to implement this strategy. However, given the Group's long term income profile and its fixed rate debt, such conditions are unlikely to have a material impact on the status quo.

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 scenarios for the Group's future 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.

Viability statement

The Board has assessed the prospects of the Group over the five year period from the balance sheet date to December 2021, which is the period covered by the Group's longer term financial projections. The Board considers the resilience of projected liquidity, as well as compliance with secured debt covenants and UK REIT rules, under a range of RPI and property valuation assumptions.

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

Risk	Assumption
Tenant risk	Tenants continue to comply with their rental obligations over the term of their leases and do not suffer any insolvency events over the term of the review.
Borrowing risk	The Group continues to comply with all relevant loan covenants.
Liquidity risk	The Group continues to generate sufficient cash to cover its costs while retaining the ability to make distributions.

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

The Strategic Report, which comprises the Chairman's Statement, Investment Adviser's Report and Strategic Review, was signed on behalf of the Board on 9 March 2017.

Martin Moore
Chairman

Sandy Gumm
Director

Ashtead hospital

Alton Towers hotel

Board of Directors

Martin Moore
Chairman

Martin Moore, 60, MRICS, is a Chartered Surveyor who served as CEO of M&G Real Estate Limited (previously Prudential Property Investment Managers Limited) from 1996 to 2012. During that time, he ran the team and was responsible for setting 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 a Non-executive Director of SEGRO Plc, F&C Commercial Property Trust Limited and the M&G Asia Property Fund. He is also a Commissioner of Historic England 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
Non-executive Director

Mike Brown, 56, BSc (Land Man) MRICS, 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 its investment and trading activities from 1998 to 2009, and a Director of Threadneedle Property Fund Managers, running their largest property fund from 1992 to 1998. Mike is also Chairman of the Property Advisory Committee to Weybourne Partners.

Leslie Ferrar
Independent Non-executive Director; Chairman of the Audit Committee

Leslie Ferrar, 61, CVO, FCA, BSc, is Non-executive Chairman of The Risk Advisory Group, 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
Non-executive Director

Sandy Gumm, 50, BEc, CA (ANZ), 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 KPMG for nine years in Sydney and London before becoming Group Financial Controller of Burford Holdings Plc in 1995. She was appointed Finance Director at the time that Prestbury Group Plc was established in 1997 and became its Chief Operating Officer in 2007.

Jonathan Lane
Independent Non-executive Director; Chairman of the Nominations Committee

Jonathan Lane, 58, MA, 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 Europe and is on the Advisory Board of Resolution Real Estate Advisors LLP. He is a Director and Trustee of the Tenebrae Choir, 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 UK Government's Property Unit 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
Non-executive Director

Nick Leslau, 57, BSc (Hons) Est Man, FRICS, 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 October 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
Independent Non-executive Director; Senior Independent Director; Chairman of the Remuneration Committee

Ian Marcus, 58, MA, FRICS, is a former 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, Former Chairman of The Prince's Regeneration Trust and a member of Redevco's Advisory Board. He is the Senior Independent Non-executive Director of The Crown Estate and a Non-executive Director of 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

Tim Evans, Mike Brown, Sandy Gumm, Nick Leslau and Ben Walford
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. They have a strong track record of successfully creating value for shareholders through previous economic cycles.

Biographies for Mike Brown, Sandy Gumm and Nick Leslau are presented on pages 20 and 21.

Tim Evans

Tim Evans, 48, 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, 38, 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 partner in Prestbury in 2011. Ben has a wealth of experience in property investment, refurbishment and design.

Corporate Governance Report

Corporate Governance Code

The Directors consider it important that appropriately high standards of corporate governance are maintained. As the Company is listed on AIM, it is not required to comply with the UK Corporate Governance Code (the "Code") and therefore this report does not describe compliance with or departures from the Code. However, the Directors have had reference to the Code in determining the policies and procedures considered appropriate by the Board having regard to the size and nature of the Group.

Leadership

The role of the Board

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

- competent and prudent management;
- sound planning;
- maintenance of appropriate 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 corrective action considered necessary 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. 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 Directors independent of the Investment Adviser outnumbering the representatives of the Investment Adviser. There were four scheduled quarterly meetings and seven additional meetings during the year.

Details of Directors' attendance at each of the scheduled Board and committee meetings during the year are set out below.

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

All Directors attended the Company's Annual General Meeting.

Corporate Governance Report continued

Division of responsibilities

The Chairman is responsible for overseeing 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. 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 and Prestbury has only a very limited ability to transact business for the UK companies within 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 (including related hedging instruments) in respect of an investment opportunity or existing investment, in each case only where the impact does not exceed either a net asset value of £10 million or a gross asset value of £20 million. 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 were 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 during the current or prior year and up to the date of this report.

The Chairman

As Chairman, Martin Moore sets the Board's agenda and ensures that adequate time is available for discussion of all agenda items, including strategic issues in particular. 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. Martin Moore is, however, independent of the Investment Adviser.

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 (including the Directors connected to the Investment Adviser) 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 is independent of the Investment Adviser.

Appointments to the Board

The Board as a whole is responsible for ensuring adequate succession planning so as to maintain an appropriate balance of skills on the Board. 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 Nominations Committee consists of three Directors appointed by the Board: Jonathan Lane, Nick Leslau and Mike Brown, whose biographies are shown on pages 20 and 21. It is chaired by Jonathan Lane.

Only members of the Nominations Committee have the right to attend meetings of the Committee but other individuals such as the Company Secretary and external advisers may be invited to attend 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 Annual General Meeting to answer any shareholder questions about the Committee's activities.

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

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

- formulating plans for succession for 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 chairmen of those committees;
- the reappointment of any Director at the conclusion of their specified term of office having given due regard to their performance and ability to continue to contribute to the Board in the light of knowledge, skills and experience required;
- the re-election by shareholders of Directors under the annual re-election provisions of the 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.

There have been no Board vacancies during the year and up to the date of this report.

Evaluation

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

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. The evaluation of Prestbury's effectiveness as Investment Adviser is carried out by the Directors who are independent of Prestbury.

Corporate Governance Report continued

Reporting
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 to shareholders.

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 remain 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 20 and 21.

Development
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.

Insurance
Directors' and Officers' Liability Insurance cover of £15 million is maintained by the Company.

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. Any Independent Director who has held office for nine or more consecutive years is also required by the Articles of Association of the Company to stand down and offer himself or herself for re-election at each AGM. 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 and in the Notice of Annual General Meeting and accompanying explanatory notes.

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 includes an explanation of how the Company aims to generate or preserve value in the long term. The information is included in the Strategic Report on pages 2 to 19.

A description of the Directors' responsibilities regarding the financial statements is set out in the Directors' Report on page 35 and a description of the auditors' responsibilities is set out on page 36. Statements of the status of the Company as a going concern and its longer term viability are summarised below and set out in the Strategic Review on page 19.

Risk management and internal control
The Board is responsible for financial reporting and controls, including 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 year 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 16 to 18.

In light of the Group's current position and principal risks, the Board has assessed the prospects of the Group for a period of twelve 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 under various scenarios. 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 has also assessed the prospects of the Group over a longer period than the going concern review, and has a reasonable expectation that the Group will be able to continue in business over the five year period examined in that assessment.

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 year 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, whose biographies are shown on pages 20 and 21. 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 personnel from the Investment Adviser are invited to attend meetings and the Company Secretary and other non-members may be invited to attend all or part of any meeting as and when appropriate. The Committee chairman reports formally to the Board on proceedings after each meeting on all matters within the Committee's duties and responsibilities, and demonstrates how it has discharged those responsibilities.

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

More detail on the activities of the Audit Committee during the year is provided in the Audit Committee Report on pages 29 to 31.

Remuneration

The Board has established a Remuneration Committee. Its members are three Independent Directors: Ian Marcus, Leslie Ferrar and Martin Moore, whose biographies are shown on pages 20 and 21, and it 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. 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 AGM to answer any questions about the Committee's activities. The report of the Remuneration Committee to shareholders is included on pages 32 and 33.

The Board considers the performance of all Directors and the appropriateness of their level of remuneration each year, having regard to the time commitment and responsibilities involved. The assessment of the performance of the Chairman is determined by the other Directors. 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 Committee monitors the ongoing appropriateness of these arrangements.

The Board takes all reasonable steps to ensure compliance by the Directors with the provisions of 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
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 the Annual 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 or other information requires disclosure, to the London Stock Exchange and on the Company's website. Any material presentations to investors are made available on the Company's website.

In order to assist with communications to shareholders and to ensure compliance with AIM Rules, Stifel Nicolaus Europe Limited acts 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 it 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 quarterly and more often as appropriate.

All members of the Board are available to meet with investors as and when required. In practice, Board members connected with the Investment Adviser generally meet with investors and the Board considers that the provision of independent feedback to the Board through the Company's brokers and, where appropriate, directly from investors 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 Annual General Meeting.

Constructive use of the AGM
The AGM will be held on 7 June 2017 and gives all shareholders the opportunity to meet the Board and to vote on the resolutions proposed. All Directors attend the AGM and are available to answer questions. The Notice of Meeting and explanatory notes are included in this annual report on pages 72 to 75.

Signed on behalf of the Board on 9 March 2017.

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 financial statements 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 from year to year and across the Group;
- the methods used to account for significant or unusual transactions where different approaches are possible;
- whether the Group and Company have 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 Group's and 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 whether, taken as a whole, they are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy. The other key responsibilities of the Audit Committee are:

- overseeing the relationship with the 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, regulatory matters or other relevant 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 to 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 while remaining reasonably consistent with other similar real estate companies. Where the auditors undertake non-audit work, the Committee considers whether that work could be detrimental to the independence of the auditors. The Committee also 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 to the Group and any services to the Investment Adviser.

Composition of the Audit Committee

The Audit Committee currently comprises Leslie Ferrar, Jonathan Lane and Ian Marcus, whose biographies are shown on pages 20 and 21, and is chaired by Leslie Ferrar. The Committee has assessed whether its members have the requisite skills to carry out their role and believes that the composition of the Committee remains appropriate.

Meetings of the Audit Committee

The Audit Committee met twice during the year. Meetings were held just prior to the 2016 interim results announcement and after the 2015 audit at the reporting stage. Both meetings were attended by all members of the Committee.

Audit Committee Report continued

External audit

BDO LLP were appointed auditors of the Company on 10 August 2007. The audit partner is Geraint Jones, who became senior statutory auditor after the finalisation of the 2015 financial statements.

The Committee met formally with the auditors at each Committee meeting during the year. Part of each meeting took place without the Investment Adviser being present to discuss any issues arising relating to them. 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 potential adjustments, if any, identified during the audit;
- an assessment of the overall control environment; and
- an assessment of the effectiveness of the audit process.

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. There are therefore currently no plans for re-tendering the audit. 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.

The total fees charged by the auditors to the Group during the year were £687,000, as disclosed in note 6 to the Group financial statements. This total includes £488,000 of non-audit work during the year largely relating to their work as Reporting Accountants in connection with the Company's share placing in March 2016. Such work is, in the Committee's view, most effectively and cost-efficiently carried out by the auditors and is not considered a threat to their independence. The majority of the balance of £199,000 relates to fees for the audit and the interim review.

The Committee has approved a policy for non-audit services, which aims to comply with the requirements of the FRC's Revised Ethical Standard 2016 applicable to public interest entities. Non-audit services may not be carried out by the auditors if they are considered to have a direct effect on the financial statements or an indirect effect that is not inconsequential.

The Committee has also reviewed audit and any other 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.

Risk management and internal control

During the year, the Audit Committee reviewed the Group's risk register, which is maintained by the Investment Adviser subject to the supervision and oversight of the Committee. Taking into account that review, together with its review of the Group's internal controls and its knowledge of the business, the Committee has reviewed and approved any statements included in the annual report concerning internal controls and risk management. A summary of the risk register is reviewed at least annually by the Board.

The Audit Committee has reviewed the adequacy of the Company's arrangements for any relevant party to raise concerns, in confidence, about possible wrongdoing in financial reporting, regulatory or other relevant matters. The Committee considers that these 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.

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 • Investment Adviser's Report (pages 5 to 7) • Strategic Review risks and uncertainties (page 16) • Note 10 to the Group financial statements	Investment properties make up the majority of the Group's assets. Investment property valuations are inherently subjective, but the Group operates in mature and liquid property markets in the UK and Germany, jurisdictions with well-developed valuation processes and methodologies. The opinion of 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 ("CBRE") and Jones Lang LaSalle Limited ("JLL"), both of which the Audit Committee believes to be suitably independent, competent and experienced to carry out the work on the portfolios valued by each of them. The Committee attended meetings between the auditors and (separately) CBRE and JLL which included detailed discussions of material fair value changes and a comparison of changes to external sources such as the Investment Property Databank. The meetings also included a review of current conditions and recent, relevant transactions to provide a context for the valuations and to allow an assessment of the assumptions and judgements made by CBRE and JLL. The Committee's intention is to continue to meet with the valuers in future to discuss their valuations. The Committee considered that the inputs provided by the Group to CBRE and JLL 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 note 10 to the financial statements and believes that it meets the requirements of IFRS 13.
Going concern • Strategic Review (page 19) • Corporate Governance Report (page 26) • Note 2b to the Group financial statements	The Board is required to consider whether the Group has adequate resources to continue in operational existence for the foreseeable future, which is typically considered to be at least twelve 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 March 2018. As a result, the Committee has concluded that the going concern basis remains appropriate. The Committee has also reviewed the work of the Investment Adviser to support the viability statement included in the Strategic Report, which included forecasts of the Group's results over the period to December 2021. In carrying out this review, the Committee also considered the risks and assumptions relevant to those forecasts, together with the various sensitivity scenarios modelled in them.

Signed on behalf of the Audit Committee on 9 March 2017.

Leslie Ferrar
Audit Committee Chairman

Remuneration Committee Report

Role of the Remuneration Committee

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

- to determine and agree with the Board the framework or broad policy for any changes to the Investment Advisory Agreement, which is the agreement which sets out the terms of appointment of the Investment Adviser; and
- to set 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, which state that the aggregate remuneration of the Directors shall not exceed £300,000 unless that amount is varied by way of an ordinary resolution.

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 management of the quality required to run the Company and Group successfully without paying more than is necessary, with a view to implementing policies that encourage alignment of the management team to the Company's long term strategic goals. In doing so the Committee has regard to views of shareholders and other stakeholders and takes into account the risk appetite of the Company.

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

Review of incentive fee arrangements

The terms of the Investment Advisory Agreement include the right of the Independent Directors to propose, if they think it appropriate, amendments to the incentive fee arrangements at around the time of the third anniversary of the Investment Advisory Agreement, which is 30 May 2017. The agreement envisages that review taking place within 60 days of 30 April 2017, though the Committee and the Board were of the opinion that a slightly earlier review was appropriate in order to provide clarity on its outcome within this annual report and so have already completed that review.

Tasked with advising the Independent Directors on the continuing appropriateness of the incentive arrangements, the Committee commissioned a report from New Bridge Street, independent specialist remuneration consultants, to review and benchmark the Investment Adviser's fee arrangements, specifically including the incentive fee arrangements. Having regard to the independent advice from New Bridge Street, the Committee has recommended to the Board that the incentive fee arrangements are considered to provide an appropriate incentive to the management of the Company to promote the long term strategic goals of the Company for the benefit of shareholders as a whole and that no changes to the arrangements are necessary at this time.

The Committee has concluded that a further review should be conducted in approximately two years' time, at which point the remaining term to expiry of the Investment Advisory Agreement will be some three years. The Committee will at that stage consider the appropriateness of the terms of the Investment Advisory Agreement, consider the appropriateness of the incentive fee structure and make recommendations to the Board as to management arrangements for the Company after expiry of the contract currently in place.

Composition of the Remuneration Committee

The Remuneration Committee currently comprises Ian Marcus, Leslie Ferrar and Martin Moore, whose biographies are shown on pages 20 and 21, and is chaired by Ian Marcus. All members of the Committee are Directors who are independent of Prestbury, the Investment Adviser.

Meetings of the Remuneration Committee

The Remuneration Committee met once during the financial year and on one further occasion up to the date of this report. All meetings were 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 (which also cover the majority of the Group's overheads) and any incentive fees paid by the Company and do not receive any directors' fees or other remuneration from the Company. These advisory and incentive fees are charged in accordance with the Investment Advisory Agreement and are disclosed in note 22 to the Group financial statements. As such, consideration of the appropriateness of the remuneration of the Investment Adviser falls within the remit of the Remuneration Committee, which as noted above comprises only Directors independent of Prestbury.

The Directors' remuneration for the year, all of which represents fees for services provided, is shown in the table below. Each Director's annual fee is currently at the same level as disclosed in the table below and is expected to remain at the same level for the financial year ending 31 December 2017. The Independent Directors' fees are benchmarked every two years and the next benchmarking exercise will be conducted in 2018.

	Year to 31 December 2016 £000	Year to 31 December 2015 £000
Martin Moore (Chairman of the Company)	**75**	75
Mike Brown	**–**	–
Leslie Ferrar (Chairman of the Audit Committee)	**40**	40
Sandy Gumm	**–**	–
Jonathan Lane (Chairman of the Nominations Committee)	**35**	35
Nick Leslau	**–**	–
Ian Marcus (Chairman of the Remuneration Committee and Senior Independent Director)	**35**	35
	185	185

In the period from his appointment until 30 September 2016, Martin Moore's fees were paid to MRM UK Consulting Services Limited under the terms of his letter of appointment. Since that date his fees have been paid to him directly.

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 year.

Signed on behalf of the Remuneration Committee on 9 March 2017.

Ian Marcus
Remuneration Committee Chairman

Directors' Report

The Directors present their report together with the audited financial statements for the year ended 31 December 2016.

Directors

All Directors are non-executive directors and their biographies are set out on pages 20 and 21.

In accordance with the Articles of Association, Leslie Ferrar and Nick Leslau shall retire at the next AGM and shall then be eligible for reappointment and offer themselves for re-election.

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

Details of the fees paid to Directors in the year are set out in the Remuneration Committee Report on page 33.

Directors' interests

The beneficial interests of the Directors and their families in the ordinary shares of the Company as at 31 December 2016 were as follows:

	Number of shares	Percentage of issued share capital
Nick Leslau*†	23,194,179	10.21%
Mike Brown†	909,608	0.40%
Sandy Gumm†	165,176	0.07%
Martin Moore	90,960	0.04%
Jonathan Lane	57,471	0.03%
Ian Marcus	51,023	0.02%
Leslie Ferrar	22,739	0.01%

* comprising 22,466,916 ordinary shares held by PIHL Property LLP, 669,792 shares held by Yoginvest Limited and 57,471 ordinary shares held by the Saper Trust. Nick Leslau has a 69% indirect interest in PIHL Property LLP, owns Yoginvest Limited and is one of the beneficiaries of the Saper Trust.

† in addition to the amounts shown above, as at 31 December 2016 a further 9,876,243 ordinary shares, representing 4.35% of the issued share capital, were owned by a subsidiary of Prestbury Investments LLP ("Prestbury"), the Investment Adviser to the Group. Nick Leslau, Mike Brown and Sandy Gumm hold partnership interests in, and are respectively Chairman, Chief Executive and Chief Operating Officer of Prestbury.

There have been no changes in these interests between 31 December 2016 and the date of this report.

Significant shareholdings

As at 8 March 2017 the Directors have been notified that the following shareholders have a disclosable interest of 3% or more in the ordinary shares of the Company:

	Number of shares	Percentage of issued share capital
Artemis Investment Management LLP on behalf of discretionary funds under management	44,759,743	19.7%
Invesco Limited	25,191,594	11.1%
PIHL Property LLP	22,466,916	9.9%
West Coast Capital Investments Limited	14,125,433	6.2%
Investec Wealth & Investment Limited	12,516,310	5.5%
Dominic Silvester	11,157,225	4.9%
Old Mutual Plc	10,827,495	4.8%
Prestbury Incentives Limited	9,876,243	4.3%

Political contributions

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

Other disclosures

Disclosures of financial risk management objectives and policies, exposure to financial risks and future developments are included in note 16 to the financial statements.

Statement of Directors' responsibilities

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

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

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, 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 such legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Disclosure of information to 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 9 March 2017.

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 year ended 31 December 2016 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") 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 2016 and of the Group's profit for the year 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, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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 year ended 31 December 2016.

Geraint Jones (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, United Kingdom
9 March 2017

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

Group Income Statement

	Notes	Year to 31 December 2016 £000	Year to 31 December 2015 £000
Revenue	4	**93,214**	99,479
Property outgoings		**(88)**	(33)
Gross profit		**93,126**	99,446
Administrative expenses	5	**(21,590)**	(8,138)
Investment property revaluation	10	**72,181**	70,435
Profit on sale of investment properties		**–**	23,962
Operating profit	6	**143,717**	185,705
Finance income	7	**115**	61
Finance costs	7	**(49,766)**	(146,613)
Profit before tax		**94,066**	39,153
Tax charge	8	**(1,737)**	(2,382)
Profit for the year		**92,329**	36,771
		Pence per share	Pence per share
Earnings per share			
Basic	9	**48.2**	20.4
Diluted	9	**47.4**	20.4

All amounts relate to continuing activities.

The notes on pages 42 to 61 form part of these financial statements.

Group Statement of Other Comprehensive Income

	Year to 31 December 2016 £000	Year to 31 December 2015 £000
Profit for the year	**92,329**	36,771
Items that may subsequently be reclassified to profit or loss:		
Currency translation differences	**3,037**	(899)
Fair value adjustment of interest rate derivatives in effective hedges	**–**	31,703
Reclassification of interest rate derivative fair value adjustment to the income statement	**–**	88,125
Tax effect of interest rate derivative fair value adjustment	**–**	(147)
Deferred tax written off following early termination of interest rate derivatives	**–**	(480)
Total comprehensive income for the year	**95,366**	155,073

The notes on pages 42 to 61 form part of these financial statements.

Group Statement of Changes in Equity

	Share capital £000	Share premium reserve £000	Other reserves £000	Cash flow hedging reserve £000	Retained earnings £000	**Total £000**
Year to 31 December 2016						
At 1 January 2016	18,034	52,377	652	–	433,348	**504,411**
Profit for the year	–	–	–	–	92,329	**92,329**
Other comprehensive income	–	–	3,037	–	–	**3,037**
Total comprehensive income	–	–	3,037	–	92,329	**95,366**
Issue of shares	4,689	135,570	–	–	–	**140,259**
Shares to be issued	–	–	9,359	–	–	**9,359**
Dividends paid	–	–	–	–	(11,972)	**(11,972)**
At 31 December 2016	22,723	187,947	13,048	–	513,705	**737,423**

	Share capital £000	Share premium reserve £000	Other reserves £000	Cash flow hedging reserve £000	Retained earnings £000	**Total £000**
Year to 31 December 2015						
At 1 January 2015	16,844	16,156	33,929	(119,201)	396,577	**344,305**
Profit for the year	–	–	–	–	36,771	**36,771**
Other comprehensive income	–	–	(899)	119,201	–	**118,302**
Total comprehensive income	–	–	(899)	119,201	36,771	**155,073**
Issue of shares	1,190	36,221	(32,378)	–	–	**5,033**
At 31 December 2015	18,034	52,377	652	–	433,348	**504,411**

Interim dividends totalling 5.8 pence per share (2015: nil) were paid during the year.

The notes on pages 42 to 61 form part of these financial statements.

Group Balance Sheet

	Notes	31 December 2016 £000	31 December 2015 £000
Non-current assets			
Investment properties	10	**1,653,505**	1,349,547
Headlease rent deposits		**1,678**	–
		1,655,183	1,349,547
Current assets			
Trade and other receivables	12	**603**	114
Cash and cash equivalents	13	**91,667**	81,611
		92,270	81,725
Total assets		**1,747,453**	1,431,272
Current liabilities			
Trade and other payables	15	**(34,130)**	(29,293)
Secured debt	16	**(2,238)**	(2,707)
Current tax liability		**(60)**	(862)
		(36,428)	(32,862)
Non-current liabilities			
Secured debt	16	**(953,302)**	(888,312)
Head rent obligations under finance leases	17	**(11,804)**	–
Deferred tax liability	14	**(8,496)**	(5,687)
		(973,602)	(893,999)
Total liabilities		**(1,010,030)**	(926,861)
Net assets		**737,423**	504,411
Equity			
Share capital	18	**22,723**	18,034
Share premium reserve	19	**187,947**	52,377
Retained earnings	19	**513,705**	433,348
Other reserves	19	**13,048**	652
Total equity		**737,423**	504,411
		Pence per share	Pence per share
Basic NAV per share	21	**324.5**	279.7
Diluted NAV per share	21	**319.9**	279.7
EPRA NAV per share	21	**323.6**	282.8

The notes on pages 42 to 61 form part of these financial statements.

The Group financial statements were approved and authorised for issue by the Board of Directors on 9 March 2017 and were signed on its behalf by:

Martin Moore
Chairman

Sandy Gumm
Director

Group Cash Flow Statement

	Notes	Year to 31 December 2016 £000	Year to 31 December 2015 £000
Operating activities			
Profit before tax		**94,066**	39,153
Adjustments for non-cash items:			
Investment property revaluation	10	**(72,181)**	(70,435)
Profit on sale of investment properties		**–**	(23,962)
Movement in rent smoothing adjustment	10	**(12,783)**	(13,011)
Administrative expenses payable in shares	22	**9,359**	–
Finance income	7	**(115)**	(61)
Finance costs	7	**49,766**	146,613
Cash flows from operating activities before changes in working capital		**68,112**	78,297
Changes in working capital:			
Trade and other receivables		**(489)**	(11)
Trade and other payables		**5,608**	(8,155)
Cash generated from operations		**73,231**	70,131
Tax paid		**(829)**	(316)
Cash flows from operating activities		**72,402**	69,815
Investing activities			
Acquisition of investment properties	10	**(194,348)**	–
Headlease rent deposits acquired		**(1,678)**	–
Interest received	7	**115**	61
Proceeds from sale of investment properties		**–**	379,316
Cash flows from investing activities		**(195,911)**	379,377
Financing activities			
Drawdown of secured debt		**60,000**	905,158
Loan costs paid on new facilities		**(1,659)**	(14,437)
Repayment of secured debt		**(4,386)**	(1,154,923)
Interest and finance costs paid		**(48,975)**	(86,804)
Net proceeds of share issues		**140,259**	5,033
Dividends paid		**(11,972)**	–
Costs of early termination of interest rate derivatives		**–**	(60,289)
Cash flows from financing activities		**133,267**	(406,262)
Increase in cash and cash equivalents		**9,758**	42,930
Cash and cash equivalents at the beginning of the year		**81,611**	38,771
Effect of exchange rate changes		**298**	(90)
Cash and cash equivalents at the end of the year	13	**91,667**	81,611

The notes on pages 42 to 61 form part of these financial statements.

Notes to the Group Financial Statements

1. General information about the Group

The financial information set out in this report covers the year to 31 December 2016, with comparative figures relating to the year to 31 December 2015, and includes the results and net assets of the Company and its subsidiaries, together referred to as the Group.

The Company is incorporated in the United Kingdom. The address of the registered office and principal place of business is Cavendish House, 18 Cavendish Square, London W1G 0PJ. The nature and scope of the Group's operations and principal activities are described in the Strategic Report on pages 2 to 19.

The Company is listed on AIM. Further information about the Group can be found on its website, www.SecureIncomeREIT.co.uk.

2. Basis of preparation and accounting policies

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards adopted for use in the European Union ("IFRS").

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 the average exchange rate for the year of €1:£0.8174 (2015: €1:£0.7256), which is not considered to produce materially different results from using the actual rates at the time of the transactions. Year end balances have been converted to Sterling at the 31 December 2016 exchange rate of €1:£0.8583 (2015: €1:£0.7350).

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 Review on page 19.

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.

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

Accounting policies which have a significant bearing on the reported financial condition and results of the Group may require subjective or complex judgements. The principal area of judgement is the investment property valuation where, as described in note 10, the opinion of external valuers has been obtained at each reporting date using recognised valuation techniques and the principles of IFRS 13 "Fair Value Measurement".

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

Adoption of new and revised standards

No amended standard or interpretation 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 year.

2. Basis of preparation and accounting policies continued

Standards and interpretations in issue but not yet adopted

The IASB has issued the following standards that are mandatory for later accounting years, 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 2018
IFRS 16 "Leases"	1 January 2019

IFRS 9 deals with the classification and measurement of financial instruments and the Directors do not anticipate that its adoption will have a material impact on the Group's financial statements assuming that the existing capital structure and financing arrangements remain in place at the time that the standard becomes effective. The Group's revenue is derived entirely from leases, which are outside the scope of IFRS 15 but within the scope of IFRS 16. IFRS 15 is not therefore expected to have an impact on the Group. Since IFRS 16 will not result in significant changes of accounting policies for lessors, the Directors do not expect that the adoption of this standard will have a material impact on the Group's financial statements.

The IASB and IFRIC have also issued or revised IFRS 2, IFRS 4, IFRS 10, IFRS 11, IFRS 14, IAS 1, IAS 7, IAS 12, IAS 16, IAS 27, IAS 28, IAS 38, IAS 40, IAS 41 and IFRIC 22 but these are not expected to have a material effect on the operations of the Group.

c) Basis of consolidation

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

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

d) Property portfolio

Investment properties

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

Valuations are calculated, in accordance with RICS Valuation – 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 or losses on disposal are determined as the difference between the net disposal proceeds and the carrying value of the asset in the previous balance sheet adjusted for any subsequent capital expenditure or capital receipts.

Occupational leases

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

Notes to the Group Financial Statements continued

2. Basis of preparation and accounting policies continued

Headleases

Where an investment property is held under a headlease, the headlease is initially recognised as an asset at cost plus the present value of minimum ground rent payments. The corresponding rental liability to the head leaseholder is included in the balance sheet as a finance lease obligation. Cash deposits held by head leaseholders as guarantees of head leasehold obligations are included as non-current assets.

Rental income

Revenue comprises rental income exclusive of VAT. 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 period 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 fair value of the property.

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 an instrument. Unless otherwise indicated, the carrying amounts of financial assets and liabilities are considered by the Directors to be reasonable estimates of their fair values.

Financial assets

Financial assets are recognised initially at their fair value. All financial assets currently constitute “loans and receivables”, which are measured at amortised cost using the effective interest method, less any impairment.

Trade and other payables

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

Cash and cash equivalents

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

Borrowings and finance charges

Secured debt is initially recognised at its fair value, net of any transaction costs directly attributable to its issue. Subsequently, secured debt is carried at amortised cost. Transaction costs are amortised over the life of the loan and charged to the income statement as part of the Group’s financing costs. Where there is a change in the terms of an existing loan that is not considered to be a substantial modification of that loan, any associated transaction costs are also amortised over the remaining life of the loan.

Derecognition of financial liabilities

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

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.

2. Basis of preparation and accounting policies continued

g) Foreign currency translation

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

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

i) Share based payments

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

j) Fair value measurements

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

Notes to the Group Financial Statements continued

3. Operating segments

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

The Group owns 81 properties originally acquired in three portfolios. Although certain information about these portfolios is described individually within the Investment Adviser's Report, when considering resource allocation and performance the Board reviews quarterly management accounts prepared on a basis which aggregates the performance of the portfolios and focuses on Total Shareholder Return. The Board has therefore concluded that the Group has operated in and was managed as one business segment, being property investment, in the current and prior year.

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

	Year to 31 December 2016 £000	Year to 31 December 2015 £000
Revenue		
UK	**85,447**	92,587
Germany	**7,767**	6,892
	93,214	99,479
Non-current assets		
UK	**1,557,032**	1,276,003
Germany	**96,473**	73,544
	1,653,505	1,349,547

Revenue, which is stated after the impact of rent smoothing adjustments explained in note 4, includes £55.4 million (2015: £55.3 million) relating to the Group's largest tenant, and £25.3 million (2015: £34.9 million) relating to the Group's second largest tenant. No other single tenant contributed more than 10% of the Group's revenue in either year.

4. Revenue

	Year to 31 December 2016 £000	Year to 31 December 2015 £000
Rental income	**80,371**	86,468
Rent smoothing adjustments	**12,783**	13,011
Recovery of head rent and service charge costs from occupational tenants	**60**	–
	93,214	99,479

The rent smoothing adjustment arises through the Group's accounting policy in respect of leases, which requires the recognition of rental income on a straight line basis over the lease term in certain circumstances, including for the 58% (2015: 67%) of passing rent as at 31 December 2016 which increases by a fixed percentage each year. During the year, this resulted in an increase in revenue and an offsetting entry is recognised in the income statement as a reduction in the gains on investment property revaluation.

5. Administrative expenses

	Year to 31 December 2016 £000	Year to 31 December 2015 £000
Advisory fees (note 22)	**7,776**	6,959
Incentive fee (note 22)	**10,457**	–
Costs of March 2016 secondary placing	**2,007**	–
Other administrative expenses	**735**	697
Corporate costs	**615**	482
	21,590	8,138

Amounts shown above include irrecoverable VAT as appropriate.

6. Operating profit

Operating profit is stated after charging fees for:

	Year to 31 December 2016 £000	Year to 31 December 2015 £000
Audit of the Company's consolidated and individual financial statements	**38**	37
Audit of subsidiaries, pursuant to legislation	**126**	93
Total audit services	**164**	130
Audit related services: half year review	**30**	30
Audit related services: FCA reporting	**5**	–
Total audit and audit related services	**199**	160
Other non-audit services	**488**	2
Total cost	**687**	162

The other non-audit services charged to income in the current year primarily relate to work as Reporting Accountants in connection with the March 2016 share placing.

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

	Year to 31 December 2016 £000	Year to 31 December 2015 £000
Martin Moore	**75**	75
Leslie Ferrar	**40**	40
Jonathan Lane	**35**	35
Ian Marcus	**35**	35
	185	185

Mike Brown, Sandy Gumm and Nick Leslau received no Directors' fees from the Group in either the current or prior year. Until 30 September 2016, Martin Moore's fees were paid to MRM UK Consulting Services Limited under the terms of his letter of appointment. Since 1 October 2016 he has been paid directly.

Notes to the Group Financial Statements continued

7. Finance income and costs

	Year to 31 December 2016 £000	Year to 31 December 2015 £000
Recognised in the income statement:		
Finance income		
Interest on cash deposits	**115**	61
Finance costs		
Interest on secured debt	**(48,025)**	(66,781)
Amortisation of loan costs (non-cash)	**(1,741)**	(7,561)
Exit and other fees	**–**	(11,646)
Reclassification of fair value adjustment of interest rate derivatives from the cash flow hedging reserve net of lender's share of early termination costs	**–**	(60,625)
Total finance costs	**(49,766)**	(146,613)
Net finance costs recognised in the income statement	**(49,651)**	(146,552)

Included within interest on secured debt is an amount of £nil (2015: £35.0 million) which has been reclassified from other comprehensive income in respect of the Group's interest rate derivatives in effective hedges.

	Year to 31 December 2016 £000	Year to 31 December 2015 £000
Recognised in other comprehensive income:		
Fair value adjustment of interest rate derivatives in effective hedges	**–**	31,703
Reclassification of fair value adjustments to the income statement	**–**	88,125
Total finance income recognised in other comprehensive income	**–**	119,828

Net finance costs analysed by the categories of financial asset and liability shown in note 16 are as follows:

	Year to 31 December 2016 £000	Year to 31 December 2015 £000
Loans and receivables	**115**	61
Financial liabilities at amortised cost	**(49,766)**	(50,982)
Derivatives in effective hedges	**–**	(95,631)
Net finance costs recognised in the income statement	**(49,651)**	(146,552)

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

	Year to 31 December 2016 £000	Year to 31 December 2015 £000
Effect on profit for the year	**78**	82
Effect on other comprehensive income and equity	**–**	–

The Group receives interest on its cash and cash equivalents so an increase in interest rates would increase finance income. There would be no impact on finance costs from a change in interest rates because all of the secured debt is at fixed rates.

8. Tax

	Year to 31 December 2016 £000	Year to 31 December 2015 £000
Current tax – UK		
UK REIT excess interest charge	**–**	1,293
Adjustments in respect of prior periods	**(182)**	50
Current tax – Germany		
Corporation tax charge	**214**	242
Adjustments in respect of prior periods	**(61)**	(226)
Deferred tax		
Deferred tax charge (note 14)	**1,023**	1,766
	1,737	2,382

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

	Year to 31 December 2016 £000	Year to 31 December 2015 £000
Profit before tax	**94,066**	39,153
Profit before tax multiplied by the standard rate of corporation tax in the UK of 20% (2015: 20.25%)	**18,813**	7,928
Effects of:		
Investment property revaluation not taxable	**(15,227)**	(15,875)
Qualifying property rental business not taxable	**(3,387)**	(3,633)
Utilisation of tax losses	**1,140**	15,512
Amounts not deductible for tax	**427**	1,943
German current tax charge for the year	**214**	242
Adjustments in respect of prior periods	**(243)**	(176)
Profit on sale of investment properties not taxable	**–**	(4,852)
UK REIT excess interest charge	**–**	1,293
Tax charge for the year	**1,737**	2,382

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

To remain a UK REIT, there are a number of conditions to be met in respect of the Company, the Group's qualifying activity and the Group's balance of business. Since entering the UK REIT regime the Group has continued to meet these conditions. The condition requiring that the Company must not be a close company includes a grace period of three years from entry into the UK REIT regime, which expires in June 2017. The Company was a close company when it entered the UK REIT regime but the two share placings in the year have widened the Company's ownership such that it now complies with the relevant condition.

Furthermore, one of the ongoing REIT tests is an interest cover test which requires the profits of the tax exempt property business of the Group to be at least 1.25 times its cost of financing. If this condition is not met, the Company remains within the UK REIT regime but 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 met this test throughout the year to 31 December 2016, but did not meet it in the prior year when it incurred a tax charge in that respect of £1.3 million.

The Group is subject to German corporation tax on its German property rental business at a rate of 21%, resulting in a tax charge of £0.2 million (2015: £0.2 million) for the year. A deferred tax liability of £8.5 million (2015: £5.7 million) is also recognised for the German capital gains tax that would potentially be payable on the sale of the German investment properties.

Notes to the Group Financial Statements continued

9. Earnings per share

Earnings per share ("EPS") 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 the relevant period.

Diluted EPS reflects shares to be issued, including any to be issued in settlement of incentive fees that were earned in the relevant period as if those shares had been in issue throughout the year over which the incentive fee was earned. Where shares are issued in one reporting period relating to the results of the prior period, the shares are treated, for the purposes of calculating the weighted average shares in issue, as having been issued on the earlier of the last day of that prior period and the actual date of issue.

	Year to 31 December 2016 £000	Year to 31 December 2015 £000
Profit	**92,329**	36,771

Weighted average number of shares in issue	**Number**	Number
Basic EPS	**191,361,039**	180,344,213
Shares to be issued in satisfaction of incentive fee (note 22)	**3,307,168**	–
Diluted EPS	**194,668,207**	180,344,213

	Pence per share	Pence per share
Basic EPS	**48.2**	20.4
Diluted EPS	**47.4**	20.4

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 is presented in these financial statements, excluding any incentive fee, as those are largely derived from investment property revaluations, and excluding any non-recurring costs of reorganisations, share placings or share issues. EPRA EPS has also been adjusted to exclude the effect of smoothing fixed rental uplifts in order not to artificially flatter dividend cover calculations.

	Year to 31 December 2016 £000	Year to 31 December 2015 £000
Basic earnings attributable to shareholders	**92,329**	36,771
EPRA adjustments:		
Investment property revaluation	**(72,181)**	(70,435)
German deferred tax on investment property revaluation	**1,766**	1,023
Profit on sale of investment properties	**–**	(23,962)
Costs of early termination of interest rate swaps	**–**	60,625
Other early debt repayment costs	**–**	13,666
EPRA earnings	**21,914**	17,688
Other adjustments:		
Rent smoothing	**(12,783)**	(13,011)
Incentive fee	**10,457**	–
Costs of share placing	**2,007**	–
Adjusted EPRA earnings	**21,595**	4,677

	Pence per share	Pence per share
EPRA EPS	**11.5**	9.8
Diluted EPRA EPS	**11.3**	9.8
Adjusted EPRA EPS	**11.3**	2.6
Diluted adjusted EPRA EPS	**11.1**	2.6

10. Investment properties

	Freehold £000	Leasehold £000	**Total £000**
At 1 January 2016	1,349,547	–	**1,349,547**
Additions:			
Hotels portfolio at cost	133,291	61,057	**194,348**
Recognition of Hotels headlease liabilities	–	11,804	**11,804**
Revaluation movement	77,601	7,363	**84,964**
Currency translation movement	12,842	–	**12,842**
At 31 December 2016	1,573,281	80,224	**1,653,505**

As at 31 December 2016 the properties were valued at £1,641.7 million (2015: £1,349.5 million) by either CBRE Limited or Jones Lang LaSalle Limited, Commercial Real Estate Advisers, in their capacity as external valuers. The valuations were prepared on a fixed fee basis, independent of the portfolio value, and were undertaken in accordance with RICS Valuation – Professional Standards January 2014 on the basis of fair value, supported by reference to market evidence of transaction prices for similar properties.

The following table reconciles the carrying values of the investment properties to their external valuations:

	31 December 2016 £000	31 December 2015 £000
Carrying value	**1,653,505**	1,349,547
Headlease liabilities (note 17)	**(11,804)**	–
External valuation	**1,641,701**	1,349,547

Included within the carrying value of investment properties at 31 December 2016 is £173.4 million (2015: £156.6 million) in respect of the smoothing of fixed contractual rental uplifts as described in note 4. The difference between rents on a straight line basis and rents actually receivable is included within, but does not increase over fair value, the carrying value of investment properties. The effect of this adjustment on the revaluation movement is as follows:

	Year to 31 December 2016 £000	Year to 31 December 2015 £000
Revaluation movement	**84,964**	83,446
Rent smoothing adjustment	**(12,783)**	(13,011)
Revaluation movement in the income statement	**72,181**	70,435

The historic cost of the Group's investment properties as at 31 December 2016 was £1,258.0 million (2015: £1,063.6 million). Other than the future minimum headlease payments disclosed in note 17, the Group did not have any contractual investment property obligations at either balance sheet date and all responsibility for property liabilities, including repairs and maintenance, resides with the tenants.

Of the total fair value, £96.5 million (2015: £73.6 million) relates to the Group's German assets, the valuations of which are translated into Sterling at the year end exchange rate.

All of the investment properties are held within four ring-fenced security pools, as security under fixed charges in respect of separate secured debt facilities.

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, together with assumptions used by the valuers (based on market observation and their professional judgement) in the valuation models.

Notes to the Group Financial Statements continued

10. Investment properties continued

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

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

			Inputs	
Portfolio	**Fair value £000**	**Key unobservable input**	**Range**	**Weighted average**
At 31 December 2016:				
Healthcare	892,891	Net initial yield	4.3% – 5.5%	5.0%
		Running yield	4.4% – 5.7%	5.1%
Leisure – UK	454,190	Net initial yield	5.1% – 6.0%	5.2%
		Running yield	5.2% – 6.1%	5.4%
		Future RPI assumption per annum	2.0%	2.0%
Leisure – Germany	96,470	Net initial yield	5.8%	5.8%
		Running yield	5.9%	5.9%
Hotels	209,954	Net initial yield	5.4% – 9.9%	6.5%
		Running yield	5.5% – 9.9%	6.6%
		Future RPI assumption per annum	2.0%	2.0%
At 31 December 2015:				
Healthcare	834,437	Net initial yield	4.5% – 5.8%	5.2%
		Running yield	4.6% – 5.9%	5.4%
Leisure – UK	441,560	Net initial yield	5.2% – 6.1%	5.4%
		Running yield	5.3% – 6.2%	5.5%
		Future RPI assumption per annum	2.0%	2.0%
Leisure – Germany	73,550	Net initial yield	6.3%	6.3%
		Running yield	6.5%	6.5%

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

All of the Group's revenue 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 year, were £88,000 (2015: £33,000) of which £32,000 (2015:£33,000) was not recoverable from occupational tenants.

11. Subsidiaries

The companies listed in the following table were the subsidiary undertakings of the Company at 31 December 2016, all of which are wholly owned. Save where indicated, all subsidiary undertakings are incorporated in England with their registered office at Cavendish House, 18 Cavendish Square, London W1G 0PJ.

11. Subsidiaries continued

Company name	Nature of business
SIR Theme Park Subholdco Limited*	Intermediate parent company and borrower under mezzanine secured debt facility
Charcoal Midco 2 Limited	Intermediate parent company
SIR Theme Parks Limited	Intermediate parent company and borrower under senior secured debt facility
SIR ATH Limited	Property investment – leisure
SIR ATP Limited	Property investment – leisure
SIR HP Limited	Property investment – leisure and borrower under senior secured debt facility (incorporated in England, operating in Germany)
SIR TP Limited	Property investment – leisure
SIR WC Limited	Property investment – leisure
SIR Hospital Holdings Limited*	Intermediate parent company
SIR Umbrella Limited	Intermediate parent company
SIR Hospitals Propco Limited	Intermediate parent company and borrower under secured debt facility
SIR Downs Limited	Property investment – healthcare
SIR Duchy Limited	Property investment – healthcare
SIR Euxton Limited	Property investment – healthcare
SIR Midlands Limited	Property investment – healthcare
SIR Mt Stuart Limited	Property investment – healthcare
SIR Oaklands Limited	Property investment – healthcare
SIR Renacres Limited	Property investment – healthcare
SIR Rivers Limited	Property investment – healthcare
SIR Springfield Limited	Property investment – healthcare
Thomas Rivers Limited	Property investment – healthcare
SIR Healthcare 1 Limited	Intermediate parent company
SIR Healthcare 2 Limited	Intermediate parent company and borrower under secured debt facility
SIR Ashtead Limited	Property investment – healthcare
SIR Fitzwilliam Limited	Property investment – healthcare
SIR Fulwood Limited	Property investment – healthcare
SIR Lisson Limited	Property investment – healthcare
SIR Oaks Limited	Property investment – healthcare
SIR Pinehill Limited	Property investment – healthcare
SIR Reading Limited	Property investment – healthcare
SIR Rowley Limited	Property investment – healthcare
SIR Winfield Limited	Property investment – healthcare
SIR Woodland Limited	Property investment – healthcare
SIR Yorkshire Limited	Property investment – healthcare
SIR Hotels 1 Limited*	Intermediate parent company
SIR Hotels Jersey Limited†	Intermediate parent company
SIR Unitholder 1 Limited†	Intermediate parent company
SIR Unitholder 2 Limited†	Intermediate parent company
Grove Property Unit Trust 6†	Property investment – hotels and borrower under secured debt facility
Grove Property Unit Trust 7†	Property investment – hotels and borrower under secured debt facility
Grove Property Unit Trust 9†	Property investment – hotels and borrower under secured debt facility
Grove Property Unit Trust 11†	Property investment – hotels and borrower under secured debt facility
Grove Property Unit Trust 12†	Property investment – hotels and borrower under secured debt facility
Grove Property Unit Trust 16†	Property investment – hotels and borrower under secured debt facility
UK Healthcare Partners (General Partner) Limited	In voluntary liquidation (incorporated in Guernsey)
SIR New Hall Limited*	Dormant
SIR MTL Limited*	Dormant
Charcoal Bidco Limited*	Dormant

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

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

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

Notes to the Group Financial Statements continued

12. Trade and other receivables

	31 December 2016 £000	31 December 2015 £000
Trade receivables	**128**	–
Other receivables	**111**	–
Prepayments and accrued income	**364**	114
	603	114

13. Cash and cash equivalents

	31 December 2016 £000	31 December 2015 £000
Free cash	**68,462**	55,638
Secured cash	**22,542**	25,598
Regulatory capital	**663**	375
	91,667	81,611

Secured cash is held in accounts over which the providers of secured debt have fixed security. As the Company is considered to be an internally managed Alternative Investment Fund, it is also required by the Financial Conduct Authority to hold a balance of regulatory capital in liquid funds, which is maintained in cash.

14. Deferred tax

The movements in deferred tax balances were as follows:

	Unrealised gains on investment properties £000	Interest rate derivatives at fair value £000	**Total £000**
Balance at 1 January 2016	(5,687)	–	**(5,687)**
Charge to the income statement (note 8)	(1,766)	–	**(1,766)**
Movement in other comprehensive income	(1,043)	–	**(1,043)**
Balance at 31 December 2016	(8,496)	–	**(8,496)**

	Unrealised gains on investment properties £000	Interest rate derivatives at fair value £000	**Total £000**
Balance at 1 January 2015	(4,938)	627	**(4,311)**
Charge to the income statement (note 8)	(1,023)	–	**(1,023)**
Movement in other comprehensive income	274	(627)	**(353)**
Balance at 31 December 2015	(5,687)	–	**(5,687)**

15. Trade and other payables

	31 December 2016 £000	31 December 2015 £000
Trade payables	**276**	251
Tax and social security	**3,102**	1,347
Accruals and deferred income	**30,752**	27,695
	34,130	29,293

16. Financial assets and liabilities

Borrowings

	31 December 2016 £000	31 December 2015 £000
Amounts falling due within one year		
Secured debt – current portion of long term facilities	**4,156**	4,387
Unamortised finance costs	**(1,918)**	(1,680)
	2,238	2,707
Amounts falling due in more than one year		
Secured debt	**965,215**	900,521
Unamortised finance costs	**(11,913)**	(12,209)
	953,302	888,312

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

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

The analysis of borrowings by currency is as follows:

	31 December 2016 £000	31 December 2015 £000
Sterling denominated		
Secured debt	**907,763**	852,150
Unamortised finance costs	**(12,997)**	(13,093)
	894,766	839,057
Euro denominated		
Secured debt	**61,609**	52,758
Unamortised finance costs	**(835)**	(796)
	60,774	51,962

Categories of financial instruments

	31 December 2016 £000	31 December 2015 £000
Financial assets		
Loans and receivables:		
Cash and cash equivalents (note 13)	**91,667**	81,611
Trade and other receivables (note 12)	**239**	–
	91,906	81,611
Financial liabilities		
Financial liabilities at amortised cost:		
Secured debt	**(955,540)**	(891,019)
Accrued interest	**(8,684)**	(9,592)
Trade payables and accrued expenses	**(1,097)**	(743)
	(965,321)	(901,354)

Notes to the Group Financial Statements continued

16. Financial assets and liabilities continued

At each balance sheet date, all financial assets and liabilities were measured at amortised cost. Secured debt, which comprises fixed rate loans, is therefore measured at amortised cost but as at 31 December 2016 its fair value was £1,012.6 million (2015: £912.2 million). The secured debt was valued in accordance with IFRS 13 by reference to interbank bid market rates as at the close of business on the balance sheet date by JC Rathbone Associates Limited. All secured debt was classified as level 2 in the fair value hierarchy as defined in IFRS 13 and its fair value was calculated using the present values of future cash flows, based on market benchmark rates (interest rate swaps) and estimated credit risk of the Group for similar financings. There were no transfers to or from other levels of the fair value hierarchy during the current or prior year.

Financial risk management

Through the Group's operations and use of debt financing it is exposed to certain risks. The Group's financial risk management objective is to minimise the effect of these risks by using fixed rate debt or derivative financial instruments to manage exposure to fluctuations in interest rates. Any such derivative financial instruments are not employed for speculative purposes. Any use of any derivatives is approved by the Board, which monitors 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 and liabilities and foreign currencies, to the extent that these are exposed to general and specific market movements.

(a) Market risk – interest rate risk

The Group's interest bearing assets comprise only cash and cash equivalents. Changes in market interest rates therefore affect the Group's finance income. The Group's borrowings since October 2015 have all been at fixed rates. Prior to that date, the Group was exposed to cash flow interest rate risk as its borrowings were at variable rates. The Group's policy was to fix the interest rate on that debt by entering into interest rate derivatives in order to mitigate this risk. As a result, for both the years ended 31 December 2016 (by way of fixed rate debt) and 31 December 2015 (by way of interest rate derivatives and fixed rate debt), 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 sensitivity to changes in interest rates is disclosed in note 7.

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

(b) Market risk – currency risk

The Group prepares its financial statements in Sterling. 4% by value of the Group's net assets are Euro denominated and as a result the Group is subject to foreign currency exchange risk due to exchange rate movements between Sterling and the Euro. This risk is partially hedged because within the Group's German operations, the majority of both assets and liabilities are held in Euros, and the majority of both revenue and expenditure arise in Euros. An unhedged currency risk therefore remains on the value of the Group's net investment in, and net returns from, its German operations.

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

	Year to 31 December 2016 £000	Year to 31 December 2015 £000
Effect on profit	**46**	204
Effect on other comprehensive income and equity	**2,806**	1,862

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 (as holders of the Group's cash deposits).

16. Financial assets and liabilities continued

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

Liquidity risk

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

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

Before entering into any financing arrangements, the Board assesses the resources that are expected to be available to the Group to meet its liabilities when they fall due. These assessments are made on the basis of both base case and downside scenarios. The Group prepares budgets and working capital forecasts which are reviewed by the Board at least quarterly to assess ongoing liquidity requirements and compliance with loan covenants. The Board also keeps under review the maturity profile of the Group's cash deposits in order to have reasonable assurance that cash will be available for the settlement of liabilities when they fall due.

The following tables show the maturity analysis for financial assets and liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities, including future interest payments, based on the earliest date on which the Group can be required to pay.

31 December 2016	Effective interest rate £000	Less than one year £000	One to two years £000	Two to five years £000	More than five years £000	**Total £000**
Financial assets:						
Cash and cash equivalents	0.1%	91,667	–	–	–	**91,667**
Trade and other receivables		239	–	–	–	**239**
		91,906	–	–	–	**91,906**
Financial liabilities:						
Secured debt	5.1%	(53,191)	(52,920)	(161,987)	(1,060,529)	**(1,328,627)**
Accrued interest		(8,684)	–	–	–	**(8,684)**
Trade payables and accrued expenses		(1,097)	–	–	–	**(1,097)**
		(62,972)	(52,920)	(161,987)	(1,060,529)	**(1,338,408)**
31 December 2015						
Financial assets:						
Cash and cash equivalents	0.3%	81,611	–	–	–	**81,611**
Financial liabilities:						
Secured debt	5.2%	(52,833)	(51,093)	(152,941)	(1,043,396)	**(1,300,263)**
Accrued interest		(9,592)	–	–	–	**(9,592)**
Trade payables and accrued expenses		(743)	–	–	–	**(743)**
		(63,168)	(51,093)	(152,941)	(1,043,396)	**(1,310,598)**

Notes to the Group Financial Statements continued

16. Financial assets and liabilities continued

Capital risk management in respect of the financial year

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 debt covenants so as to safeguard secured assets and avoid financial penalties. Borrowings are secured on each of four property portfolios by way of fixed charges over property assets and over the shares in the parent company of each ring-fenced borrower subgroup, and also by floating charges on the assets of the relevant subsidiary companies.

The Group is subject to externally imposed capital requirements under the AIFMD regime as disclosed in note 13. Those capital requirements have been complied with at all times during the current and prior years, and up to the date of this report.

At both 31 December 2016 and 31 December 2015, the capital structure of the Group consisted of debt (note 16), cash and cash equivalents (note 13), and equity attributable to the shareholders of the Company (comprising share capital, retained earnings and the other reserves referred to in notes 18 and 19).

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.

17. Obligations under finance leases

Finance lease obligations in respect of fixed rents payable on leasehold properties are as follows:

Minimum headlease payments	**31 December 2016 £000**	31 December 2015 £000
Within one year	**844**	–
Between one year and five years	**3,377**	–
More than five years	**52,744**	–
	56,965	–
Less future finance charges	**(45,161)**	–
	11,804	–

The earliest expiry date of all the lease obligations is in more than five years and all amounts are recoverable from the occupational tenants.

18. Share capital

Share capital represents the aggregate nominal value of shares issued. At 31 December 2016, the Company had an issued and fully paid share capital of 227,229,706 (2015: 180,344,228) ordinary shares of 10 pence each.

In October 2016, the Company issued 46,885,466 ordinary shares of 10 pence each for cash consideration of £140.0 million. The excess over nominal value was credited to the share premium reserve, and issue costs of £2.5 million were charged to the share premium reserve.

Under the terms of the Commitment Agreement described in note 22, the Company's shareholders prior to listing agreed to subscribe in cash for one ordinary share per quarter until 10 July 2016 to contribute to the fees payable to the Investment Adviser during the year. During the year, 12 ordinary shares of 10 pence each (2015: 24 ordinary shares) were issued under this arrangement for cash consideration of £2.8 million (2015: £5.0 million). The excess over nominal value was credited to the share premium reserve.

The movement in the number of shares in issue over the year was as follows:

	Year to 31 December 2016 Number	Year to 31 December 2015 Number
At the start of the year	**180,344,228**	168,443,772
Issue of ordinary shares in respect of placing	**46,885,466**	–
Issue of ordinary shares under the Commitment Agreement	**12**	24
Issue of ordinary shares in settlement of incentive fee	**–**	11,900,432
At the end of the year	**227,229,706**	180,344,228

Under the incentive fee arrangements described in note 22, a fee of £9.4 million will become due in March 2017, assuming completion of the process of service of notice and acceptance of the calculation, by way of the issue of 3,307,168 new ordinary shares in the Company, following which there will be 230,536,874 ordinary shares in issue.

19. Reserves

The nature and purpose of each of the reserves included within equity at 31 December 2016 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 any shares to be issued after the balance sheet date, as described in note 22, under the terms of the incentive fee arrangements.
- Retained earnings: represent the cumulative profits and losses recognised in the income statement, together with any amounts transferred or reclassified from the other Group reserves less dividends paid.

20. Operating leases

The Group's principal assets are investment properties which are leased to third parties under non-cancellable operating leases. The weighted average remaining lease term is 23.1 years (2015: 23.5 years) and there are no break options. The leases contain either fixed or RPI-linked uplifts; contingent rental income arises as a result of the RPI linked uplifts and amounted to £0.3 million recognised in the income statement in the year (2015: £0.6 million).

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

	31 December 2016 £000	31 December 2015 £000
Within one year	**93,568**	77,371
Between one year and five years	**390,320**	324,167
More than five years	**2,087,644**	1,845,457
	2,571,532	2,246,995

21. Net asset value per share

The net asset value ("NAV") per share of 324.5 pence (2015: 279.7 pence) is calculated as the net assets of the Group attributable to shareholders divided by the number of shares in issue at the end of the year of 227,229,706 (2015: 180,344,228). Diluted NAV per share is adjusted for any shares that will be issued, including any in settlement of incentive fees payable, as explained in note 22, and as at 31 December 2016 is 319.9 pence per share, reflecting an additional 3,307,168 shares to be issued. No incentive fee was payable as at 31 December 2015 and no further shares to be issued for any reason, so the diluted NAV per share was the same as the basic NAV per share at that date.

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 2016		31 December 2015	
	£000	**Pence per share**	£000	Pence per share
Basic NAV	**737,423**	**324.5**	504,411	279.7
Dilution from shares issued for incentive fee	**–**	**(4.6)**	–	–
Diluted NAV	**737,423**	**319.9**	504,411	279.7
EPRA adjustments:				
Deferred tax on investment property revaluations	**8,496**	**3.7**	5,687	3.1
EPRA NAV	**745,919**	**323.6**	510,098	282.8

22. Related party transactions and balances

Advisory fees

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 that became effective on listing in June 2014 (the "Investment Advisory Agreement"). Under the terms of the Investment Advisory Agreement, advisory fees of £7.0 million (2015: £6.5 million) plus VAT were payable in cash to Prestbury in the year, £0.1 million (2015: £0.2 million) of which was outstanding as at the balance sheet date and is included in trade and other payables (note 15).

Advisory fees are calculated by reference to EPRA NAV: 1.25% per annum on EPRA NAV up to £500 million, plus 1.0% per annum on EPRA NAV between £500 million and £1 billion, plus 0.75% per annum on EPRA NAV over £1 billion. If there were no change in EPRA NAV in the forthcoming financial year, the advisory fee for the year would be £8.7 million plus VAT.

22. Related party transactions and balances continued

Incentive fee

Under the terms of the Investment Advisory Agreement, Prestbury or a wholly owned subsidiary of Prestbury may become entitled to an incentive fee intended to reward growth in Total Accounting Return ("TAR") above an agreed benchmark and to strongly align Prestbury's interests with those of shareholders. TAR is measured as growth in EPRA NAV per share plus dividends paid in the year. The fee entitlement is calculated annually on the basis of the Group's audited financial statements, with any fee payable settled in shares in the Company (subject to certain limited exceptions). Sales of shares are restricted, with the restriction lifted on a phased basis over a period from 18 to 42 months from the date of listing, subject to a specific release in the event that Prestbury needs to sell shares to settle the tax liability on the fee income it earns.

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

A high water mark EPRA NAV per share of 258.5 pence per share was established at 31 December 2014 when a fee was last earned and 10% per annum growth from that benchmark sets the 2016 benchmark at 312.8 pence per share. Dividends of 5.8 pence per share were paid in the year, so any excess of EPRA NAV per share over and above 307.7 pence per share represents above target TAR, of which Prestbury earns 20% under the incentive fee arrangements. This fee amounts to £9.4 million, payable in shares following publication of these results and satisfactory completion of the service of notices and acceptance of the calculation. £1.1 million of the VAT on the fee will not be recoverable so the total expense in the income statement for the incentive fee amounts to £10.5 million: £9.4 million satisfied by way of the issue of 3,307,168 shares to Prestbury plus £1.1 million of irrecoverable VAT. The issue of the incentive shares to Prestbury will result in dilution of shareholder returns of 1.5%.

Assuming no changes in the Company's capital structure, EPRA NAV per share growth plus distributions will have to exceed 32.4 pence per share for a fee to be earned for the year ending 31 December 2017; that is, EPRA NAV before distributions for that year will have to exceed 356.0 pence per share (£820.7 million) at 31 December 2017 before any incentive fee becomes payable.

Irrecoverable VAT arises on any element of the Group's costs, including any incentive fee, that relates to the healthcare portfolio. Since new ordinary shares are issued in satisfaction of an incentive fee, the cost of that fee in the financial statements only impacts the net asset value of the Group to the extent of the irrecoverable VAT. For the year to 31 December 2016, the irrecoverable element amounts to 58.6% of the VAT liability. However, the shares to be issued do reduce the Group's net asset value per share.

Commitment Agreement

In May 2014, in connection with its listing, the Company entered into a Commitment Agreement with its then investors 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 was required to be satisfied by way of subscription for ordinary shares. Each original investor agreed to subscribe for one share per quarter over the Commitment Agreement Period amounting to an aggregate of 12 (2015: 24) new shares in the Company during the year. The total subscription price payable by the original investors for the shares to be issued to them in any quarter was equal to the advisory fee payable by Group companies to Prestbury in respect of that quarter, subject to a maximum aggregate subscription price of £1.3 million per quarter and £1.5 million in the extended period to 10 July 2016. Since the advisory fees exceeded that maximum in that period, those investors contributed £2.8 million towards the fees in the year and the remaining £4.3 million was borne by the Group. The final subscriptions were made in June 2016 and no further payments are receivable under these arrangements.

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 year ended 31 December 2016 which comprise the Balance Sheet, Statement of Changes in Equity 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") 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 2016;
- 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, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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 year ended 31 December 2016.

Geraint Jones (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, United Kingdom
9 March 2017

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

Company Balance Sheet
Registered number: 6064259

	Notes	31 December 2016 £000	31 December 2015 £000
Fixed assets			
Investment in subsidiary undertakings	C	**144,839**	156,397
Current assets			
Loans to subsidiary undertakings	D	**372,850**	94,495
Other amounts owed by subsidiary undertakings		**8,899**	–
Other debtors		**570**	165
Cash at hand and in bank		**63,266**	54,064
		445,585	148,724
Creditors: amounts falling due within one year			
Trade creditors		**(84)**	(47)
Loans from subsidiary undertakings		**(3,725)**	(742)
Corporation tax creditor		**–**	(991)
Accruals and deferred income		**(306)**	(114)
Net current assets		**441,470**	146,830
Total assets less current liabilities		**586,309**	303,227
Net assets		**586,309**	303,227
Capital and reserves			
Share capital	E	**22,723**	18,034
Share premium reserve		**187,947**	52,377
Other reserves		**9,359**	–
Retained earnings		**366,280**	232,816
Shareholders' funds		**586,309**	303,227

The Company has taken advantage of the exemption within section 408 of the Companies Act 2006 not to present its own profit and loss account. The profit for the year dealt with in the financial statements of the Company was £145.4 million (2015: £95.9 million). As at 31 December 2016, the entire balance of £366.3 million in retained earnings represents distributable reserves.

The notes on pages 65 and 66 form part of the Company financial statements.

The Company financial statements were approved and authorised for issue by the Board of Directors on 9 March 2017 and were signed on its behalf by:

Martin Moore
Chairman

Sandy Gumm
Director

Company Statement of Changes in Equity

	Share capital £000	Share premium reserve £000	Other reserves £000	Retained earnings £000	**Total £000**
Year to 31 December 2016					
At 1 January 2016	18,034	52,377	–	232,816	**303,227**
Profit and total comprehensive income for the year	–	–	–	145,436	**145,436**
Dividends paid	–	–	–	(11,972)	**(11,972)**
Issue of shares	4,689	135,570	–	–	**140,259**
Shares to be issued	–	–	9,359	–	**9,359**
At 31 December 2016	22,723	187,947	9,359	366,280	**586,309**

	Share capital £000	Share premium reserve £000	Other reserves £000	Retained earnings £000	**Total £000**
Year to 31 December 2015					
At 1 January 2015	16,844	16,156	32,378	136,917	**202,295**
Profit and total comprehensive income for the year	–	–	–	95,899	**95,899**
Issue of shares	1,190	36,221	(32,378)	–	**5,033**
At 31 December 2015	18,034	52,377	–	232,816	**303,227**

Interim dividends totalling 5.8 pence per share (2015: nil) were paid during the year.

The notes on pages 65 and 66 form part of the Company financial statements.

Notes to the Company Financial Statements

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

The principal accounting policies relevant to the Company are 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 incentive fees are disclosed in other reserves.

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

- no cash flow statement has been presented;
- disclosures in respect of the Company's financial instruments have not been presented as equivalent disclosures have been provided in respect of the Group;
- no reconciliation of the number of shares outstanding at the beginning and end of the year has been presented as it is identical to the reconciliation for the Group shown in note 18 to the Group financial statements; and
- no disclosure has been given for the aggregate remuneration of the key management personnel of the Company as their remuneration is shown in note 6 to the Group financial statements.

In the year to 31 December 2017, the Company intends to continue to use these disclosure exemptions unless objections are received from shareholders.

B. Auditors' remuneration
The remuneration of the auditors in respect of the audit of the Company for the year was £38,000 (2015: £33,000). Fees payable for non-audit services provided to the Company and the rest of the Group are disclosed in note 6 to the consolidated financial statements.

C. Investment in subsidiary undertakings
The Company's wholly owned direct subsidiaries are SIR Theme Park Subholdco Limited, SIR Hospital Holdings Limited, SIR Hotels 1 Limited, SIR MTL Limited, SIR New Hall Limited and Charcoal Bidco Limited, all of which are incorporated and operating in England. The full list of subsidiary entities indirectly owned by the Company is disclosed in note 11 to the Group financial statements. The movement in the year was as follows:

	Year to 31 December 2016 £000	Year to 31 December 2015 £000
At the start of the year	**156,397**	81,909
Additions	**137,641**	94,774
Capitalisation of loan to subsidiary undertaking	**–**	74,485
Dividend paid by subsidiary undertaking	**(149,199)**	(94,614)
Impairment	**–**	(157)
At the end of the year	**144,839**	156,397

Notes to the Company Financial Statements
continued

D. Loans to subsidiary undertakings
Loans to subsidiary undertakings are unsecured, bear no interest and are repayable on demand. The movement in the year was as follows:

	Year to 31 December 2016 £000	Year to 31 December 2015 £000
At the start of the year	**94,495**	77,539
Net loans advanced	**278,355**	91,441
Capitalisation of loan to subsidiary undertaking	**–**	(74,485)
At the end of the year	**372,850**	94,495

E. Share capital
Details of the share capital of the Company are disclosed in note 18 to the Group financial statements.

F. Related party transactions
Details of related party transactions are disclosed in note 22 to the Group financial statements.

Unaudited Supplementary Information

Total Shareholder Return

Shareholder return is one of the Company's principal measures of performance. Total Shareholder Return ("TSR") is measured by reference to the growth in the Company's share price over a period, plus distributions. When providing illustrations of future performance, the Company measures TSR by reference to illustrative EPRA NAV as a proxy for the share price performance, referred to in this report and accounts as Total Accounting Return ("TAR"). The tables below show the calculation of TAR and TSR for the 2015 and 2016 financial years.

TAR – EPRA NAV performance

	Year to 31 December 2016 Pence per share	Year to 31 December 2015 Pence per share
EPRA NAV:		
at the start of the year	**282.8**	258.5
at the end of the year	**323.6**	282.8
Increase in EPRA NAV	**40.8**	24.3
Distributions (commenced August 2016)	**5.8**	–
Increase in EPRA NAV plus distributions	**46.6**	24.3
TAR	**16.5%**	9.4%

TSR – share price performance

	Year to 31 December 2016 Pence per share	Year to 31 December 2015 Pence per share
Mid market closing share price:		
at the start of the year	**247.5**	295.0
at the end of the year	**315.5**	247.5
Increase/(decrease) in share price	**68.0**	(47.5)
Distributions (commenced August 2016)	**5.8**	–
Increase/(decrease) in share price plus distributions	**73.8**	(47.5)
TSR	**30%**	(16)%

Unaudited Supplementary Information continued

Summary of EPRA measures

	Year to 31 December 2016	Year to 31 December 2015
EPRA EPS	**11.5p**	9.8p
EPRA NAV Per Share	**323.6p**	282.8p
EPRA Triple Net Asset Value Per Share	**301.1p**	275.7p
EPRA Cost Ratio	**23.3%**	8.1%
EPRA Net Initial Yield	**5.3%**	5.3%
EPRA Topped Up Net Initial Yield	**5.3%**	5.3%
EPRA Vacancy Rate	**0%**	0%

EPRA Earnings Per Share

	Year to 31 December 2016 £000	Year to 31 December 2015 £000
Basic earnings attributable to shareholders (note 9)	**92,329**	36,771
EPRA adjustments:		
Investment property revaluation	**(72,181)**	(70,435)
German deferred tax on investment property revaluation	**1,766**	1,023
Profit on sale of investment properties	**–**	(23,962)
Costs of early termination of interest rate swaps	**–**	60,625
Other early debt repayment costs	**–**	13,666
EPRA earnings	**21,914**	17,688
Other adjustments:		
Rent smoothing	**(12,783)**	(13,011)
Incentive fee	**10,457**	–
Costs of share placing	**2,007**	–
Adjusted EPRA earnings	**21,595**	4,677

	Pence per share	Pence per share
EPRA EPS	**11.5**	9.8
Diluted EPRA EPS	**11.3**	9.8
Adjusted EPRA EPS	**11.3**	2.6
Diluted adjusted EPRA EPS	**11.1**	2.6

EPRA NAV Per Share

	31 December 2016		31 December 2015	
	£000	**Pence per share**	£000	Pence per share
Basic NAV (note 21)	**737,423**	**324.5**	504,411	279.7
EPRA adjustments:				
Deferred tax on investment property revaluations	**8,496**	**3.7**	5,687	3.1
Dilution from shares issued for incentive fee	**–**	**(4.6)**	–	–
EPRA NAV	**745,919**	**323.6**	510,098	282.8

EPRA Triple Net Asset Value Per Share

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

	31 December 2016		31 December 2015	
	£000	**Pence per share**	£000	Pence per share
EPRA NAV (note 21)	**745,919**	**323.6**	510,098	282.8
Fair value of fixed rate debt	**(43,211)**	**(18.8)**	(7,262)	(4.0)
Deferred tax on German investment property revaluations	**(8,496)**	**(3.7)**	(5,687)	(3.1)
EPRA Triple NAV	**694,212**	**301.1**	497,149	275.7

EPRA Cost Ratio

	31 December 2016 £000	31 December 2015 £000
Revenue (note 4)	**93,214**	99,479
Tenant contributions to property outgoings	**(60)**	–
Total revenue	**93,154**	99,479
Property outgoings	**32**	33
Administrative expenses	**20,975**	7,656
Corporate costs	**615**	482
Total costs	**21,622**	8,171
EPRA Cost Ratio	**23.2%**	8.2%

The Group has had no vacant property in either year, therefore the EPRA Cost Ratio is the same inclusive and exclusive of vacant property costs.

EPRA Net Initial Yield

	Year to 31 December 2016 £000	Year to 31 December 2015 £000
Annualised rental income	**92,624**	76,314
Less headrent recoveries from occupational tenants	**(56)**	–
Annualised occupational rents	**95,568**	76,314
Non-recoverable property expenses*	**(32)**	(33)
Net rent	**92,536**	76,281
Property at external valuation (note 10)	**1,641,701**	1,349,547
Allowance for purchasers' costs†	**110,818**	79,156
Grossed up valuation	**1,752,519**	1,428,703
EPRA Net Initial Yield	**5.3%**	5.3%

* included within the £88,000 of property costs charged to the income statement in 2016 is £56,000 of headrent costs that are recoverable from the tenant and so not deducted from the rents in calculating EPRA Net Initial Yield.

† aggregate purchasers' costs are calculated at 6.75% across the portfolio in the current year: 6.75% on £1,507.2 million of English assets, 6.12% on £37.9 million of Scottish assets and 7.0% on £96.5 million of German assets.

EPRA Topped Up Net Initial Yield

There are no unexpired tenant incentives, therefore EPRA Topped Up Net Initial Yield and EPRA Net Initial Yield are the same in each year.

Property Portfolio as at 8 March 2017

Property	Portfolio	Region	Address
Valued between £100-200 million			
Alton Towers theme park	Leisure	Rest of England	Alton, Staffs ST10 4DB
Rivers hospital	Healthcare	Rest of England	High Wych Road, Sawbridgeworth, Herts CM21 0HH
Thorpe Park theme park	Leisure	Rest of England	Chertsey, Surrey KT16 8PN
Valued between £50-100 million			
Alton Towers hotel	Leisure	Rest of England	Alton, Staffs ST10 4DB
Ashtead hospital	Healthcare	Rest of England	The Warren, Ashtead, Surrey KT21 2SB
Heide Park theme park	Leisure	Germany	Soltau, Lower Saxony, Germany
Springfield hospital	Healthcare	Rest of England	Lawn Lane, Springfield, Chelmsford, Essex CM1 7GU
Yorkshire clinic	Healthcare	Rest of England	Bradford Road, Bingley, West Yorks BD16 1TW
Valued between £25-50 million			
Duchy hospital	Healthcare	Rest of England	Peventinnie Lane, Treliske, Truro, Cornwall TR1 3UP
Fitzwilliam hospital	Healthcare	Rest of England	Milton Way, South Bretton, Peterborough PE3 9AQ
Fulwood hospital	Healthcare	Rest of England	Midgery Lane, Fulwood, Preston, Lancs PR2 9SZ
Nightingale hospital	Healthcare	London	11-19 Lisson Grove, Marylebone, London NW1 6SH
Oaks hospital	Healthcare	Rest of England	120 Mile End Road, Colchester, Essex CO4 5XR
Pinehill hospital	Healthcare	Rest of England	Benslow Lane, Hitchin, Herts SG4 9QZ
Reading hospital	Healthcare	Rest of England	Wensley Road, Coley Park, Reading, Berks RG1 6UZ
Warwick Castle	Leisure	Rest of England	Warwick, Warwicks CV34 4QU
Winfield hospital	Healthcare	Rest of England	Tewkesbury Road, Longford, Gloucester GL2 9WH
Woodlands hospital	Healthcare	Rest of England	Rothwell Road, Kettering, Northants NN16 8XF
Valued between £10-25 million			
Edinburgh Central Travelodge	Hotels	Scotland	33 St Mary's Street, Edinburgh EH1 1TA
Euxton Hall hospital	Healthcare	Rest of England	Wigan Road, Euxton, Chorley, Lancs PR7 6DY
Heide Park hotel	Leisure	Germany	Soltau, Lower Saxony, Germany
Manchester Central Travelodge	Hotels	Rest of England	11 Blackfriars Street, Salford, Manchester M3 5AL
Mount Stuart hospital	Healthcare	Rest of England	St Vincent's Road, Torquay, Devon TQ1 4UP
North Downs hospital	Healthcare	Rest of England	46 Tupwood Lane, Caterham, Surrey CR3 6DP
Oaklands hospital	Healthcare	Rest of England	19 Lancaster Road, Salford, Manchester M6 8AQ
Oxford Peartree Travelodge	Hotels	Rest of England	Woodstock Road, Yarnton, Kidlington, Oxford OX2 8JZ
Renacres hospital	Healthcare	Rest of England	Renacres Lane, Halsall, Ormskirk, Lancs L39 8SE
Rowley Hall hospital	Healthcare	Rest of England	Rowley Park, Stafford, Staffs ST17 9AQ
West Midlands hospital	Healthcare	Rest of England	Coleman Hill, Halesowen, West Midlands B63 2AH
Valued below £10 million			
Aberdeen Bucksburn Travelodge	Hotels	Scotland	Inverurie Road, Bucksburn, Aberdeen AB21 9BB
Barton Stacey Travelodge	Hotels	Rest of England	Drayton, Barton Stacey, Winchester S021 3NF
Basildon Travelodge	Hotels	Rest of England	Festival Leisure Park, Basildon SS14 3WB
Basingstoke Travelodge	Hotels	Rest of England	Winchester Road, Basingstoke RG22 6HN
Bedford Marston Moretaine Travelodge	Hotels	Rest of England	Beancroft Road, Marston Moretaine, Bedford MK43 0QP
Birmingham Dudley Travelodge	Hotels	Rest of England	Dudley Road, Brierley Hill, Birmingham DY5 1LE
Bradford Travelodge	Hotels	Rest of England	Midpoint, Thornbury, Bradford BD3 7AY
Bridgwater M5 Travelodge	Hotels	Rest of England	Huntworth Business Park, Bridgwater TA6 6TS

Property	Portfolio	Region	Address
Bristol Cribbs Causeway Travelodge	Hotels	Rest of England	Cribbs Causeway, Bristol BS10 7TL
Bristol Severn View M48 Travelodge	Hotels	Rest of England	Aust, Bristol BS35 4BH
Burnley Travelodge	Hotels	Rest of England	Barracks Road, Burnley BB11 4SB
Burton A38 Northbound Travelodge	Hotels	Rest of England	Litchfield Road, Barton-under-Needwood, Burton-on-Trent DE13 8EH
Burton A38 Southbound Travelodge	Hotels	Rest of England	Litchfield Road, Barton-under-Needwood, Burton-on-Trent DE13 8EN
Canterbury Dunkirk Travelodge	Hotels	Rest of England	Gate Hill, Dunkirk, Faversham ME13 9LN
Carlisle M6 Travelodge	Hotels	Rest of England	Broadfield, Southwaite, Carlisle CA4 0NS
Chester Northop Hall Travelodge	Hotels	Rest of England	Northop Hall, Mold CH7 6HF
Doncaster Travelodge	Hotels	Rest of England	Great North Road, Skellow, Doncaster DN6 8LR
Dorking Travelodge	Hotels	Rest of England	Reigate Road, Dorking RH4 1QB
Droitwich Travelodge	Hotels	Rest of England	School View, Rashwood, Droitwich WR9 0BS
Dumbarton Travelodge	Hotels	Scotland	Dumbarton Road, Milton, Dumbarton G82 2TZ
Dumfries Travelodge	Hotels	Scotland	Annan Road, Dumfries DG1 3SE
Ely Travelodge	Hotels	Rest of England	Witchford Road, Ely CB6 3NN
Exeter M5 Travelodge	Hotels	Rest of England	Sidmouth Road, Exeter EX2 7HF
Glasgow Central Travelodge	Hotels	Scotland	5-11 Hill Street, Glasgow G3 6RP
Glasgow Paisley Road Travelodge	Hotels	Scotland	251 Paisley Road, Glasgow G5 8RA
Haydock St. Helens Travelodge	Hotels	Rest of England	Piele Road, Haydock, St Helens WA11 9TL
Hellingly Eastbourne Travelodge	Hotels	Rest of England	Boship Roundabout, Hellingly, Hailsham BN27 4DP
Hull South Cave Travelodge	Hotels	Rest of England	South Cave, Brough HU15 1SA
Huntingdon Fenstanton Travelodge	Hotels	Rest of England	Cambridge Road, Fenstanton, Huntingdon PE28 9HY
Kettering Thrapston Travelodge	Hotels	Rest of England	A14/A605, Kettering NN14 4UR
Kinross M90 Travelodge	Hotels	Scotland	M90 Service Area, Kinross, Perthshire KY13 0NQ
Lancaster M6	Hotels	Rest of England	White Carr Lane, Bay Horse, Lancaster LA2 9DU
Ludlow Woofferton Travelodge	Hotels	Rest of England	Station Road, Woofferton, Ludlow SY8 4AL
Milton Keynes Central Travelodge	Hotels	Rest of England	199 Grafton Gate, Milton Keynes MK9 1AL
Newbury Tot Hill Travelodge	Hotels	Rest of England	Tot Hill, Burghclere, Newbury RG20 9BX
Northampton Upton Way Travelodge	Hotels	Rest of England	Upton Way, Northampton NN5 4EG
Nottingham East Midlands Airport Donington Park M1 Travelodge	Hotels	Rest of England	Donington Park M1 Service Area, Castle Donington DE74 2TN
Nottingham Riverside Travelodge	Hotels	Rest of England	Nottingham Riverside Retail Park, Tottle Road, Queen's Drive, Nottingham NG2 1RT
Nuneaton Travelodge	Hotels	Rest of England	St Nicolas Park Drive, Nuneaton CV11 6EN
Oxford Wheatley Travelodge	Hotels	Rest of England	London Road, Wheatley, Oxford OX33 1JL
Peterborough Eye Green Travelodge	Hotels	Rest of England	Crowland Road, Eye, Peterborough PE6 7TN
Reading Whitley Travelodge	Hotels	Rest of England	387 Basingstoke Road, Reading RG2 0JE
Retford Markham Moor Travelodge	Hotels	Rest of England	Markham Moor, Retford DN22 0QU
Rugeley Travelodge	Hotels	Rest of England	Western Springs Road, Rugeley WS15 2AS
Saltash Travelodge	Hotels	Rest of England	Callington Road, Carkell, Saltash PL12 6LF
Shrewsbury Bayston Hill Travelodge	Hotels	Rest of England	Bayston Hill Services, Shrewsbury SY3 0DA
Southampton Travelodge	Hotels	Rest of England	144 Lodge Road, Southampton SO14 6QR
Tiverton Travelodge	Hotels	Rest of England	Sampford Peverell, Tiverton EX16 7HD
Warminster Travelodge	Hotels	Rest of England	Bath Road, Warminster BA12 7RU
Warrington Travelodge	Hotels	Rest of England	Kendrick Street, Warrington WA1 1UZ
Worksop Travelodge	Hotels	Rest of England	St Anne's Drive, Worksop S80 3QD
Yeovil Podimore Travelodge	Hotels	Rest of England	Podimore, Yeovil BA22 8JG

Explanatory Notes Accompanying the AGM Notice

The Company's AGM Notice appears on the following pages and a proxy voting card will have been sent to shareholders together with this report. Voting procedures are explained in the notes to the AGM Notice on page 75.

Explanatory notes for the AGM resolutions follow here. Ordinary resolutions require a simple majority of votes cast in order to be passed. For a special resolution to be passed, three quarters or more of the votes cast must be in favour. In either case, a vote marked "withheld" will not count either as a vote for or a vote against the resolution.

The Directors intend to vote in favour of all of the resolutions.

Resolution 1: approval of the report and accounts
This is an ordinary resolution proposing that the Company's 2016 report and audited accounts are approved. The report and accounts have been approved by the Board, and the independent auditors have issued an unqualified audit opinion on them.

Resolutions 2 and 3: reappointment of Nick Leslau and Leslie Ferrar
The Company's Articles require Directors to retire and offer themselves for re-election every three years. Five of the seven Directors were appointed on the same day in May 2014 and in order to avoid the majority of the Board standing for re-election every three years, the retirement and proposed re-appointment of Directors is instead staggered so that each offers him or herself for re-election at least every three years without all Directors retiring at once.

All of the Directors save for Nick Leslau and Sandy Gumm stood for re-election at the first AGM after the listing of the Company, which was held in June 2015, as those Directors had all been appointed since the previous AGM and were required by the Articles to seek re-appointment. Sandy Gumm and Martin Moore stood for reappointment at the AGM held in June 2016.

At this year's AGM, Nick Leslau and Leslie Ferrar offer themselves for re-election. Nick's and Leslie's biographies appear on pages 21 and 20 of this document respectively. Leslie is Chairman of the Audit Committee and would continue in that role following her reappointment.

This is an ordinary resolution.

Resolutions 4 and 5: reappointment of the auditors and Directors' authority to agree their remuneration
These ordinary resolutions propose that BDO LLP be reappointed as auditors of the Company and that the Directors be authorised to fix their remuneration. The Company's Audit Committee is responsible for the assessment of the auditors' performance and for reviewing their fee arrangements. The Audit Committee's report on the auditors is included at page 30 of this document.

Fees payable to the auditors in respect of the years ended 31 December 2016 and 2015 are disclosed in note 6 to the financial statements.

Resolution 6: authority to make market purchases of the Company's own shares
This special resolution proposes that the Company has the authority until the conclusion of the next AGM to buy its own shares on the market subject to the limitations set out in the resolution. The Company seeks this flexibility in the event that the Board concludes that shares can be purchased on the market on terms that are beneficial for the shareholders of the Company as a whole. There is no current intention to make such purchases, but the Directors believe that it is in the interests of shareholders to have the flexibility to do so, subject to the limitations set out in the resolution.

It is proposed that the authority is limited to 34,061,700 shares, which amounts to 14.99% of the Company's issued share capital at the date of this report. Shares cannot be purchased for less than their nominal value of 10 pence per share, nor for more than the higher of (a) 5% above the average mid market quoted share price of the shares on the London Stock Exchange for the five days before any purchase and (b) the higher of the price of the last independent trade of shares on the market and the current bid price from an independent bidder for a share.

This authority would expire at the conclusion of the Company's next AGM.

Resolution 7: authorities to issue shares without pre-emption in favour of existing shareholders

Other than as approved by shareholders in a general meeting, shares may only be issued after first offering them to shareholders in proportion to their existing holdings – a process known as pre-emption. Resolutions were passed by shareholders in May 2014 to give the Company the right to issue shares non pre-emptively in certain circumstances. This was at the time, and is still, considered appropriate as the Company's investment strategy is one that will generally require an issue of shares to finance the acquisitions that are a fundamental part of the Company's investment proposition.

The authorities granted in May 2014 to issue shares without pre-emption were used in connection with the issue of shares in October 2016 to part finance the Travelodge portfolio purchase. Following that placing and as at the date of this report, the Company has the authority, expiring in May 2019, to issue up to 9,267,743 shares (approximately 4% of the current issued share capital) for cash without first offering them to shareholders pro rata to their existing holdings. The Company also has a general authority to allot 109,657,802 shares (approximately 47% of the Company's current issued share capital) meaning that some 9.3 million shares could be issued for cash without pre-emption and the remaining 100.4 million shares (some 44% of the current issued share capital) would be subject to pre-emption.

There is a separate existing authority in place which would enable 168,443,754 shares to be issued pursuant to a rights issue.

The Board considers that in order to most effectively implement the Company's investment strategy, it is in the interests of shareholders for the Company to have the authority to place shares for cash without pre-emption (in addition to the existing authority held over approximately 4% of the share capital at the date of this report), subject to the limitations set out in the resolution. This limits the authority to 56,807,426 shares, which is 24.99% of the Company's issued share capital at the date of this report. Furthermore, any shares issued under the authority proposed in this resolution may only be issued at or above the EPRA Net Asset Value of the Company. That is, shares issued under this authority will not be issued at a discount to EPRA Net Asset Value.

This is a special resolution and, if passed, the authority would expire at the conclusion of the next AGM or, if earlier, on 7 September 2018.

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 7 June 2017 at 9.30am to consider and, if thought fit, pass the following resolutions, which in the case of resolutions 1 to 5 will be proposed as ordinary resolutions and in the case of resolutions 6 and 7 will be proposed as special resolutions:

Ordinary resolutions:

1. To receive and approve the Strategic Report, the Directors' Report and the financial statements of the Company for the year ended 31 December 2016 together with the report of the auditors thereon.
2. To reappoint Nick Leslau as a Director of the Company.
3. To reappoint Leslie Ferrar as a Director of the Company.
4. To reappoint BDO LLP as the auditors until the conclusion of the next Annual General Meeting.
5. That the Directors be authorised to fix the remuneration of the auditors.

Special resolutions:

6. 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 34,061,700 shares;
   (b) the minimum price, exclusive of any expenses, which may be paid for an Ordinary Share is 10 pence;
   (c) the maximum price, exclusive of any expenses, which may be paid for each Ordinary Share is an amount equal to the higher of: (a) 105% of the average of the middle market quotations for an Ordinary Share, as derived from the London Stock Exchange Daily Official List, for the five business days immediately preceding the day on which the Ordinary Share is purchased; and (b) an amount equal to the higher of the price of the last independent trade of an Ordinary Share and the highest current independent bid for an Ordinary Share on the London Stock Exchange; and
   (d) the authority hereby conferred shall, unless previously revoked or varied, expire at the conclusion of the next Annual General Meeting of the Company (except in relation to the purchase of Ordinary Shares the contract for which was concluded before the expiry of this authority and which will or may be executed wholly or partly after such expiry).

7. That the Directors be and are hereby empowered pursuant to section 570 of the Act to allot equity securities (within the meaning of section 560 of the Act) for cash, pursuant to the authority granted to them by a resolution passed on 27 May 2014 and expiring on 27 May 2019, and/or to sell shares held as treasury shares, in each case as if section 561 of the Act (existing shareholders' rights of pre-emption) did not apply, such power to be limited to the allotment of equity securities up to an aggregate nominal amount of £5,680,742.60 and provided that the issue price in respect of any Ordinary Shares issued pursuant to this authority shall not be less than the consolidated EPRA Net Asset Value per Ordinary Share. This authority shall expire at the conclusion of the next Annual General Meeting of the Company or, if earlier, 7 September 2018 but, in each case, before such expiry the Company may make offers and enter into agreements which would or might require equity securities to be allotted (and shares held in treasury to be sold) after the authority expires and the Directors may allot equity securities (and sell shares held in treasury) pursuant to such offer or agreement as if this authority had not expired. This authority shall be in addition to, and not in substitution for, the authority granted to the Directors pursuant to section 570 of the Act on 27 May 2014.

Disclosure exemptions available in FRS 102

In preparing the Company's financial statements, advantage has been taken of the disclosure exemptions available in FRS 102. In the year to 31 December 2017, the Company intends to continue to use these disclosure exemptions unless objections are received from shareholders holding more than 5% of the shares in total.

By order of the Board

Sandy Gumm
Company Secretary
9 March 2017

Notes:

1. Every holder has the right to appoint some other person(s) of their choice, who need not be a shareholder, as proxy to exercise all or any of their rights to attend, speak and vote on their behalf at the 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 on 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 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. 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.

5. 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 be terminated automatically.

6. 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.

7. Only those shareholders entered on the register of shareholders of the Company at close of business on 5 June 2017 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 close of business on 5 June 2017 shall be disregarded in determining the rights of any person to attend or vote at the Annual General Meeting.

8. 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 that 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.

9. 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.

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

Glossary

AGM	Annual General Meeting
AIFMD	Alternative Investment Fund Managers Directive
EPRA	European Public Real Estate Association
EPRA EPS	A measure of **EPS** designed by **EPRA** to present underlying earnings from core operating activities
EPRA NAV	A measure of **NAV** designed by **EPRA** to present the fair value of a company on a long term basis, by excluding items such as interest rate derivatives that are held for long term benefit, net of deferred tax
EPS	Earnings per share, calculated as the profit for the period after tax attributable to members of the parent company divided by the weighted average number of shares in issue in the period
ERV	Estimated rental value, which is the open market rental value expected to be achievable at the date of valuation
IFRS	International Financial Reporting Standards adopted for use in the European Union
Loan To Value or LTV	The outstanding amount of a loan as a percentage of property value
NAV	Net asset value
Net Initial Yield	Annualised net rents on investment properties as a percentage of the investment property valuation, less purchaser's costs
Net Loan To Value or Net LTV	**LTV** calculated on the gross loan amount and any other secured liabilities, less cash balances
REIT	Real Estate Investment Trust
Running Yield	The anticipated **Net Initial Yield** at a future date, taking account of any rent reviews in the intervening period
Total Accounting Return	The movement in **EPRA NAV** paid over a period plus distributions paid in the period, expressed as a percentage of the **EPRA NAV** at the start of the period
Total Shareholder Return	The movement in share price over a period plus distributions paid in the period, expressed as a percentage of the share price at the start of the period

Company Information

Registered office	Cavendish House, 18 Cavendish Square, London W1G 0PJ
Directors	Martin Moore, 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 55 Baker Street, London W1U 7EU
Property valuers	CBRE Limited Henrietta House, Henrietta Place, London W1G 0NB Jones Lang LaSalle Limited 30 Warwick Street, London W1B 5NH
Financial PR advisers	FTI Consulting LLP 200 Aldersgate, Aldersgate Street, London EC1A 4HD
Registrar	Capita Asset Services The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU Registrar's helpline: 0871 664 0300 Calls cost 12 pence per minute plus your phone company's access charge. If you are outside the United Kingdom, please call +44 371 664 0300. Calls outside the United Kingdom will be charged at the applicable international rate. The helpline is open 9.00am – 5.30pm, Monday to Friday excluding public holidays in England and Wales. Registrar's email: shareholderenquiries@capita.co.uk
Website	www.SecureIncomeREIT.co.uk
Email	enquiries@SecureIncomeREIT.co.uk

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emperor.works +44 (0)20 7729 9090

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SECURE INCOME REIT PLC