

NS Final Results



ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2023

[LXI REIT PLC](#)

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This announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) No 596/2014. This announcement has been authorised for release by the Board of Directors

LXi REIT plc

("LXI", the "Company" or the "Group")

ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2023

LXi REIT plc (ticker: LXI), the specialist inflation-protected very long income REIT, announce its annual results for the year ended 31 March 2023.

Cyrus Ardalan, Chairman of LXI REIT plc, commented:

"The successful merger has created a platform from which we will be able to grow the Group even further, leveraging our scale and low-cost base.

Notwithstanding the very challenging wider economic headwinds, we remain confident that the underlying characteristics of our carefully curated portfolio, supported by our proactive recycling of capital and asset management strategies, will enable the Group to continue to outperform.

Challenging markets often throw up interesting opportunities and we intend to take advantage of them as and when they do.

With forecasts for inflation stabilising and the working assumption, all things being equal, that interest rates are peaking, we believe the property market repricing will begin to slowly reverse in the second half of the calendar year. Property

values appear to have stabilised since the year end. Those with robust defensive qualities tend to rebound the quickest, particularly in tougher economic climates where capital chases well let, secure, long- term investments with built-in inflation protection.

The Group continues to deliver progressive dividend growth supported by our index-linked rents, fixed debt costs as well as accretive asset management targeting a fully covered dividend of 6.6p for the year to 31 March 2024, representing an increase of 5% on the prior year.

Going forward, we remain focused on managing both the risks and opportunities that our portfolio presents. We remain confident in our ability to successfully capitalise on the growth opportunities that we continue to identify and on continuing to provide a secure and growing income return to our investors. This will enable us to continue to enhance and unlock sustainable value in our defensive, resilient portfolio for all of our stakeholders."

Financial highlights

Alternative performance measures	31 March	31 March	Change
	2023	2022	
EPRA EPS	8.3p	6.1p	+36.1%
Adjusted cash EPS	6.7p	5.7p	+17.5%
Dividend per share	6.3p	6.0p	+5.0%
EPRA cost ratio (including and excluding vacant property costs)	9.5%	15.9%	-6.4pts
Total Expense Ratio	0.9%	1.0%	-0.1pts
Total accounting return	(10.7)%	18.2%	-28.9pts
Portfolio value ¹	£3,356.3m	£1,544.4m	+117.3%
EPRA NTA per share	121.1p	142.6p	-15.1%
Pro forma net LTV ²	37%	22%	+15pts

IFRS performance measures	Year to	Year to	Change
	31 March	31 March	
	2023	2022	
Rental income	£198.2m	£58.5m	+238.8%
Operating profit before fair value changes	£179.4m	£49.2m	+264.6%
Earnings per share	(19.2)p	22.8p	-184.2%

	As at	As at	Change
	31 March	31 March	
	2023	2022	
Investment property at fair value ¹	£3,601.9m	£1,499.1m	+140.3%
Net assets	£2,108.1m	£1,300.7m	+62.1%
NAV per share	123.0p	142.7p	-13.8%

- EPRA earnings per share ("EPS") up 36.1% to 8.3p (31 March 2022: 6.1p), and Adjusted cash EPS up 17.5% to 6.7p for the year (31 March 2022: 5.7p), primarily driven by material cost savings resulting from the merger with Secure Income REIT plc ("SIR plc") (the "Merger") and representing full dividend cover for the year, underpinning the Company's progressive dividend policy
- Sector leading EPRA cost ratio of 9.5% (31 March 2022: 15.9%) and total expense ratio of 0.9% (31 March 2022: 1.0%)
- Dividend per share of 6.3p in respect of year (31 March 2022: 6.0p per share), representing 5% growth on the prior year
- Portfolio independently valued at £3,356.3m (31 March 2022: £1,544.4m), reflecting a like for like change of (9.6)%. The movement reflects an outward yield shift of 90 bps to 5.4% at 31 March 2023 (31 March 2022: 4.5%), offset by 2.3% like for like rental growth
- EPRA NTA per share of 121.1p (31 March 2022: 142.6p), reflecting a fall of 15%, primarily driven by yield expansion across certain property sectors in response to wider economic conditions and the costs associated with the Merger, which represented less than 1% of the combined portfolio value¹
- Pro forma net loan to value ("LTV")² ratio of 37% (31 March 2022: 22%), with headroom to our medium-term

borrowing policy cap of 40% and substantial covenant headroom on the loan facilities

- Contractual rental increases due in the next two financial years expected to reduce LTV to 35.5% in FY24 and 33.8% in FY25, assuming no change in valuation yield. The Board remains committed to a conservative medium-term LTV target of 30%

The UK's leading sector diversified, long income REIT

- During the year, LXI REIT plc merged with Secure Income REIT plc to create the UK's leading sector-diversified, long income REIT, with a substantial, defensive and resilient portfolio
- The scale achieved provides a strong foundation to deliver secure attractive long-dated and growing income returns and capital protection to our shareholders
- The Group owns an inflation linked portfolio of 350 properties that are 100% occupied with an aggregate valuation of £3.4bn at 31 March 2023, contracted annual rental income of £202.2m and a WAULT to first break of 27 years
- Assets are well diversified across a broad range of resilient sub-sectors with high barriers to entry, strong underlying property fundamentals and low starting rents, and are let on very long-term leases to tenant counterparties that have demonstrated strong performance throughout previous economic cycles
- Properties are strategically important to the operations of our broad range of institutional-quality tenants underpinning the longevity and security of the Group's income streams
- Shareholders continue to benefit from the certainty provided by the Group's fully let, highly diversified, triple-net portfolio of secure real estate assets, sector leading expense ratios and a conservative and 100% fixed or capped debt position

Portfolio summary

	As at 31 March 2023	As at 31 March 2022
WAULT to first break	27 years	21 years
Number of assets	350	193
Number of tenants	84	71
Let or pre-let	100%	100%
<i>Portfolio diversification by sector (by contracted rent)</i>		
- Healthcare	22%	8%
- Budget hotels	21%	13%
- Theme parks	19%	-
- Foodstores	10%	25%
- Industrials	7%	18%
- Others	21%	36%
<i>Rent review type (upward only)</i>		
- RPI	26%	54%
- CPI	38%	19%
- Fixed	34%	23%
- Open market	2%	4%
<i>Regular predictable rental growth profile</i>		
- Annual reviews	56%	37%
- Five-yearly reviews	44%	63%
- Capped indexed linked uplifts	60%	67%
- Average cap	3.9%	3.6%
- Collared index-linked uplifts	56%	54%
- Average collar	1.2%	1.5%

Post year end highlights

Dividends

- Announced increased dividend target of 6.6p³ per share for the year ending 31 March 2024, up 5% on the dividend

per share in respect of the year ended 31 March 2023

- Announced a dividend of 1.575p per share for the quarter ended 31 March 2023, meeting the Company's annual dividend per share target of 6.3p³

Debt refinancing

- Completed our significant refinancing programme comprising:
 - A new £565m three and five-year term loan and five year revolving credit facility, and
 - A new £148m 16-year debt facility
- Achieved maiden investment grade rating and increased weighted average term to maturity of 6 years (pre refinancing: 2 years) and a weighted average interest cost of 4.7% pa (pre refinancing 4.3% pa)

Outlook

- The Group's substantial scale should allow it to benefit from growth opportunities within our portfolio as well as in the wider market. The Company has already begun to do so, with the earnings and NAV accretive Merlin 'income strip' transaction and the Travelodge re-gear
- The Board expects the Company and its shareholders to continue to benefit from significant merger synergies, with the Group now having one of the lowest cost ratios in the UK listed real estate sector. We have already begun to see the positive impact of this on our income returns during the year and the Board remains confident that the next year's results, which will comprise a full year of the combined business, will further demonstrate this benefit
- We see exciting opportunities in the market in the form of:
 - a significant pipeline of assets through permanent structural change within open-ended funds that have traditionally held vast prime long income portfolios;
 - corporates facing a cliff-edge of refinancing events as their historic, low-cost bonds mature that we expect will create a source of new, long income stock through sale and leasebacks;
 - the opportunity for consolidation in the long income sector, due to share price discounts and a range of sub-scale platforms that fail to provide desired liquidity and downside protection. The scale and diversified nature of our portfolio and investment strategy and the demonstrated expertise and skills of our management team put the Company in a strong position to capitalise on these opportunities; and
 - value opportunities in our existing portfolio through lease re-gears, strengthening relationships with our key tenants and other asset management initiatives.
- Notwithstanding the very challenging wider economic headwinds, we remain confident that the underlying characteristics of our carefully curated portfolio, supported by our proactive accretive recycling of capital and asset management strategies, will enable the Group to continue to deliver outperformance

FOR FURTHER INFORMATION, PLEASE CONTACT:

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The Company's LEI is: 2138008YZGXOKAXQVI45

NOTES

LXI REIT plc invests in commercial property assets predominantly in the UK, let, or pre-let, on long (typically 20 to 30 years to expiry or first break), inflation-linked leases to a wide range of strong tenant covenants across a diverse range of robust property sectors.

The Company may invest in fixed-price forward funded developments, provided they are pre-let to an acceptable tenant and full planning permission is in place. The Company will not undertake any direct development activity nor assume direct development risk.

The Company is targeting a dividend of 6.6 pence per ordinary share for the year which commenced on 1 April 2023³.

The Company, a real estate investment trust ("REIT") incorporated in England and Wales, is listed on the premium listing segment of the Official List of the UK Financial Conduct Authority and was admitted to trading on the main market for listed securities of the London Stock Exchange in February 2017.

The Company is a constituent of the FTSE 250, EPRA/NAREIT, MSCI and STOXX Europe 600 indices.

COMPANY PRESENTATION FOR INVESTORS AND ANALYSTS

A Company presentation for investors and analysts will take place today, Wednesday, 7 June 2023, via a live webcast and conference call at 9.30am UK.

To access the live webcast, please register in advance here:

https://brmedia.news/LXI_FY23

The live conference call dial-in is available using the below details:

Dial in numbers	UK Toll Free:	0808 109 0700
	UK & International:	+44 (0) 33 0551 0200

Password to quote: LXI REIT Annual Results

Participants can type questions into the webcast question box or ask questions verbally via the conference call.

The recorded webcast and slides will be available on demand later in the day on the Company website: www.lxireit.com/results-centre

Annual Report and Accounts

Hard copies of the Annual Report and Accounts will be sent to shareholders, along with the notice for Annual General Meeting. The Annual Report and Accounts will also be made available on the Company's website at www.lxireit.com. In accordance with Listing Rule 9.6.1, copies of these documents will be submitted to the National Storage Mechanism and will be available for viewing shortly at <https://data.fca.org.uk/#/nsm/nationalstoragemechanism>

Alternative performance measures

The Group uses alternative performance measures including the European Public Real Estate ("EPRA") Best Practice Recommendations ("BPR") to supplement IFRS as the Board considers that these measures give users of the Annual Report and Financial Statements the best understanding of the underlying performance of the Group's property portfolio.

The EPRA measures are widely recognised and used by public real estate companies and investors and seek to improve transparency, comparability, and relevance of published results in the sector.

Reconciliations between EPRA and other alternative performance measures and the IFRS financial statements can be found in Notes 25 and 26 to the consolidated financial statements and in the Additional Information of the Company's Annual Report.

Definitions of alternative performance measures are given in the Key performance indicators and EPRA performance measures sections or otherwise included in the Glossary section of the Group's March 2023 Annual Report.

- 1 The portfolio valuation includes forward funding commitments and assets held for sale. A reconciliation between portfolio value and investment property at fair value and IFRS is included in Note 8 to the consolidated financial statements
- 2 Pro forma net LTV is stated after adjusting the value of investment properties (the denominator) for the acquisition price of properties that have exchanged but not completed and for costs to complete forward funded assets and net debt (the numerator) for the acquisition price of properties that have exchanged but not completed plus associated acquisition costs and for costs to complete forward funded assets
- 3 These are targets and not profit forecasts

CHAIRMAN'S STATEMENT

Dear shareholder

Dear Shareholder,

This report covers the year to 31 March 2023, and the maiden annual results for the enlarged Group, following the merger with Secure Income REIT plc ("**SIR plc**") (the "**Merger**"), which completed in July 2022. I welcome the new shareholders to the Company, and I am very pleased to report to you the results of the Group.

The merger has created a substantial defensive and resilient portfolio, providing a strong foundation to deliver secure attractive and growing income returns and capital protection to our shareholders. The performance of the Group, in view of the macroeconomic headwinds that we have faced in the period, is a testament to those qualities. We expect to see capital growth prospects returning once the property market normalises.

Our assets are well diversified across a broad range of resilient sectors with high barriers to entry, strong underlying property fundamentals and demonstrably attractive and sustainable rents. The portfolio is let on very long-term leases to tenant counterparties that have demonstrated strong performance throughout the current and previous economic cycles and have in most cases continued to outperform in the prevailing economic climate.

Despite the fall in portfolio values during the year across the market, the Company continued to deliver attractive inflation linked income returns through a growing dividend, up 5% on the previous year, and with the potential for further growth, with another 5% increase in the dividend target announced post year end.

Share prices and valuations have been impacted by rising interest rates, but the cost of our own debt has been secured for the medium-term through our comprehensive refinancing programme. This, coupled with inflation being widely forecast to start falling by the end of the calendar year, position the Company well to benefit from post stabilisation yield compression. As interest rates reach a terminal level, we believe we will begin to see the increasing relative attraction of property as an alternative income stream.

Our portfolio remains a highly attractive investment proposition at current valuation levels. Sustainable rental levels have meant that individually our operating assets continue to represent highly profitable and attractive business units which our tenants want to retain. The market looks set for further consolidation with a large number of sub scale REITs trading at attractive discounts. The platform we have created puts the Company in a strong position to capitalise on these opportunities in a competitive market whilst continuing to provide our shareholders with a stable source of growing income.

Merger with SIR plc

On 11 May 2022, the Company announced the terms of the proposed Merger. Voting from respective shareholder groups demonstrated overwhelming support for the Merger, which completed on 6 July 2022. This year's accounts include eight full months of the results of the enlarged Group. The Merger has been treated as an asset acquisition for accounting purposes rather than a business combination. Further detail of the accounting judgement can be found in Note 2 to the consolidated financial statements.

The Merger has created the UK's leading diversified, long income REIT. The Group's substantial scale should enable it to benefit further from significant growth opportunities within our portfolio and in the market. The Company has already begun to do so, with two key innovative transactions in the year in the form of the Merlin 'income strip' transaction and the re-gear of our Travelodge portfolio.

The Group owns a portfolio of 350 properties that are 100% let with an aggregate valuation of £3.6bn at 31 March 2023, contracted annual rental income of £202.2m and a very long WAULT to first break of 27 years.

The Company and its shareholders have also begun to benefit from significant synergies, including material deduplication of management fees and other overheads for eight months of the period, with the enlarged Group demonstrating a total expense ratio of 0.9% for the year. (31 March 2022: 1.0%).

Since the Merger, the management team has continued to execute the complementary investment strategies employed by both LXI and SIR plc. This has included a focus on long income real estate, diversification, conservative leverage, and an active portfolio management strategy identifying opportunities to unlock further value for shareholders.

Debt capital and refinancing

At 31 March 2023 our pro-forma net LTV was 37%. The Board and management team remain committed to a medium-term LTV target of 30%. The Company was very pleased to announce its first investment grade rating during the year and we remain committed to reducing our LTV over the medium term both through active disposals and value enhancing asset management.

Management has overseen a total of £1.1bn of debt repayment and refinancing post year end, which has been a significant achievement in the current climate. In doing so, we have increased the average debt maturity to 6 years (from 3 years) with a well staggered maturity profile whilst removing interest rate risk with an average cost of debt of

4.7% pa for the medium term and thus protecting the Company's long term progressive dividend policy.

Results and dividends

Despite challenging market conditions and volatility in share prices and property values, the Company has delivered a resilient performance for the year versus the wider UK REIT market with a total accounting return of (10.7)% (31 March 2022: 18.2%), on a geared basis, materially outperforming the CBRE all property total returns of (16.2)% on an ungeared basis.

The outperformance was delivered through the defensive qualities of our portfolio and creative asset management initiatives that our management team executed in the year. This demonstrates the attractiveness of both a well-diversified long-let, index linked portfolio and the scale that allows opportunities for value growth even in challenging markets.

The Group's net assets increased by 62% to £2,108.1m in total, during the year, driven predominantly by the share for share element of the Merger. On a per share basis, the Group's EPRA NTA contracted by 21.5 pence, primarily driven by:

- yield expansion across the majority of property sectors in response to wider economic conditions, in particular the rising interest rate environment,
- offset to some extent by the accretive asset management initiatives of the Merlin 'income strip' transaction and the Travelodge re-gear, as well as index-linked rental growth; and
- the costs associated with the Company's merger with SIR plc, which totalled £35.3m and represented less than 1% of the combined portfolio value or 2.7 pence per share^{1,2}

We are pleased that the total of our quarterly dividends paid and declared in respect of the year of 6.3p per share, means that we have achieved the stated target that we set for the financial year, for the sixth consecutive year since IPO^{3,4}.

The dividend for the year was fully covered by the Company's adjusted cash earnings and represents compounded dividend growth of 5% per annum since IPO, outperforming the consumer price index during that period which has averaged 3.4% per annum and providing inflation protection to our shareholders.

- 1 Combined independent valuations included in the public merger documents performed by Knight Frank in respect of LXI REIT plc and CBRE in respect of Secure Income REIT plc
- 2 These costs have been recognised as additions to investment property and expensed through the profit and loss account as a fair value movement in the period, in accordance with IFRS
- 3 These are targets and not profit forecasts
- 4 After the year end the Directors became aware that certain dividends paid since the Merger had been made otherwise than in accordance with the Companies Act 2006. A special resolution will be proposed at the Company's forthcoming AGM to remedy this issue

Environmental, Social and Governance ("ESG")

Embedding ESG considerations into the Company's strategy is synonymous with safeguarding portfolio value and as such is a key focus for myself and the wider Board. Our aim is to deliver best-in-class ESG integration into a long-income property fund, facilitated by the Investment Advisor's on-going progress in this space under direct supervision of the Board.

The Board is delighted that Barbora Melezinkova has joined the Investment Adviser's team as Head of ESG. Barbora is responsible for helping to deliver on the ESG strategies. The Board has already implemented an ESG Working Group which Ismat and I both sit on as Board members.

Some of our ESG highlights during the year have been, obtaining our first GRESB rating on the portfolio in September 2022, also in September we obtained our first EPRA sBPR rating. We have also instructed decarbonisation reports on a tranche of our assets as well as moving all energy provision in landlord-controlled areas to suppliers that provide green tariffs. See the ESG Report for more on this and our ESG strategy.

This commitment to ESG reflects our wider commitment to good stewardship while also giving rise a wealth of opportunities for value-add asset management initiatives as our tenants pledge to transition to fully environmentally sustainable businesses and to deliver value to society beyond purely financial returns.

Board changes

Following the Merger, the Board was delighted to welcome Nick Leslau and Sandy Gumm to the Board as Non-Executive Directors. They bring invaluable expertise and experience to the Board as well as intricate knowledge of the assets and debt portfolio of SIR plc.

the assets and debt portfolio of GIX plc.

On behalf of the Board and management team, I would like to express my deep thanks to Jan Etherden and Patty Dimond, both of whom stepped down as Directors, for their contributions to the growth and success of the Company since its IPO and for the strong legacy they leave.

The Board changes have also enhanced the Company's Board succession planning with a more staggered range of tenure among the Board. We have undertaken a detailed Board review in the year and look to implement its findings. I very much look forward to continuing to work closely with the Board to help steward the business to further success and outperformance for our shareholders.

Outlook

The successful merger has created a platform from which we will be able to grow the Group even further, leveraging our scale, experienced management team and low cost base.

We see exciting opportunities in the market in the form of:

- a significant pipeline of assets through permanent structural change within open-ended funds that have traditionally held vast prime long income portfolios,
- a cliff edge of refinancing events for corporates as their historic, low-cost bonds mature that we expect will create a source of new, long income stock through sale and leasebacks,
- the significant opportunity for consolidation and M&A in the long income market, due to share price discounts and a range of sub-scale platforms that fail to provide desired liquidity and downside protection. The scale and diversified nature of our portfolio and investment strategy and the demonstrated expertise and skills of our management team put the Company in a strong position to capitalise on these opportunities, and
- value opportunities in our existing portfolio through lease re-gears, strengthening relationships with our key tenants and other asset management initiatives.

With forecasts for inflation stabilising and interest rates reaching terminal level, we believe the property market repricing will begin to reverse in the second half of the calendar year. Property values appear to have stabilised since the year end and properties with defensive qualities tend to be those that rebound the quickest, particularly in tougher economic climates where capital chases secure investments.

The Group continues to deliver progressive dividend growth supported by our index-linked rents and largely fixed debt costs as well as accretive asset management and is targeting a fully covered dividend of 6.6p for the year to 31 March 2024, representing an increase of 5% on the prior year.

I thank both the Board and the management team for their continued work in the year. Going forward we remain focused on managing both the risks and opportunities that our portfolio presents. We remain highly confident in our ability to successfully capitalise on the growth opportunities that we continue to identify and on continuing to provide a secure and growing income return to our investors. This will enable us to continue to enhance and unlock sustainable value in our defensive, resilient portfolio for all of our stakeholders.

Cyrus Ardalan

Chairman

6 June 2023

INVESTMENT ADVISOR'S REPORT

Certain statistics and KPIs are alternative performance measures for which definitions are given in the Key Performance Indicators and EPRA performance measures sections or otherwise as included in the Glossary.

Portfolio overview

The Group's portfolio comprises 350 fully let and well diversified long-income properties across 13 sub-sectors with multiple underlying uses. The assets are let on very long leases averaging 27 years to first break, to over 80 separate tenant operators on low and sustainable rents. All leases are granted on full repairing and insuring terms, protecting the Group from property cost leakage and capex requirements.

The Group's lease arrangements provide contracted annual rent of £202.2m. The lease rent review provisions provide inflation protection with 98% of the reviews by rental value either containing index linked or fixed rental uplifts. Rents are reviewed on an annual (56%) or five-yearly (44%) cycle.

The expectation of poor economic growth, generationally high levels of inflation and consequent interest rate rises across global economies, have significantly impacted property values in the UK. Long income property value has traditionally correlated more closely with GDP growth rather than interest rates. A significant increase in property investment as an alternative income asset class due to the attractive spread to gilts and other debt and equity investments, has meant that as that gap has tightened and even reversed through interest rate hikes, even inflation

investments, has meant that as that gap has tightened and even reversed through interest rate hikes, even inflation linked long lease properties have seen a dramatic yield shift.

The Company's defensive characteristics, with very long and indexed leases, broad diversification and a proactive management style has provided partial protection. The portfolio was independently valued at £3,356.3m (31 March 2022: £1,544.4m) with contracted rental income of £202.2m per annum, reflecting a like for like change of (9.6)% for the 12 month period. The movement reflects an outward yield shift of 90 bps to 5.4% at 31 March 2023 (31 March 2022: 4.5%), offset by 2.3% like for like rental growth.

The Company's total return for the 12 months ending 31 March 2023 of (10.7)%, on a geared basis, is ahead of the CBRE All Property Benchmark of (16.2)%, on an ungeared basis, for the same period. This is particularly pleasing given the lower risk attributes the portfolio compared to the all property benchmark.

Our strategy remains to invest in assets that are mission critical to our tenants' operations in defensive sectors with a stable outlook and high barriers to entry. The merger with Secure Income REIT has enhanced both the defensive characteristics of the portfolio and its income security. It has provided accretive asset management opportunities, some of which have already come to fruition and are detailed below. Additionally, selective disposals have and will continue to provide the ability to reduce sector and tenant concentration, repay debt and reduce leverage and to redeploy capital opportunistically.

Sector exposures

The portfolio is well diversified across a broad range of resilient sub-sectors with high barriers to entry, strong underlying property fundamentals, and low starting rents. The assets are let on long-term leases to tenant counterparties which have demonstrated strong performance throughout previous economic cycles.

This multi-sector strategy both provides downside protection and offers a broad universe of assets in which to deploy capital. The strategy gives investors a diverse and flexible portfolio where exposures can be increased or reduced as appropriate to address external factors such as changing consumer behaviour, enabling the company to pivot towards sectors where we anticipate the best returns for our shareholders over both the short and the longer-term.

The Group's sector weightings including asset acquisitions for which contracts have exchanged but have not yet completed, are as follows:

Healthcare - 22% (31 March 2022: 8%)

Following the merger with Secure Income REIT, Healthcare has become the Company's largest sector by capital value. It is a sector that has demonstrated resilient performance with robust occupancy rates and significant capital inflows over a long period of time. In the period it has outperformed the CBRE All Property Benchmark of (16.2)% compared to (6.2)%.

The sector tends to be characterised by long inflation linked leases giving occupiers the security they need to invest in this capital-intensive sector and indexation allowing business to plan effectively. The expectations of the end user are high and occupiers require property that enables them to continue to thrive in this competitive market.

Due to the supply/demand imbalance in UK hospitals and other healthcare properties, in general healthcare valuations have not been affected by cyclical economic trends. Limited quality stock, high barriers to entry and an aging demographic that is living longer are underpinning demand and driving increased capital allocation to the sector. We are currently seeing continued unsolicited interest in the healthcare portfolio despite challenging macroeconomic conditions. This lack of correlation with other real estate sectors provides the Company with enhanced risk mitigation through diversification.

Ramsay Health Care (Ramsay) is the Company's major tenant within the sector with 18% of the total portfolio rental income. Ramsay operates a global network of clinical practice, teaching and research facilities. They operate across ten countries, with over 11 million admissions and patient visits to facilities in more than 530 locations. Within the UK, Ramsay operate 34 acute hospitals of which 11 are in this portfolio. Ramsay recently acquired Elysium Healthcare, a leading independent operator of 76 long-term medium and low secure hospitals and complex care homes for individuals with mental health conditions. Ramsay demonstrated strong results for H1 2023 with a positive outlook. We note the rise in demand for the private pay market and the ongoing propensity for the NHS to work with independent providers and we expect these trends to continue. This is particularly the case in the provision of mental health services where demand has increased dramatically in recent years; a situation that has been exacerbated by Covid lockdowns and an area we expect Ramsay to significantly benefit from following the integration of the Elysium business.

Ramsay is well positioned to continue to take advantage of the large increase in self-pay demand driven by increased NHS waiting lists as well as benefitting from increased NHS contracts as the Government seeks to reduce waiting list for non-emergency operations. Through the structure of the lease, we have guarantees from the ultimate, listed

parent company meaning we have the benefit from the strength of their global operations. The Ramsay Group also benefits from an investment grade rating.

Looking forward, this is a sector where we continue to see strong growth prospects. Investment pricing has stabilised and recovered rapidly following the disruption of the mini budget last year and we anticipate the appetite from both occupiers and investors to continue in this sector.

Hotels - 21% (31 March 2022: 13%)

This sector has provided robust performance despite wider economic challenges. This was, in part, due to our proactive management approach securing an accretive rent smoothing and lease extension agreement with our largest hotel tenant Travelodge. Golden Tree is now the sole owner of Travelodge, which is also a positive step and we will continue to work closely with them.

The budget hotel sector is experiencing a boom, with both of the Company's tenants reporting record numbers as more and more customers turn to a trade down alternative and following the easing of the pandemic lockdown restrictions in the UK with both major operators, Travelodge and Premier Inn, surpassing pre pandemic performance. Travelodge reported record profits for their financial year ended 31 December 2022 from previous 2019 highs. Likewise Premier Inn reported H1 2023 revenues (26 weeks to September 2022) up 25% on the equivalent FY2020 period. Both operators are benefitting from strong demand from both business and leisure customers as the staycation trend continues and business travel recovers. The budget sector looks well placed to continue this outperformance as more travellers trade down amid the continued cost-of-living backdrop. Both operators are continuing with a sustained programme of investment in their portfolios which is further supporting market outperformance.

Our assets delivered like for like performance of (1.1)% over the year making it our second best performing sector. Investment market demand has remained despite the wider challenges in the economy, with end user demand strong and the best hotels in strong locations let to the covenants trading well.

Theme Parks - 19% (31 March 2022: -%)

This is a new sector for LXI that was acquired as a result of the merger with Secure Income REIT. It gives the Group exposure to a diverse, uncorrelated sub sector, secured against the dominant operator in the UK, Merlin Entertainments. Merlin operates all the major attractions in the UK including our assets Alton Towers, Thorpe Park and Warwick Castle. They are the only operator of UK attractions to feature in the Aecom's Top 20 attended attractions for EMEA in 2021.

Merlin is Europe's largest, and the world's second largest, visitor attraction operator with 142 attractions in 25 countries. This sub sector of UK leisure and hospitality has proven to be non-cyclical and benefits from a level of discretionary spend consumers are not willing to forgo. Merlin reported trading at its resort theme parks business in 2021 was ahead of pre-pandemic 2019 levels and that year to date 2022 was ahead of budget at the end of Q3 2022. Through the structuring of the lease, we have guarantees from the ultimate parent company, meaning we have the benefit from the strength of their extensive global operations.

Merlin continues to invest heavily in its estate. Enabling works have begun at Thorpe Park for a new rollercoaster due to open in 2024 with a capital investment from Merlin of c£20m. The Company works closely with Merlin to realise opportunities within the estate and have agreed to fund the development of a new 60-bedroom hotel at Warwick Castle, set to open in January 2024.

Given the significant barriers to entry for any new theme parks in the UK, and the very long inflation linked income with over 54 years to expiry, the Company sees this sector as providing a key source of long term, defensive and diversified income.

Foodstores and Essentials - 10% (31 March 2022: 25%)

The yield compression that has been seen over the previous few years in this sector has partially been reversed in the year. Yield expansion has been driven by both significantly reduced investment activity by domestic single sector REITs and US REITs who had bid down prices significantly in the past five years along with the economic impact of interest rate increases.

However, foodstores remain an important sector for the portfolio and underlying occupational demand remains strong. It is a sub-sector that forms part of the structure of the economy with significant non-discretionary spend. Our assets have been carefully selected at the point of purchase, are well located, rack rented or reversionary and have long inflation linked leases. They are let to a variety of well established occupiers and we anticipate they will continue to perform well in the medium term as capital markets stabilise.

We continue to see value in asset purchases in this sector by working with major operators on sale and leaseback

opportunities and from open ended funds disposing of standing investments to meet their redemption requirements.

Industrial - 7% (31 March 2022: 18%)

Despite the continued strength of occupier demand there has also been notable yield expansion in this sector during the period. The Company's assets have performed comparatively well and have significantly outperformed the CBRE Industrial Benchmark (27.7)%.

The Group's industrial assets are generally underpinned by their strategic, often business-critical, importance to the occupiers. They are let on long inflation linked leased to a range of strong covenants and, in many cases, rents are reversionary. Generally, rent reviews are subject to 3-4% pa, securing inflationary linked growth in the long run, whilst ensuring that rents remain affordable for occupiers. At purchase we target asset where vacant possession value is close to, or sometimes in excess of, the price.

Looking forward, it is anticipated that occupier demand will remain resilient, and that industrial property development will continue to be constrained by substantial rises in building costs making new schemes less profitable for developers and potentially unviable.

It is anticipated there will be some yield compression in the medium term in line with the recovery of the capital markets and the Group's industrial assets will be well positioned to benefit from this recovery.

Other - 21% (31 March 2022: 36%)

There is a wide variety of assets held by the Company, making the strategy truly diversified and giving investors exposure to a broad range of different assets and tenants. The largest sectors detailed above constitute 79% of the Company's total holdings. The remaining 21% includes leisure, public houses, Manchester Arena, Car Parks, Garden Centres, Life Sciences, Drive-thru coffee pods and Education. See property portfolio section for breakdown.

Acquisitions and disposals

In addition to the properties that the Company acquired through the merger with Secure Income REIT, it has separately acquired five new properties during the year totalling £89.1m:

- A foodstore let to Asda in Halesowen on a lease with 21 years remaining. The lease benefits from fixed rental increases of 3%pa on a 5 yearly basis.
- A garden centre let to Dobbies in Reading on a 35 year lease with annual reviews to CPI+1% capped at 4% with a collar of 1.5%.
- A forward funding of a drive thru coffee pod pre-let to Costa on 15 year lease with 5 yearly reviews to RPI subject to annual Cap of 4% and collar of 1%.
- A forward funding of a Nursery in Addlestone, Surrey, pre-let to Busy Bees on a 25 year lease with 5 yearly CPI reviews annually capped at 4% and a collar of 1%.
- The forward funding of two foodstores in Houghton Le Spring pre-let to Tesco on a 20 year lease and Home Bargains on a 15 year lease. The Tesco lease benefits from 5 yearly reviews to CPI capped at 2.5%pa.

The Company disposed of the following assets totalling £29.5m:

- Two car showrooms let to Cazoo in Northampton and Chertsey.
- A hotel let to Premier Inn and adjoining retail park in Saffron Walden.

Significant asset management transactions

Merlin income strip

As the first part of re-financing, the Company used an innovative ground lease structure to release capital. This involved the sale of a 65-year income strip in Alton Towers and Thorpe Park in October 2022 for £257m. The sale price represented a net initial yield of 2.96% NIY on 30% of the annual rental income. The structure comprised selling the freehold in the properties to a UK institutional investor, with 999-year leases granted back to the Company pursuant to which the Company pays an annual aggregate rent of £8.2m, representing 30% of the annual rental income received from the tenant. The Company can acquire the freehold back for £1 in year 65.

This has been a performance accretive way of diluting the Company's exposure to one of its largest tenants, thereby improving diversification at portfolio level and providing capital at a very cost effective rate compared to traditional bank debt.

Travelodge lease re-gear

In December 2022, the Company exchanged contracts with Travelodge Hotels Limited on an accretive lease regear across 122 hotels. In return for converting the 5-yearly uncapped RPI reviews to 5-yearly CPI+0.5% compounded with caps at 4% and collars at 1%, the Company has extended the unexpired lease terms by a weighted average of nine years. This resulted in the weighted average unexpired lease term to first break on the 122 hotels increasing from 10.5 years to 20.5 years. No rent free period was granted. The Company and Travelodge also agreed a rent

from 19.5 years to 20.5 years. No rent-free period was granted. The Company and Travelodge also agreed a "rent smoothing" across the 122 hotels so that individual rent levels were reset to best reflect the trading performance of each site the total rent roll remains the same. At the period end not all of these leases had completed as some superior landlord approvals are pending. This is simply a timing issue as consent cannot be withheld unreasonably.

The Company took the opportunity to agree "green lease" provisions to modernise the leases including to effect the following principles: (i) sharing of energy, water, recycling and waste data; (ii) co-operating on the environmental, social and governance strategies of the landlord and tenant; and (iii) future proofing the leases to ensure the landlord has the necessary rights to enter the properties to make environmental performance improvements.

Rent collection

The Company's operational performance has remained robust throughout the year with 100% of rent due having been collected. The Investment Advisor works closely with both tenants and property managers to ensure timely payment of rent. The portfolio has 100% occupancy and 98% of rent reviews are inflation linked or subject to fixed uplifts. This further assists with the tenant relationships, removing the requirement for protracted rent review negotiations and enables businesses to plan which in turn encourages prompt rent payment.

Inflation and rent reviews

Due to various geopolitical and macroeconomic factors we have seen a year of high inflation. CPI annual growth averaged 10.1% and RPI annual growth averaged 13.5% for the year to March 2023. The Group's 122 contracted rental uplifts in the period were broadly capped or fixed and delivered average growth of 3.6% pa, resulting in like for like rental growth of 2.3%.

The Group's portfolio income is 98% index-linked or contains fixed rental uplifts, which breaks down between RPI 26%, CPI 38% and fixed 34%. The Group's fixed uplifts average 2.7% pa. Of the Group's portfolio, 56% of the rents are subject to collared uplifts, which average 1.2% pa and 60% are subject to capped uplifts, which average 3.9% pa. We therefore expect the Group to capture the vast majority of inflation over the medium-term, but the Group is also well protected against lower inflationary periods.

The portfolio's rent reviews are either on annual (56%) or five-yearly (44%) cycles, and over the following five year period the Group expects the following percentage of rental income to review in each financial year:

Year ending 31 March	Annual	Five-yearly	Total
2024	56%	5%	61%
2025	56%	5%	61%
2026	56%	11%	67%
2027	56%	10%	66%
2028	56%	9%	65%

Linking rental growth in the Group's portfolio to indexation seeks to provide investors with inflation-protection, whilst also capitalising on the traditional faster pace of inflation beyond commercial real estate open market rents in the UK.

The possibility for continued higher inflation represents an opportunity for the Company to generate superior income driven returns for investors, given the inflation linkage in the Group's portfolio rent reviews and the long-term lease arrangements. That said, without the mitigation factors that the company has in place, levels of inflation that are currently being experienced in the UK could, over the longer-term, cause rents in the portfolio to grow to the point where they materially exceed equivalent market rental values, as well as potentially resulting in unsustainable rental growth for tenants or in properties made less attractive to alternative operators due to profit erosion.

The portfolio is protected from this risk in a number of ways, including:

- (i) capped and fixed rental uplifts giving the tenant (and the Group) certainty of rental growth profile,
- (ii) regularly entering into new leases at very low rents through forward fundings and sale and leasebacks that provide a higher level of rent cover and are therefore better able to withstand rental growth,
- (iii) recycling of capital into new assets to refresh the portfolio and maintain a low spread to market rents, and
- (iv) focussing on well capitalised tenants with a high proportion of freehold ownership and lower exposure to rents that are better able to ride out such inflationary periods.

Financial results

Total accounting return

	31 March	31 March
	2023	2022
Total accounting return	(10.7)%	18.2%

The Group's total accounting return comprises income, through dividends paid to shareholders, and capital returns, through changes in EPRA NTA during the year. A summary of the dividends paid and EPRA NTA movement is given below.

EPRA NTA

	31 March	31 March
	2023	2022
EPRA NTA per share (ex-dividend)	121.1p	142.6p

During the year, the EPRA NTA contracted 15.1%, broadly reflecting the outward shift in valuations during the year, compounded slightly by the Group's leverage.

Dividend per share

	31 March	31 March
	2023	2022
Dividend per share	6.30p	6.0p

In respect of the year, the Company has proposed dividends totalling 6.30p per share. The dividend per share reflects an increase of 5% on the previous half-year.

Total expense ratio

	31 March	31 March
	2023	2022
Total expense ratio (annualised)	0.9%	1.0%

Following the successful merger with Secure Income REIT plc, a new lower investment advisory fee tier was introduced, and incremental management fees are now charged at a modest 55 bps (on market capitalisation above £2bn). The reported TER includes only eight months of the enlarged Group post-merger and we expect the efficiencies of scale achieved to be demonstrated through further reductions in the total expense ratio in the years ahead.

Loan to value

	31 March	31 March
	2023	2022
Pro forma net LTV	37%	22%

In the medium-term, in line with our conservative leverage policy, our LTV is expected to be maintained at approximately 30% which we expect to achieve through a combination of active and selective disposals and through the general recovery of the property sector. Current pro forma net LTV is well within the Group's borrowing policy cap of 40% and the Company maintains significant headroom to all banking covenants.

Financing

The Group's debt pool is secured against the majority of the Group's investment properties and comprises the facilities listed below.

A summary of the facilities as at the year end, then subsequent to our post year end refinancing are below:

Position as at 31 March 2023				
Facility	Lender	Principal	Maximum cost	Maturity
Term loan	Scottish Widows	£55.0m	2.74%	Dec 2033
Term loan	Scottish Widows	£40.0m	2.74%	Dec 2033

Term loan	Scottish Widows	£75.0m	2.99%	Dec 2033
New facilities in the year				
Leisure facility	HSBC ¹	£60.0m	3.20%	Jun 2023
Acquisition facility ^{1,3}	Barclays and HSBC	£385.0m	4.81% ¹	May 2024 ²
Merlin B Facility ^{1,2,3}	Blackstone	£53.0m ³	4.95%	Mar 2026 ²
Budget hotels ^{1,3}	M&G	£59.0m	2.71%	Oct 2023
Budget hotels ^{2,3}	M&G	£65.4m	3.35%	Apr 2023
RCF ³	Lloyds Bank and RBSi	£102.0m	2.95%	Aug 2024
Healthcare ¹	L&G	£63.1m	4.29%	Sep 2025
Healthcare ²	AIG	£292.5m	5.30%	Oct 2025
		£1,250.0m		
Facilities repaid during the year				
Merlin A facility	Blackstone	£232.0m	4.95%	Mar 2025

Position after post year end refinancing				
Facility	Lender	Principal	Maximum cost	Maturity
Term loan	Scottish Widows	£55.0m	2.74%	Dec 2033
Term loan	Scottish Widows	£40.0m	2.74%	Dec 2033
Term loan	Scottish Widows	£75.0m	2.99%	Dec 2033
Leisure facility	HSBC ¹	£60.0m	4.55%	Dec 2024
Healthcare ¹	L&G	£63.1m	4.29%	Sep 2025
Healthcare ²	AIG	£292.5m	5.30%	Oct 2025
New facilities post year end				
Long-term loan	Canada Life	£148.0m	5.75%	March 2039
Syndicate loan A	Lloyds, Barclays,	£115.0m	4.15%	Jan-2028
Syndicate loan B	Santander and	£250.0m	4.15%	Jan-2026
Syndicate RCF	RBS International	£200.0m	5.87%	Jan-2028
		£1,298.62m	4.71%	6 years

1. Facilities were also new during the year as they arose as a result of funding the acquisition of SIR or were existing SIR loans which LXi took on.
2. Loan principal was in Euros hedging the NAV and income exposure to Euro through the German asset. Translated to GBP at a rate of 0.88 to the EUR.
3. Facilities repaid post year end.

We have continued to take a proactive and resourceful approach to our refinancing, looking at alternative sources of financing rather than just vanilla bank debt. In September, we announced an income strip on the Group's Thorpe Park and Alton Towers assets. The 65 year income strip represented 30% of the annual rental income received from these assets to a UK institution for £257m, reflecting an attractive net initial yield of 2.96%.

There were two key material benefits behind this income strip, firstly it was instantly earnings accretive as the proceeds were used to pay down debt the Merlin A facility, which had a cost of 4.95% p.a. Secondly, the impact of the unwind on the associated hedging on the debt which was paid off raising £24m. This funded the cost of the new hedging we put in place for the second stage of our refinancing.

The next stage of our refinancing on 6 March 2023 was the completion of an extension of an existing £60m HSBC loan and the agreement of a new £148m 16-year term loan with an institutional lender.

We then completed our refinancing exercise in April 2023 with a new, £565m secured, interest-only debt facility with a syndicate of major clearing banks comprising a number of the Company's existing lenders.

We believe the fact that we have managed to refinance such a large volume of debt at attractive rates in a challenging economic climate demonstrates the quality of our assets and the robustness of our tenants.

The Group manages interest rate risk by either fixing (by way of fixed rate facilities or swapping floating rates) or capping rates. Fixing the rate of interest on these facilities gives the Group long-term certainty over its ability to generate significant growth in the generation of free cash flows as a result of largely collared index-linked and fixed rental uplifts, and the positive effects of conservatively structured leverage. The Group monitors the headroom on ICR covenants regularly and at present reports significant headroom on all facilities.

The balance sheet is well positioned with pro forma net LTV of 37%. As referred to above, our tightest covenant across the Group's secured facilities would require a 30% reduction in value to breach and the Group has significant unsecured assets and cash to use if required before any remedial action is taken.

The LTV is within our agreed range but above our longer-term target. If yields remain flat then this would result in a material positive movement of the LTV to 35.5% in FY24 and 33.8% in FY25. We remain committed to a conservative medium-term LTV target of 30% and will continue to actively manage down our LTV through disposals and value enhancing asset management initiatives. The Investment Advisor continues to receive significant unsolicited interest in the Company's high quality portfolio both for disposals and 'income strip' opportunities and expects to continue to selectively sell assets where capital could be better allocated to enhance shareholder returns.

Management resource

We are pleased to report the recent senior appointments of Alex Short and Alex MacEachin, as part of our continuing investment in resource and following the successful merger and integration with Secure Income REIT. Alex Short, appointed as Chief Investment Officer, has over 20 years' industry experience, having held senior roles at leading real estate businesses, including AEW and UBS. Alex MacEachin, appointed Finance Director, has extensive experience of property and construction finance and accounting matters, including most recently as Group Financial Controller of Empiric Student Property PLC.

Rob Ward as Head of Real Estate is a qualified Chartered Surveyor with more than 15 years' experience in commercial property. Most recently at Prestbury, helping to launch and manage Secure Income REIT through to its merger with LXI in 2022. Stacey Wood has been appointed as Financial Controller. Stacey is a Certified Chartered Accountant (ACCA) with more than 12 years direct experience in the commercial property sector, most recently at Prestbury, helping to manage Secure Income REIT from the time of its listing through to its merger with LXI in 2022.

During the year we also appointed, Alissandra Cooke as General Counsel. Previously Alissandra practised as a solicitor for 9 years at City law firm, Travers Smith LLP. She has significant experience advising cross-sector property funds, developers and operators on a broad spectrum of real estate matters. Barbora Melezinková was appointed Head of ESG. Previously, Barbora was a Senior Asset Manager on LGIM Real Assets' long income funds with dedicated focus on ESG strategy and implementation. Barbora is a qualified Chartered Surveyor with over 12 years of experience.

Outlook

The successful merger has created a platform from which we aim to grow the Group even further, leveraging our scale, experienced management team, liquidity and low cost base.

We see a number of opportunities such as assets coming out of open-ended funds due to redemptions, a number of corporate bonds are coming to maturity meaning they will need to find alternative sources of funding such as sale and leasebacks. The most significant opportunity we see is further M&A activity in the REIT market. There are a large number of mid-market generalist REITs which do not have the same access to capital, liquidity and low cost base which LXI does. We believe we have shown the material tangible benefits of which a merger can achieve with the SIR plc.

The Government and Bank of England believe they have more certainty over inflation over the near term, with inflation expected to return to more normal levels by the end of the year.

The impact of inflation for the Group's rental income is positive, given the portfolio's rent review linkage to UK inflation (26% RPI, 38% CPI). We are, however, cognisant of the potential impact that current levels of inflation could have on the wider economy. This may also be an impact on the prospects of our tenant operators but they can be managed by the rent review caps to the mutual benefit of the Company and its tenants.

The interest rate rises used to combat inflation have meant that property values in the UK have been impacted as was shown in the Groups valuation yield shifting to 5.4%. There are signs that the bottom of this value cycle has been met with the CBRE monthly index shows a rise (0.6%) in capital values for first time since the repricing last year.

The Group has continued its progressive dividend growth, we have announced a dividend of 8.5p for the year to 31

The Group has continued its progressive dividend growth, we have announced a dividend of 0.0p for the year to 31 March 2024, this is an increase of 5% on the year before and we expect it to be fully covered by our cash adjusted earnings.

Our focus remains to;

- protect and enhance shareholder value through accretive recycling of capital, asset management initiatives and maintaining a very long WAULT and diversification
- reduce leverage through selective disposals, active asset management and capital recycling, to improve balance sheet strength and protect progressive income returns
- continue to build a business which has the ability to grow using innovative strategies to provide market leading returns to our shareholders

For and on behalf of the Investment Advisor

Simon Lee

Director

LXi REIT Advisors

6 June 2023

Frederick Brooks

Director

LXi REIT Advisors

6 June 2023

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Statement

As a result of the UK's legally binding commitment to reach Net Zero by 2050, the property investment industry is now at the point of universally recognising the need for deep integration of environmental sustainability considerations into the strategy of any successful property portfolio.

Real estate investors have been linking buildings' wellbeing credentials and wider social value creation to successful financial performance for quite some time now, and there is plenty of evidence that companies with strong diversity, equity and inclusion ethos and emphasis on employee wellbeing report stronger business performance.

As a result of appreciating these relationships between responsible investment practices and value creation and preservation, the Board of Directors and the Investment Advisor recognise our responsibility to manage risk and add value through the integration of ESG considerations into all areas of the business.

This report has been prepared in accordance with the EPRA Sustainability Best Practice (sBPR) recommendations on Sustainability Reporting. The report outlines progress made against previously set targets and introduces new goals for the future as our strategy continues to evolve.

This report contains the following information:

- ESG goals and focus areas
- Year in review: key highlights and progress
- Disclosures in line with the Task Force on Climate-related Financial Disclosures (TCFD)
- Carbon Emissions and Energy Performance Certification
- Social and Community Engagement
- Governance
- EPRA Sustainability Performance Measures and the Global Reporting Initiative

ESG goals and focus areas

As ESG continues to rise in prominence in line with our stakeholders' demand for sustainable investments and with the UK's on-going focus on decarbonisation and social outcomes, we have continued to build on our successful work to date by articulating a comprehensive ESG strategy for the fund with a specific pathway to delivery and a set of measurable KPIs to help us monitor progress.

Our approach reflects the unique nature of our leases, and our occupiers' long-term commitments to the sites in our portfolio. With weighted average unexpired lease term at 27 years, a large proportion of current occupiers will still be in our buildings by 2050 and many will want to extend beyond this point given the strategic importance of the sites to their businesses. They are fully committed to on-going upkeep of the properties through the FRI leases and the vast majority have their own commitments to reduce own Scope 1 and Scope 2 emissions, which include building energy usage, to Net Zero levels ahead of 2050. The Company's operational Scope 1 & 2 emissions make up approximately 0.2% of the total, with the remainder generated by tenants. Our strategic goals and the plan for their delivery is therefore centred around supporting occupiers with the delivery of their own decarbonisation plans, including the financing of any larger capex projects in ways that generate additional income for the Company. Net Zero Carbon: Principles of energy hierarchy, as defined by the Better Buildings Partnership, have been followed in developing our net zero carbon pathways, to ensure effort is focused first on reducing energy demand and improving energy

efficiency before looking to renewable energy sources and offsets.

The *LXi REIT ESG Strategy and Net Zero Pathway* document can be found on our website and additional detail on key goals and metrics is covered later in this section of the report.

The merger with Secure Income REIT Plc in July 2022 resulted in a change to portfolio profile, bringing with it a new range of operational real estate, new tenants and a new set of risks and opportunities from an ESG perspective. There is now increased opportunity to add value through improving buildings' environmental performance in collaboration with our occupiers, as much of the building stock coming in from the Secure Income REIT is older in nature.

Our new top three largest occupiers, accounting for 55% of contractual rent roll, each have ambitious decarbonisation targets and have been extremely responsive to collaborating with us on decarbonisation plans for their sites within our portfolio. The same is true for the remainder of the top 20 and many of the smaller organisations making up the rest of the occupier base.

A high-level summary of delivery against previously set goals, alongside a refreshed set of forward-looking objectives in line with our ESG strategy is as follows:

Short-term initiatives (12-18 months from March 2021)		Longer-term goals (three plus years from March 2021):	
Obtain first GRESB rating on the portfolio (September 2022)	Completed	To continue to integrate climate-related matters into the Company's investment process	Ongoing
Obtain first EPRA sBPR rating (September 2022)	Completed	To develop a road map to deliver a science-based carbon neutral target for the business	Completed
Instruct decarbonisation reports on a further, pre-established tranche of assets (March 2023)	Completed	To provide investors and our wider stakeholder group with relevant and comparable disclosure relating to ESG matters	Ongoing
Move all energy provision in landlord-controlled areas to suppliers that provide green tariffs (September 2022)	Completed	To achieve EPC ratings on all assets which of A or B by 2030 as they come up for reletting.	Ongoing
Recruit for the role of Head of ESG	Completed		
Stringent ESG due diligence across all new purchases, including requirements for green provisions in leases	Completed		
Improve tenant engagement in providing emissions data to improve on our Scope 3 emissions reporting (March 2023)	Ongoing (coverage doubled for 2022 vs 2021)		
Strategic goals to 2025: Supporting occupiers' development of specific asset-level environmental and social strategies		Strategic goals to 2030 and beyond: Delivery of decarbonisation initiatives in collaboration with occupiers	
Portfolio Scope 3 emissions (tenant energy consumption) coverage by floor area: 2023: 75% 2024: 85%+		Delivery of decarbonisation initiatives in collaboration with occupiers	
Asset-level decarbonisation audits roll-out: 2023: 15% to have reduction plans in place by year end 2024: 30% 2025: >50%		Portfolio has the potential to achieve a 30% CO2 emission reduction by 2030 off a 2022 indicative baseline	
Social value focus: Complete scope assessment in 2023		Portfolio targeting operational Net Zero no later than 2050. in line with	

Biodiversity enhancement: Pilot and roll-out plan in 2023		the UK's legally binding target and reflective of the long-leased nature of our assets	
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Year in review: key ESG highlights and progress

We have made significant headway this year in consolidating our strategy, including setting the ultimate operational Net Zero target of no later than 2050, developing a clear set of KPIs to monitor implementation, enhancing our disclosures and making a start on forming approaches to biodiversity enhancement and social value creation.

Investment strategy

- Building on the materiality assessment completed in 2021, we have developed a comprehensive ESG strategy, incorporating a pathway to a Net Zero portfolio in operation no later than 2050.
- Standard investment acquisition due diligence ESG requirements have been enhanced beyond EPC ratings, construction certification and Net Zero audits, to include forward looking climate risk assessment, green clauses in leases and a number of social impact and wellbeing criteria.

Sustainability Reporting

- During the year, the Group's investment manager has moved its sustainability reporting function in-house, establishing full ownership and detailed understanding of all of the Group's portfolio and corporate emissions and energy intensity data under a well qualified individual with extensive experience in both surveying and ESG. We have developed a detailed Company ESG Dashboard monitoring over 30 individual ESG metrics covering data at the individual property-level, as well as monitoring our occupier engagement activity.
- We continue to report in alignment with all 11 recommendations of the TCFD and strive to gradually enhance our approach to scenario analysis. TCFD training is now also a standard requirement for any staff of the Investment Advisor directly or indirectly involved with climate-related reporting.

Tenant engagement / asset management initiatives

- As a result of a focused campaign to engage with senior managers responsible for property, ESG and energy management within our largest occupier organisations, we now have direct ESG dialogue with 19 of our top 20 tenants. Occupier energy consumption coverage for the portfolio doubled to 62% for the 2022 calendar year resulting from a wider engagement effort on data sharing.
- The next stage of engagement involves identifying where the Company as landlord can add the most value in supporting occupiers with their ESG journey through for example assisting with site-level Net Zero audits, teaming up on social impact initiatives or deploying further return generating investment into existing sites.
- We are progressing the roll-out of solar PV installation across four sites totalling 3 MW of capacity, and are in conversation with occupiers across seven further sites about PPA opportunities.
- Installation of EV charging points is currently being progressed across five sites in the portfolio.

Portfolio improvements

- Following the merger with Secure Income REIT, a detailed EPC audit identifying assets requiring EPC assessments and renewals has been carried out and we are progressing towards having the portfolio fully rated as soon as possible. Of the total 160 SIR properties, 144 (90%) now have a rating and we are working towards having the remaining 16 assessed as soon as possible.
- We are working with a panel of major UK Net Zero consultants to create a streamlined Net Zero audit format suitable for long FRI-leased properties which will cover both a pathway to NZ in operation and EPC improvement recommendations while adjusting the timing of proposed interventions to occupiers' planned maintenance programme timeline. Once this is finalised, these audits will be rolled out across priority sites where occupiers have not yet commissioned their own audits.
- All landlord-procured electricity in the portfolio is now on renewable energy tariffs.
- 35% of leases by rent roll now benefit from green provisions, with conversations on-going across a further 19% to explore incorporating green clauses.
- The clearance and planting stage of a biodiversity enhancement pilot has been successfully delivered across the landlord-controlled landscaping sections of Columbus Retail Park in Andover. Once fully established the new vegetation will deliver a BNG (Biodiversity Net Gain) of over +200% against the baseline, with an estimated commercial offsetting value of between £4k and £6k. While the nominal offsetting value is negligible, it covers the cost of carrying out the exercise and, crucially, aggregating BNG benefit across the wider portfolio once further initiatives are rolled out has the potential to make a tangible difference to UK biodiversity and ecosystem resilience more widely.

Task Force on Climate-related Financial Disclosures ("TCFD")

We have made voluntary disclosures in line with all 11 TCFD recommendations and are continuously refining the quality of our reporting. The Company became an official supporter of the TCFD in 2022, joining more than 2,000 organisations in demonstrating a commitment to building a more resilient financial system and safeguarding against climate risk through better disclosures. Further disclosure enhancements are planned, with immediate focus on increasing Scope 3 data coverage, embodied carbon measurement approach and scenario analysis development.

Governance	
a. Describe the Board's oversight of climate-related risks and opportunities.	<p>Climate-related strategy has been a standing agenda point for the Board since May 2021. This facilitates reporting on a quarterly basis directly to the Company's Board of Directors on the implementation of the Group's climate risk strategy.</p> <p>Climate-related risks continue to be firmly integrated into strategic, investment and operational decisions made. This has been achieved by, among other process enhancements, updating the format of Board reporting on acquisitions to include sustainability-related matters that are aligned with our ESG policy. The acquisition process also includes instructing decarbonisation reports for all assets that have EPC ratings lower than a B, with the aim of identifying specific risks and opportunities of potential assets.</p> <p>The Board oversees and monitors the ESG strategy and progress towards approved ESG goals and targets on a quarterly basis.</p> <p>Data on progress against KPIs is collated into quarterly reports by the Head of ESG, utilising the ESG dashboard which is updated on an on-going basis including input from the wider team.</p>
b. Describe management's role in assessing and managing climate-related risks and opportunities	<p>Representatives from the Investment Advisor and the Board of Directors came together to form the Company's Climate Risk Working Group (CRWG) in 2022. This Group makes recommendations to the Board regarding climate-risk and is co-chaired by the Chairman of the Board and the Advisor's recently appointed Head of ESG.</p> <p>The CRWG aims to meet a minimum of once a quarter to assess implementation of the strategy and reports directly to the Board of Directors at each quarterly Board meeting.</p>
Strategy	
a. Describe the climate-related risks and opportunities identified by the organisation over the short, medium and longer-term	<p>To adopt an informed approach to climate risk and opportunity assessment, the Investment Advisor worked with an external consultant in 2021 to establish a hierarchy of materiality of ESG factors to Lxi's internal and external stakeholders.</p> <p>The following climate-related areas were identified as most material:</p> <ul style="list-style-type: none"> ▪ Energy efficiency & CO2 emissions reduction ▪ Supplies of clean, renewable energy ▪ EPC and MEES compliance ▪ Effective risk management and pre-acquisitions due diligence ▪ Undertaking affordable improvements ▪ Building adaptability & resilience <p>This served as the initial building block from which a more comprehensive risk matrix was developed by the Climate Risk Working Group, as summarised in table below.</p>

	Short term (12 months): financial year cycle		Medium-term (up to 3 years): business planning and budgeting cycle		Long-term (3+ years, out to 2050, capturing the timeframe over which leases and other material arrangements, such as long-term loans, expire)	
	Risks	Opportunities	Risks	Opportunities	Risks	Opportunities
Legislation				Collaborating with tenants to	Due to the	The sooner we

	MEES	No immediate risks from MEES legislation as the portfolio does not hold any assets with EPCs below E in England and Wales.	Obtaining any missing assessments ahead of time will enable us to work on any required improvements well in advance of the planned 2027 & 2030 MEES deadlines	Any properties without an EPC in place by April 2025 would be in breach of legislation	carry out any required works to improve EPCs in a manner aligned with their own decarbonisation programme and planned maintenance will put the portfolio in a strong position, and we would expect to see yield compression and improved rental levels on higher rated assets.	proposed MEES requirements of C by 2027 and A/B by 2030, there is a risk that leaving works too late could result in increased costs for tenants of works nearer the time due to demand for materials and contractors	can work with tenants to upgrade properties rated C or below, the more of a competitive advantage we can get. However, this needs to be balanced with the outlook for automatically improved performance thanks to grid decarbonisation.
	Mandatory business transition planning	The UK is moving towards making the publication of transition plans mandatory, as announced at COP26 (2021) by Rishi Sunak. The consultation period just finished earlier this year, but the FCA already introduced recommendations for listed companies and large regulated asset owners to disclose transition plans as part of TCFD from 2023. This presents a great opportunity to refine strategy and set specific targets and KPIs, which we are fulfilling through the recently completed Net Zero Pathways work, but there are also reputational risk associated with non-compliance / inadequate disclosures.					
	Policy transition risks	It is very likely that MEES is just a start of legislative requirements relating to building decarbonisation, and that these, along with Carbon taxation, will get more specific and stringent as time progresses towards the UK's 2050 Net Zero target. This is supported for example by the recently published independent review of the Government's Net Zero strategy, as well as by the emergence of best practice standards such as the currently on-going UK Net Zero Carbon Building Standard initiative (which will set out performance targets for operational energy and embodied carbon aligned with a 1.5°C pathway, and in our view will be pivotal in guiding future policy), or the fairly recent move by an increasing number of local authorities to require whole-life Carbon assessments as a planning prerequisite.					
Market	Preference for sustainable assets	Brown discount: risk mitigation through occupier engagement on improvements; Green premium: at least a third of the portfolio likely to benefit. Although the outlook is uncertain, we believe the polarisation is likely to continue getting more pronounced as time progresses.					
Investor preference		Misalignment with existing & new shareholder preferences could restrict investment and negatively impact share price, while ensuring interests are aligned presents opportunities. One way to more clearly demonstrate the portfolio ESG profile in the near future will be through the FCA's SDR labelling, due to come into force in 2024.					
			Our new Facility Agreement is "SLL ready", meaning we have agreed with our lenders in principle to add sustainability-linked criteria into the FA				

Access to finance		into the IFRS, resulting in a +/-5bps adjustment to Margin based on achievement of the agreed Sustainability Performance Targets (SPTs). We will work closely with our lenders to develop an appropriate set of SPTs over the 12 month period to April 2024, with the view to convert the debt to fully Sustainability-Linked at that point.	Criteria for accessing capital likely to become more stringent over the longer term, but this will present the opportunity to access better rates on borrowing if criteria are met.
Risks to tenant businesses			Risks: Supply chain shortages, restricted access to utilities, energy pricing, carbon pricing; Opportunities: increased revenues from sales of sustainable products and services. These risks and opportunities are likely to become more pronounced as time progresses. We continue to monitor developments at a sector-level and ensure the portfolio is positioned appropriately.
Physical risks	Flooding	Over the short and medium term, there is a risk of physical damage to real estate as a result of immediate environment-related factors such as floods. To date, the Company has not purchased any asset with a 'high' physical risk on acquisition, however as assets are owned for a longer period of time we recognise the need to re-asses this. We are currently reviewing options of the most appropriate forward-looking physical risk modelling tools for the portfolio.	Over the longer-term, assets may become more greatly exposed to physical risk from extreme weather events and therefore no longer be viable to tenants. Forward-looking modelling tools become even more relevant over this longer time horizon.
	Other extreme weather events		

b. Describe the impact of climate-related risks and opportunities on the business model, strategy, and financial planning	<p>We believe climate risks pose material financial risks if not appropriately managed; however, we have integrated the following processes to ensure any risks are appropriately foreseen, monitored and mitigated:</p> <p>Acquisitions - During the acquisition process, we look to assess the true cost of a potential purchase and how we can transition it to a net zero carbon pathway, including the eventual adoption of higher EPC standards. The Group have instructed Zero Carbon reports on all acquisitions with EPC ratings below a B, and forward-looking climate risk is now included as a DD requirement.</p>
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	<p>On-going asset management - focus is on tenant engagement and collaboration on asset decarbonisation, including further investment opportunities for the Group in line with the detailed ESG strategy. The investment team has a fortnightly meeting with the Head of ESG to ensure initiatives are progressing in line with targets.</p> <p>Financial planning- Given the long, triple-net lease structures in the Group, property improvement costs towards the Net Zero transition generally sit with the occupiers. We are budgeting predominantly for ancillary consultancy costs, associated with supporting our occupiers with the delivery of their Scope 1 & 2 site level emission reduction plans. Providing this support is crucial, as occupiers' successful delivery of their decarbonisation goals ultimately translates into our successful delivery of our ultimate Scope 3 target. We continue to monitor the need to include the cost of EPC improvements in our financial appraisals and forecasting. For example, we have instructed the first tranche of decarbonisation reports on high value assets with poor EPC ratings to determine the estimated capex costs of carrying out improvements. This may in time need to be factored into our financial planning as we could be expected to share some of the capex costs with tenants. The Investment Advisor's Head of ESG, the Company Secretary, corporate lawyers and other third parties continue to keep the Company abreast of any changes in legislation, enabling us to remain ahead of compliance and take a forward-view.</p> <p>Access to capital - Our climate risk strategy is designed to ensure we meet appropriate sustainability credentials so we can continue to access debt and equity and partner with lenders at low cost. We are planning to manage the risk associated with access to capital by providing investors and other stakeholders with relevant and comparable ESG metrics and disclosures. The Investment Advisor communicates regularly with the Company's shareholders to understand their changing parameters and requirements and to ensure we continue to meet their expectations when it comes to sustainability and climate-related matters.</p>
c. Describe the resilience of the organisation's strategy against different climate-related scenarios e.g., different impacts on infrastructure at higher future temperatures, including a 2°C or lower scenario.	<p>We recognise that climate change poses material risk to our business, both directly and indirectly. As part of our strategic evolution, we are committed to transparently addressing the transitional and physical risks and opportunities relevant to the Group.</p> <p>We are at the initial stages of carrying out quantitative scenario analysis for the portfolio. As a starting point, we have considered the Intergovernmental Panel on Climate Change (IPCC)'s latest SSP-RCP scenarios and developed a matrix assessing key risks and opportunities to the portfolio under each scenario, taking the following key factors into consideration over short, medium and long term horizons:</p> <p>Transitional / structural: market & technology shifts (structural demand changes to property sectors and likelihood of tenant business resilience), pressure on tenants' supply chains, energy prices, policy shifts, impact on property values & stranding risk, and reputation</p> <p>Physical: physical risk to buildings from extreme weather events</p> <p>Under the two warming-limiting scenarios (SSP1-1.9 & SSP1-2.6), the most significant risks and opportunities will come from continued consumer demand shift for sustainable products and services, policy shifts (e.g. increasingly stringent building standard requirements, carbon pricing) and resulting impact on property values in the form of green premia and brown discounts.</p> <p>There is already increased attention in the market on assets' ability to adhere to pathways to Net Zero emissions in line with limiting the Earth's warming to well below 2°C as per the Paris Agreement, measured through tools such as CRREM. Underperforming these benchmark pathways will increasingly result in direct impact on valuation as factoring in the costs of remediation becomes market standard</p>

	<p>market standards.</p> <p>Under the three higher warming scenarios (SSP2-4.5, SSP3-7.0 and SSP5-8.5), the most significant risks and opportunities to the portfolio would emanate, to varying degrees depending on the scenario severity, from physical risks to the properties. The outcome would depend on our ability to avoid (through stock selection and trading) and eliminate (through asset improvements) physical risks to the properties, as well as our ability to maintain a tenant mix with robust business longevity even under these challenging physical risk scenarios.</p> <p>These physical impacts may include "acute" physical damage from variations in weather patterns (such as severe storms, floods, drought and over-heating) as well "chronic" impacts such as sea level rise.</p> <p>Although all of our leases are Full Repairing and Insuring leases, meaning for the duration of the tenancy the tenant is responsible for all repair and upkeep with regulatory standards, we recognise potential financial impacts on our tenants could in turn impact the Group through tenant default or forced vacancy. Indeed, our tenants may be financially impacted by physical risks in the following ways:</p> <ul style="list-style-type: none"> · Reduced revenue from decreased production capacity and increased business disruption (e.g. supply chain interruptions, damages to production sites, transport issues etc.) · Reduced revenue from lower sales · Write-offs of stock or assets (e.g. due to damage to buildings or equipment) · Increased costs required for health and safety or to repair damage · Increased insurance premiums on assets that are considered 'high' physical risk <p>This will in turn have direct impacts on the Company. For example, assets that become difficult to rent or lay vacant due to tenant default may require rent-free periods or concessions and valuations are likely to be adversely affected for assets exposed to more frequent or extreme weather-related events. The Company mitigates this by maintaining strong relationships with its tenants to ensure both parties are informed of risks. It also continues to carry out appropriate due diligence on all new acquisitions so that potential risks are identified at an early stage; and the potential financial impact is considered in financial projections.</p> <p>To date, the Group has not acquired an asset classified as having a 'high' physical risk as per XDI's assessment framework. However, we recognise the need to re-assess and monitor exposure to physical risks to reflect new climate science and forecasts.</p> <p>We are currently reviewing options of the most appropriate forward-looking physical risk modelling tools for the portfolio.</p>
Risk Management	
a. Describe the organisation's processes for identifying and assessing climate-related risks.	<p>In addition to the risk management approaches outlined under Strategy (b), the following key Climate risks are monitored through the Company's principal risk register.</p>
b. Describe the organisation's processes for managing climate-related risks.	<ul style="list-style-type: none"> - Valuation risk - Access to capital - Regulatory risk
c. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	<p>These sit on the register alongside all other key organisational risks such as micro- and macroeconomic, property-specific, operational and compliance risks and are treated as equal priority.</p> <p>Responsibility for identifying, assessing and managing climate-related risks, both those on the principal register and the more detailed risks in Strategy (b)</p>

	<p>which are monitored on an on-going basis, are delegated to the Climate Risk Working Group (CRWG)- under the direct oversight of the Board and which includes Board members. The CRWG continually evaluates key risks (which includes sustainability/climate change related risks), the effectiveness of existing controls and identifies where further mitigation measures might be required. For example, this approach led to the inclusion of climate considerations within the acquisition and due diligence process.</p> <p>Time horizon/ urgency, potential impact magnitude, likelihood of occurrence and level of direct control over the management are all taken into account when making decisions on the priority and management of risks.</p> <p>Transition Plan: The Net Zero Pathway to 2050, developed through our work with Carbon Intelligence, identifies stranding risks and guides us towards asset management plans aligned with Science-Based Targets.</p> <p>The Company's application for membership of the Better Buildings Partnership in January has been successful, and LXI REIT has been enrolled as a full member from April 2023 allowing the Group to contribute to leadership in sustainability best practice as well as to access the latest research, and the support of its wider membership base.</p>
Metrics and Targets	
a. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	<p>In line with the Group's Net Zero pathway, the following are our ultimate metrics for monitoring on-going progress:</p> <ul style="list-style-type: none"> - Delivery against asset-level decarbonisation plans (Scope 1, 2 & 3) - CO2e emissions & year on year emission reductions - Building Energy Usage Intensity (EUI) reductions - Monitoring and mitigation of building-specific physical climate risk <p>However, we have also established a set of more detailed core KPIs, developed based on regulatory requirements, disclosure best practice, conversations with key investors, industry standard approach to metrics, and work with the investment team.</p> <p>We now have an ESG KPIs dashboard in place which is updated on a regular basis and helps us keep track of progress against targets.</p> <p>This core set of metrics provides good coverage, satisfies investor and disclosure framework requirements, and forms a good feedback loop for keeping the CRWG and the Board updated on progress.</p> <p>Short term KPIs (updated on an ongoing basis and monitored quarterly):</p> <ul style="list-style-type: none"> - Occupier utility consumption data coverage - Occupier engagement - Occupiers' own targets and progress - % Decarbonisation plans for buildings completed (Scope 1, 2 & 3) - EPCs - On-site renewable energy generation capacity - Green lease provisions
b. Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	<p>Later in this report, we provide disclosure of our Scope 1, 2 and selected Scope 3 emissions. We arrange our GHG emissions reporting in line with the Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard. Our relevant emissions categories include fuel and energy related activities, business travel, water use and emissions from downstream leased assets (tenant emissions) where data is available.</p> <p>In 2022, we doubled our occupier energy usage data coverage vs 2021, to over 60% by floor area.</p>

c. Describe the targets used by the organisation to manage climate related risks and opportunities and performance against targets.	<p>As a way to ultimately manage the portfolio transition to a low carbon economy, the overarching target of operational Net Zero no later than 2050 has been set, in line with the UK's legally binding target and reflective of the long-leased nature of our assets.</p> <p>Short term targets (to 2025, from a 2022 indicative base):</p> <p>Occupier energy usage coverage: 2023: 75% 2024: 85%+</p> <p>Asset-level decarbonisation audits roll-out: <u>2023</u>: 15% to have reduction plans in place by year end <u>2024</u>: 30% <u>2025</u>: >50%</p> <p>Social value focus: Complete scope assessment in 2023</p> <p>Biodiversity enhancement: Pilot and roll-out plan in 2023</p> <p>Medium to long-term targets (to 2030 and beyond)</p> <p>Delivery of decarbonisation initiatives in collaboration with occupiers</p> <p>Portfolio has the potential to achieve a 30% CO2 emission reduction by 2030 off a 2022 indicative baseline</p> <p>The CRWG reviews progress against approved short-term actions needed to achieve each longer-term goal and adapts these to ensure continuous improvement.</p>
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Carbon Emissions and Energy Performance Certification

Energy and carbon performance data - headline figures

Landlord emissions continue to make up a negligible portion of the portfolio.

Total like-for-like emissions [EPRA sBPR 302-1] increased +3% for calendar year 2022 vs 2021, with the increase in like-for-like Scope 3 tenant utility usage (driver of 99.9% of the portfolio's operational emissions) significantly more pronounced vs the increase in emissions themselves: +13% growth in electricity and +5% in fuel consumption.

This was predominantly driven by the following factors:

- Businesses returning to full time operations following pandemic-related closures in the previous year.
- Considerable increase in fuel consumption [EPRA sBPR 302-1 Fuel-LfL] by the hospitals in the portfolio: due to the return from the pandemic to private healthcare. We will review and gain further details around this increase from the occupier.
- Increased electricity usage [EPRA sBPR 302-1 Elec-LfL] by some of our largest industrial occupiers due to increased demand for goods produced at their sites within our portfolio. Thorough energy audits and assessment of energy optimisation potential are high on our agenda.
- Last winter was milder vs the previous year, supporting a lower increase in overall fuel usage [EPRA sBPR 302-1 Fuel-LfL].

While overall it is good news that continued decarbonisation of the UK electricity grid is being reflected in lowered emissions relative to the actual increase in energy consumption, these headline figures underline the fact that we must continue to urgently press on with helping our occupiers improve their sites from an energy efficiency perspective.

A more detailed emissions breakdown, including market segment analysis, is provided in the EPRA sBPR appendix within the Annual Report.

Emissions

Emissions

scope	2021		2022	
	Consumption	Emissions	Consumption	Emissions
	2021	2021	2022	2022

		(kVn/ m3/ miles)	(tCO ₂ e)	(kVn/ m3/ miles)	(tCO ₂ e)
Landlord procured gas and refrigerants	1	0	0.0	0	0.0
Landlord procured electricity	2	60,006	12.7	491,688	95.1
Occupier gas consumption	3	94,442,995	17,298.2	113,058,671	20,637.7
Occupier electricity consumption - grid (location-based)	3	108,292,863	22,993.8	131,810,010	25,489.4
Occupier other fuels consumption	3	1,650	0.4	4,889,268	1,045
Downstream services (Investment Advisor's emissions)					
Gas consumption (office)	3	2,825	0.5	3,554	0.6
Electricity consumption (office)	3	15,592	3.3	8,019	1.6
Water consumption (m3, office)	3	20	0.0	31	0.0
Business travel (miles)	3	19,295	5.1	9,337	0.7
Total annual emissions			40,314		47,270
Total like-for-like emissions			38,844		40,190
Like-for-like change					+3%

1 Data notes

Reporting period	The energy and carbon emissions data presented here is for the reporting period 1 January 2021 to 31 December 2022 and for the comparative period spanning 1 January 2020 to 31 December 2021. The time periods do not align to our financial year due to the timing lag around availability of data.
Reporting method	<p>We arrange our GHG emissions reporting in line with the Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard.</p> <p>Grid electricity emissions are reported on the location-based method, as well as providing market-based calculations for reference, reflecting the reduced emissions from purchasing of renewable electricity.</p> <p>This reflects the fact that the location-based approach reports on what the company is physically putting into the air, and while it is useful to show emissions the company is responsible for through its and its occupiers' purchasing decisions such as a renewable energy contracts for comparison, we see the disclosure of our physical emissions as the most relevant.</p>
Carbon scope and reporting boundaries	<p>Boundary: We have elected to adopt the Operational Control approach as defined by the GHG Protocol. As Scope 3 emissions are outside of our direct control, we do not deem estimation of usage and emissions to be appropriate as the currently available benchmarks are very generic in their nature and therefore could result in significant under- or overestimation of usage. Properties where no tenant utility consumption data was obtained are therefore excluded from the reported usage and emission figures. Electricity usage data was obtained from occupiers across 67% of assets by floor area, with 57% coverage obtained for gas usage and 34% for water.</p> <p>Scopes: We organise our emission scopes in line with the Better Buildings Partnership's Climate Commitment Carbon Scope. This means:</p> <ul style="list-style-type: none"> Corporate emissions are not included within the scope as the focus is on real estate investments and these emissions are not significantly material. However, we are choosing to voluntarily include emissions associated with operational activities of the external Investment Advisor under Scope 3, downstream purchased services, in our target scope for complete transparency. Scope 1 covers landlord purchased fuels and refrigerants, of which the portfolio has none. Scope 2 covers landlord purchased electricity. Scope 3 covers tenant purchased energy and refrigerants, landlord purchased water and landlord managed operational waste. In future, we aim to include additional sources of Scope 3 emissions relating to forward-funded development of new buildings and emissions from the activities of contractors and other suppliers, for which data is currently not available.
Assumptions and estimates made	<p>We are reporting actual energy consumption data only. The only estimates made are to bridge gaps in billing by considering the actual usage billed divided by the number of months covered, multiplied by the number of months without data.</p> <p>The Investment Advisor's office emissions have been apportioned as 5% of the total office emissions (based on number of employees employed by the Investment Advisor)</p> <p>Theme parks are excluded from data coverage by floor area, due to the idiosyncratic nature of these</p>

	properties' layouts <ul style="list-style-type: none"> Investment Advisor Team business travel: company cars of the core investment team are now all electric, which is reflected in reduced business travel emissions
Emissions factor source	Conversion factors used from HMRC: https://www.gov.uk/government/collections/government-conversion-factors-for-company-reporting Carbon Footprint's residual factors were used for market-based electricity emissions calculations: https://www.carbonfootprint.com/docs/2023_02_emissions_factors_sources_for_2022_electricity_v10.pdf

EPC analysis

In this section we present the Group's current EPC ratings as of 31 March 2023 as per the public EPC register, weighted by passing rent.

Of the rated portion of the portfolio in England and Wales, 69% of assets are rated C or better; 31% are rated D or below. This reflects the age of the former Secure Income REIT building stock and presents the portfolio with a significant opportunity to add value through collaborating with occupiers on EPC improvements and further decarbonisation initiatives. 6% of properties are in Scotland and thus not subject to MEES, 2% are exempt due to the nature of the structures and there is still 32% of the portfolio yet to be assessed when weighted by passing rent; however, this is limited to just 20 assets in total (6% of portfolio by number of properties) with a high passing rent concentration.

% EPC by sector, weighted by passing rent: rated assets in England & Wales

	A	B	C	U/C	A to C	D	E	F	G	D and below
	9.4%	25.8%	32.8%	1.4%	69.4%	21.9%	8.7%	0.0%	0.0%	30.6%
Healthcare	0.1%	2.5%	1.4%	0.0%	4.0%	1.2%	0.0%	0.0%	0.0%	1.2%
Hotel	0.9%	5.8%	8.2%	0.0%	14.9%	13.3%	4.2%	0.0%	0.0%	17.4%
Theme Park	0.0%	4.0%	10.8%	0.0%	14.8%	0.0%	0.0%	0.0%	0.0%	0.0%
Foodstores and essentials	3.1%	7.7%	2.6%	0.5%	13.9%	0.3%	0.0%	0.0%	0.0%	0.3%
Industrial	4.4%	2.5%	1.6%	0.0%	8.5%	1.6%	0.0%	0.0%	0.0%	1.6%
Pubs	0.0%	0.2%	1.4%	0.0%	1.6%	1.7%	4.0%	0.0%	0.0%	5.7%
Arena	0.0%	0.0%	0.0%	0.0%	0.0%	1.4%	0.2%	0.0%	0.0%	1.6%
Car park	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Garden centre	0.0%	1.1%	1.6%	0.0%	2.7%	0.0%	0.0%	0.0%	0.0%	0.0%
Life sciences	0.0%	0.0%	2.4%	0.0%	2.4%	0.0%	0.0%	0.0%	0.0%	0.0%
Drive-thru coffee	0.5%	1.2%	0.1%	0.3%	2.1%	0.0%	0.0%	0.0%	0.0%	0.0%
Education	0.0%	0.1%	0.4%	0.0%	0.5%	1.0%	0.3%	0.0%	0.0%	1.3%
Other	0.4%	0.7%	2.3%	0.6%	4.0%	1.4%	0.0%	0.0%	0.0%	1.4%

1 UC means under construction. We now target EPC B minimum on new forward fundings.

2 The nature of our Car Park assets, being small areas and open sided, make them exempt from holding EPCs.

Social

Increasing DE&I in the built environment

Academy of Real Assets

The Investment Advisor continues its membership of The Academy of Real Assets, a charitable organisation whose aim is to enable its members to deliver significant positive social impact for underprivileged students from schools across the UK.

The Academy partners with some of the biggest, best and most-established social mobility charities and other entities to get access to as many students at UK State schools as possible, generally via teachers. The mission is to contribute to the alleviation of educational inequality in particular by providing students from a less privileged educational background with exposure to professionals within the industry, to show the opportunities that exist within the world of property.

The Academy has the following social impact goals:

- To have significant, positive social impact on students from schools across the UK
- To offer students that do not have connections an off the shelf contact list to help, guide and advise
- To introduce to all students the huge variety of career opportunities in the Real Estate, Real Assets and investment worlds
- To encourage and bring about greater diversity and to increase access
- To connect students with members via The Academy events and initiatives

The Academy of Real Assets supports members to pool resources to deliver the maximum social impact, rather than relying on individual entities to deliver their own strategy and more information can be found at www.acadrealassets.com.

This year, through the membership with the Academy, a representative from the Investment Advisor attended a Year 12 Employability Day at Eltham Hill School in the borough of Greenwich. This volunteering involved helping students with job interview skills and we are exploring how we can further assist one of the students who was particularly interested in a career in property. That type of further tangible action is exactly what we are hoping to achieve from these events, and we have a number of further events lined up with the Academy later in the year.

10,000 Black Interns

The Investment Advisor is also supporting the 10,000 Black Interns initiative in 2023 by taking on two first year university students for a six week paid summer internship program within its team.

The programme aims to transform the horizon and prospects of young Black people in the UK by offering paid internship across a wide range of industries whilst also providing training and development opportunities.

Forward funding

The Company does not undertake direct development but forward funds development projects. The Company's developments always have support from local authorities to have received planning consent prior to executing the funding agreement and as such are expected to provide positive public benefits and that support local communities through provision of accessible amenities and employment opportunities. We prioritise the use of local developers.

The Company uses its influence to encourage those developers to identify and consult with a wide range of stakeholders in the local community and to minimise any negative impacts or disruption to the local community during construction.

The Company expects new buildings to meet high standards of environmental performance and to promote the health and well-being of both the building occupiers and the wider community. We expect new buildings to have a BREEAM rating of at least "Very Good" where a rating is obtained. All forward funded projects that achieved practical completion in the current year that obtained a rating have achieved this.

People and culture

The Company is committed to diversity and inclusion and our aspiration is to have Board and key service providers that are representative of society and our wider stakeholder groups. During the year three new Board members were appointed and two Board members stepped down. Currently, the Board comprises of four male and two female Directors, and the Investment Advisor's executive team comprises 50% male and 50% female employees, an increase in gender diversity vs the previous year at 62% male to 38% female employees and achieving gender equality.

Governance

The Company's investment activities are overseen by the Company's non-executive Board of Directors. The Investment Advisor and the Board work together to ensure proper execution of the Company's investment strategies, consistent application of policies, compliance with procedures and compliance with local and regional regulatory requirements.

The Group has a mature and robust structure of governance, compliant with the AIC Code of Corporate Governance, which is detailed in the Corporate Governance section of this annual report. The Group's governance complies with its enhanced ESG policy that has been adopted during the year.

Key decisions and relationships with stakeholders

Each year, the Group is required under section 172(1) of the Companies Act 2006 to report on how it considered the wider stakeholder needs in its key decisions. The key stakeholders are considered to be shareholders, tenant operators, service providers, employees, lenders and society and the environment.

PROPERTY PORTFOLIO

Tenant group	Contracted rent	Rental exposure
Merlin	£37.9m	19%
Travelodge	£37.0m	18%
Ramsay	£36.3m	18%
Q-Park	£4.5m	2%
SMG	£4.4m	2%
The Brewery	£3.8m	2%
Bombardier	£3.7m	2%
Sainsburys	£3.5m	2%
Compass	£3.4m	2%
Asda	£3.2m	2%
Dobbies Garden Centres	£3.2m	2%
Capita	£2.9m	1%
Co-op	£2.8m	1%
Tesco	£2.8m	1%
Other tenants	£52.8m	26%
Total	£202.2m	100%

Sector	Contracted rent	Rental exposure
Healthcare	£45.2m	22%
Budget hotels	£42.8m	21%
Theme parks	£37.9m	19%
Foodstores	£20.2m	10%
Industrial	£13.3m	7%
Pubs	£8.7m	4%
Arena	£7.1m	4%
Car parks	£4.5m	2%
Garden centres	£3.2m	2%
Life sciences	£2.9m	1%
Drive-thru coffee	£2.7m	1%

Education	£2.2m	1%
Other	£11.5m	6%
Total	£202.2m	100%

1 ERVs of assets that had exchanged but not completed at the reported date are assumed to be let at market rents

Rental uplifts	Contracted rent	Rental exposure
CPI linked	£77.4m	39%
Fixed uplifts	£69.1m	34%
RPI linked	£50.9m	25%
Open market	£4.8m	2%
Total	£202.2m	100%

Unexpired lease term to first break	Contracted rent	Rental exposure
20-years+	£122.5m	61%
More than 14-years, fewer than 19-years	£64.6m	32%
More than 9-years, fewer than 14-years	£11.6m	6%
More than 5-years, fewer than 9-years	£0.9m	0%
Fewer than 5-years	£2.6m	1%
Total	£202.2m	100%

Location	Contracted rent	Rental exposure
South East	£40.5m	20%
West Midlands	£35.2m	17%
East of England	£30.2m	15%
North West	£23.9m	12%
Yorkshire and the Humber	£17.2m	9%
Scotland	£13.0m	6%
South West	£12.9m	6%
North East	£9.7m	5%
East Midlands	£8.2m	4%
Germany	£7.4m	4%

Wales	£2.8m	1%
Northern Ireland	£1.2m	1%
Total	£202.2m	100%

KEY PERFORMANCE INDICATORS

Our objective is to deliver attractive, low risk returns to shareholders, by executing our investment policy. Set out below are the key performance indicators ("KPIs") we use to track our performance.

KPI and definition	Relevance to strategy	Performance		Result
		2023	2022	
1. Total NTA return Total NTA return measures the change in the EPRA NTA and dividends during the period as a percentage of EPRA NTA at the start of the period. We are targeting a minimum of 8% per annum over the medium term.	Total accounting return measures the ultimate outcome of our strategy, which is to deliver value to our shareholders through our portfolio and to deliver a secure and growing income stream. A reconciliation of total accounting return is provided in the Additional Information section.	(10.7)%	18.2%	The current year result is below the Group's medium-term minimum target of 8% per annum.
Average compounded annual total accounting return since IPO		7.5%	11.4%	
2. Dividend per share Dividends paid to shareholders and proposed in relation to a period.	The dividend reflects our ability to deliver a low risk but growing income stream from our portfolio and is a key element of our total accounting return.	6.30p	6.00p	During the year the Group targeted dividends on a quarterly basis and all dividend targets announced were met.
Average compounded annual dividend growth since IPO		9.5%	10.7%	
3. EPRA Net Tangible Assets ("NTA") A measure of NAV designed by EPRA to present the fair value of a company on a long term basis. Assumes that entities buy and sell assets, thereby crystallising certain levels of unavoidable deferred tax.	The NAV reflects our ability to grow the portfolio and to add value to it throughout the life cycle of our assets.	121.1p	142.6p	EPRA NTA per share contracted 15.1%.
Average compounded EPRA NTA growth since IPO (ex-dividend)		3.5%	7.6%	

<p>4. Pro forma net loan to value</p> <p>The proportion of our total assets that are funded by borrowings adjusted for full drawdown of committed capital increasing the net leverage and completion of assets under construction increasing the portfolio value. Our medium-term target LTV is 30%. See glossary for calculation.</p>	<p>The LTV measures the relative risk of our financing strategy, balancing the additional returns and portfolio diversification that come with using debt against the need to successfully manage risk.</p>	<p>37%</p>	<p>22%</p>	<p>Above our medium term maximum target of 35%</p>
<p>5. Adjusted earnings per share</p> <p>Post-tax Adjusted earnings per share attributable to shareholders, which includes the licence fee receivable on our forward funded development assets treated under IFRS as discounts to investment property acquisitions.</p>	<p>The Adjusted earnings per share reflects our ability to generate income from our portfolio, which ultimately underpins our dividend payments. A reconciliation of Adjusted earnings is included in Note 25 to the consolidated financial statements.</p>	<p>6.7p</p>	<p>7.0p</p>	<p>Reflecting 1.06 dividend cover</p>
<p>6. Total expense ratio</p> <p>The ratio of total operating expenses, including management fees expressed as a percentage of the average net asset value.</p>	<p>The total expense ratio is a key measure of our operational efficiency. Maintaining a low cost base supports our ability to pay dividends.</p>	<p>0.9%</p>	<p>1.0%</p>	<p>In line with our target</p>
<p>7. Weighted average unexpired lease term</p> <p>The average unexpired lease term of the property portfolio weighted by annual passing rents. Our target WAULT is a minimum of 20 years.</p>	<p>The WAULT is a key measure of the quality of our portfolio. Long lease terms underpin the security and predictability of our income stream.</p>	<p>27-years</p>	<p>21 years</p>	<p>In line with our investment objective</p>
<p>8. Percentage of contracted rents index-linked or</p>	<p>This measures the extent to which we are investing in line with our investment</p>	<p>98%</p>	<p>96%</p>	<p>In line with our investment objective</p>

fixed This takes the total value of contracted rents that contain rent reviews linked to inflation or fixed uplifts.	objective, to provide inflation linked returns.			
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EPRA PERFORMANCE MEASURES

The table below shows additional performance measures, calculated in accordance with the Best Practices Recommendations of European Public Real Estate ("EPRA"). We provide these measures to aid comparison with other European real estate businesses.

Reconciliations of EPRA Earnings and NAV measures are included in Notes 25 and 26 to the consolidated financial statements respectively. Reconciliations of other EPRA performance measures in the Notes to the EPRA and alternative performance measures further below.

Measure and Definition	Purpose	Performance	
		31 March 2023	31 March 2022
1. EPRA Earnings Per Share A measure of EPS designed by EPRA to present underlying earnings from core operating activities.	A key measure of a company's underlying operating results and an indication of the extent to which current dividend payments are supported by earnings.	8.3p	6.1p
2a. EPRA Net Tangible Assets ("NTA") An EPRA NAV per share metric which assumes entities buy and sell assets, thereby crystallising certain levels of unavoidable deferred tax.	Assumes that entities buy and sell assets, thereby crystallising certain levels of unavoidable deferred tax.	121.1p	142.6p
3. EPRA Net Reinstatement Value ("NRV") An EPRA NAV per share metric which assumes entities never sell assets and aims to represent the value required to rebuild the entity.	Assumes that entities never sell assets and aims to represent the value required to rebuild the entity.	131.4p	153.7p
4. EPRA Net Disposal Value ("NDV") An EPRA NAV per share metric which represents the Shareholders' value under a disposal scenario, where deferred tax, financial instruments and certain other adjustments are calculated to the full extent of their liability, net of any resulting tax.	Represents the shareholders' value under a disposal scenario, where deferred tax, financial instruments and certain other adjustments are calculated to the full extent of their liability, net of any resulting tax.	119.8p	143.7p
5. EPRA Net Initial Yield ("NIY") Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided	EPRA NIY is annualised net rents on investment properties as a percentage of the investment property valuation, less purchaser's costs.	5.7%	4.5%

by the market value of the property, increased with (estimated) purchasers' costs.			
6. EPRA 'Topped-Up' NIY This measure incorporates an adjustment to the EPRA NIY in respect of the expiration of rent-free periods (or other unexpired lease incentives such as discounted rent periods and step rents).	The 'topped-up' measure incorporates an adjustment to the EPRA NIY in respect of the expiration of rent-free periods (or other unexpired lease incentives such as discounted rent periods and step rents). Note under IFRS stepped rents and collared uplifts are treated as lease incentives and as such are factored into the top up.	9.4%	6.6%
7. EPRA Vacancy Estimated Market Rental Value (ERV) of vacant space divided by ERV of the whole portfolio	A 'pure' (%) measure of investment property space that is vacant, based on ERV.	0%	0%
8. EPRA Cost Ratio Administrative & operating costs (including costs of direct vacancy) divided by gross rental income.	A key measure to enable meaningful measurement of the changes in a company's operating costs.	9.5%	15.9%
9. EPRA LTV (note this is different to pro forma LTV in our KPIs) Net debt divided by total property portfolio and other eligible assets in line with EPRA guidance.	A key (shareholder-gearing) metric to determine the percentage of net debt comparing to the appraised value of the properties	36%	13%

The Investment Advisor

The Board has delegated the day-to-day running of the Group to LXi REIT Advisors Limited pursuant to the terms of the Investment Advisory Agreement. The Investment Advisory Agreement is reviewed and amended when necessary to ensure it reflects the relationship between the Board and the Investment Advisor.

The Investment Advisor comprises property, legal and finance professionals with significant experience in long-let real estate working exclusively on LXi Reit. The team has capitalised and transacted over £3.5 billion of commercial property assets with a particular focus on accessing secure, long-let and index-linked UK commercial real estate through forward funding and built asset structures. The core management team (whose details are set out below) is supported by a team of other finance, legal, property and compliance professionals and administrative support staff totalling over 15 people. The key individuals responsible for executing the Company's investment strategy are:

John White - Joint Fund Manager John entered the commercial real estate market in 1987 and after qualifying as a chartered surveyor at Allsops moved to the investment team at Cushman & Wakefield. There he became a partner and spent the next 18 years advising a range of institutional investor clients on their UK acquisitions and disposals across the full range of real estate sub-sectors including retail (in and out of town), offices (London, Thames Valley and regional cities), logistics, and alternatives. John moved into private equity real estate in 2007 and co-founded Osprey Equity Partners in 2011 and LXi REIT Advisors Limited in 2016.

Simon Lee - Joint Fund Manager Simon trained and practised as a solicitor at City law firm, Slaughter and May, from 1999 to 2006, following which he spent the next 10 years in private equity real estate, co-founding Osprey Equity Partners in 2011 and LXi REIT Advisors Limited in 2016. Simon's role covers a wide range of areas, including formulating investment strategies and products, raising equity and debt finance, asset selection, and negotiating and implementing transactions with vendors, purchasers, developers, investors, lenders and joint venture partners.

Freddie Brooks - Chief Financial Officer Freddie trained and qualified as a chartered accountant in BDO's Real Estate and Construction team, gaining significant experience in the sector, working with similar listed vehicles, private property funds, developers and a number of the UK's top contractors. Freddie is also a qualified chartered surveyor (property finance and investment pathway) and a member of the RICS. Freddie role covers all historical and strategic financial matters including debt structuring and sourcing, annual and interim financial reporting, budgeting and forecasting, treasury management and the monitoring of internal controls. Freddie is also responsible for the Investment Advisor's reporting to the Company's Board of Directors.

Alex Short - Chief Investment Officer Alex trained as a Chartered Surveyor and has over 25 years of industry experience. In her previous role Alex was Fund Manager of AEW UK REIT from IPO in 2015 until joining LXI in 2023. AEW UK REIT was the top performing REIT in peer group and winner of CityWire best performing UK Property Trust in 2021 and 2022. Before that Alex was Managing Director at UBS and Fund Manager of UBS Triton and UBS SERF.

Rob Ward - Head of Real Estate Robert Ward, MSc, MRICS, is a qualified Chartered Surveyor, who trained at CBRE with more than 15 years' experience in commercial property, specialising in operational real estate and long income mandates. Rob joined from Prestbury, where he helped to launch and manage Secure Income REIT through to its merger with LXI in 2022.

Alex MacEachin - Finance Director Alex trained as a Chartered Accountant specialising in real estate and construction with a focus on REITs. Alex's previous role was Group Financial Controller at Empiric Student Property plc, Experience leading all strategic financial matters, including Company reporting, budgeting and forecasting, treasury management and the monitoring of internal controls.

Investment Objective and Policy

Investment objective

The investment objective of the Company is to deliver inflation linked income and capital growth over the medium-term for shareholders through investing in a diversified portfolio of UK property that benefits from long-term index-linked leases with institutional-grade tenants.

Investment policy

The Company will target inflation linked income and capital returns through a diversified portfolio of UK property assets, let or pre-let to a broad range of tenants with strong covenants on long and index-linked leases.

The Company will invest in these assets directly or through holdings in special purpose vehicles and will seek to acquire high quality properties, taking into account the following key investment considerations:

- the properties will be let or pre-let to institutional grade tenants, with strong financials and a proven operating track record;
- long unexpired lease terms (typically 20 to 30 years to expiry or first break);
- rent reviews to be inflation linked or contain fixed uplifts; and
- each property should demonstrate strong residual land value characteristics.

The Company targets a wide range of defensive and robust sectors, including, but not limited to, healthcare, theme parks, office, leisure, industrial, distribution and alternatives - including hotels, serviced apartments, affordable housing and student accommodation. It also focuses on growth sub-sector areas such as discount foodstores, budget hotel operators and "last mile" distribution units fuelled by online retail.

The Company seeks to only acquire assets let or pre-let to tenants with strong financial covenants and on long leases (typically 20 to 30 years to expiry or first break), with index linked or fixed rental uplifts, in order to provide security of income and low cost of debt. The Company only invests in assets with leases containing regular upward-only rental reviews. These reviews typically link the growth in rents to an inflation index such as RPI, RPIX or CPI (with potentially a minimum and maximum level) or alternatively may have a fixed growth rate.

The Company will neither undertake any direct development activity nor assume direct development risk. However, the Company may invest in fixed-price forward funded developments, provided they are pre-let to an acceptable tenant and full planning permission is in place. In such circumstances, the Company will seek to negotiate the receipt of immediate income from the asset, such that the developer is paying the

Company a return on its investment during the construction phase and prior to the tenant commencing rental payments under the terms of the lease.

Where the Company invests in forward funded developments:

- the Company will not acquire the land until full planning consent and tenant pre-lets are in place;
- the Company will pay a fixed price for the forward funded purchase, covering land, construction cost and developer's profit;
- all cost overruns will be the responsibility of the developer/ contractor; and
- if there is a delay to completion of the works, this will be a risk for the developer/contractor, as they will pay the Company a return on the agreed acquisition price until practical completion occurs.

The Company may utilise derivative instruments for efficient portfolio management. The Company will look to actively engage in full or partial interest rate hedging or otherwise seek to mitigate the risk of interest rate increases as part of the Company's portfolio management.

The Company will not invest in other investment funds.

Investment restrictions

The Company will invest and manage its assets with the objective of diversifying risk and will have the following investment restrictions:

- the value of no single property, at the time of acquisition of the relevant investment, will represent more than 30% of the higher of: (i) Gross Asset Value; or (ii) where the Company has not yet become fully geared, Gross Asset Value adjusted on the assumption that the Company's property portfolio is geared at 30% loan to value;
- the aggregate maximum exposure to any one tenant, at the time of acquisition of the relevant investment, will be 30% of the higher of: (i) Gross Asset Value; or (ii) where the Company has not yet become fully geared, Gross Asset Value adjusted on the assumption that the Company's property portfolio is geared at 30% loan to value; and
- the Company will invest in no fewer than two sectors at any time.

The Company will not be required to dispose of any investment or to rebalance its portfolio as a result of a change in the respective valuations of its assets.

The Directors are focused on delivering capital growth over the medium term and intend to reinvest proceeds from any potential future disposals in accordance with the Company's investment policy. However, should the Company fail to reinvest the proceeds or part proceeds from any disposal within 12 months of receipt of the net proceeds, the Directors intend to return those proceeds or part proceeds to shareholders in a tax efficient manner as determined by the Directors from time to time.

Cash held for working capital purposes or received by the Company pending reinvestment or distribution will be held in sterling only and invested in cash, cash equivalents, near cash instruments and money market instruments.

The Directors intend at all times to conduct the affairs of the Company so as to enable it to qualify as a REIT for the purposes of Part 12 of the CTA 2010 (and the regulations made thereunder).

The Company will at all times invest and manage its assets in a way that is consistent with its objective of spreading investment risk and in accordance with its published investment policy and will not at any time conduct any trading activity which is significant in the context of the business of the Company as a whole.

Borrowing policy

The Group will seek to utilise borrowings to enhance equity returns. The level of borrowing will be on a prudent basis for the asset class, and will seek to achieve a low cost of funds, whilst maintaining flexibility in the underlying security requirements and the structure of the Group. The Directors intend that the Group will maintain a conservative level of aggregate borrowings with a medium-term target of 30% of the Group's gross assets and a maximum level of aggregate borrowings of 40% of the Group's gross assets at the time of drawdown of the relevant borrowings.

Debt will be secured at the asset level and potentially at the Company or SPV level, depending on the optimal structure for the Company and having consideration to key metrics including lender diversity, debt type and maturity profiles.

In the event of a breach of the investment policy and investment restrictions set out above, the Directors upon becoming aware of such breach will consider whether the breach is material, and if it is, notification

will be made to a Regulatory Information Service.

No material change will be made to the investment policy without the approval of shareholders by ordinary resolution at any general meeting, which will also be notified by an RNS announcement.

Section 172 statement

This section of the Annual Report covers the Board's considerations and activities in discharging their duties under s.172(1) of the Companies Act 2006, in promoting the success of the Company for the benefit of members as a whole.

This statement includes consideration of the likely consequences of the decisions of the Board in the longer term and how the Board has taken wider stakeholders' interests into account.

Stakeholder identification and management

The Board has identified the major stakeholders in the Company's business. On an ongoing basis the Board monitors both potential and actual impacts of the decisions it makes in respect of the Company upon those major stakeholders identified.

Shareholders: As a public company listed on the London Stock Exchange, the Company is subject to the Listing Rules and the Disclosure Guidance and Transparency Rules. The Listing Rules include a listing principle that a listed company must ensure that it treats all holders of the same class of shares that are in the same position equally in respect of the rights attaching to such shares. With the assistance of regular discussions with and the formal advice of the Company's legal counsel, secretary and corporate brokers, the Board abides by the Listing Rules at all times.

For information on shareholder engagement please see the Governance section of this report which contains further information on shareholder engagement.

To a great extent, shareholder engagement on behalf of the Company is managed by the Investment Advisor under the terms of its agreement with the Company. The Investment Advisor along with the Company's corporate broker regularly meets with the Company's shareholders to provide Company updates and to foster regular dialogue.

The members of the Board are available to meet with shareholders at every AGM and on other occasions as appropriate.

Employees: As an externally managed business, the Company does not have any employees as all of its functions are carried out by third party service providers. The Company has a Board of Directors who are non-executive and receive fixed fee remuneration. The Directors have a range of skills and experience on which they can draw in weighing up the impact of decisions on the Company and its stakeholders. The Company's Board receives regular market and regulatory updates from its professional advisors such as the Investment Advisor, Broker and Company Secretary. Diversity and representation are considered as part of the Company's recruitment policy and future director recruitment processes will reflect this alongside a focus on appropriately balancing the skills and experience available to the Company.

Tenants: Business relationships with suppliers, customers and other counterparties are key. Engagement is managed in the main by the Investment Adviser with a view to fostering good two way communication with respect for all staff and respecting supplier payment terms.

Board activity and stakeholder considerations

The Board's main working relationship is with the Investment Advisor. The Group's performance to date has been strong and in all cases has exceeded or met its stated medium term targets. This performance is underpinned by the quality of the Investment Advisor's management team. In particular, this is reflected in the sourcing of high quality assets at attractive pricing, the management of the risks and exposures of the Company's portfolio, the development and maintenance of relationships with shareholders and financiers and the regularity and quality of reporting to the Company's stakeholders. Most recently the management team has delivered a very significant refinancing against a challenging debt environment.

The Board retains responsibility for the approval of every material transaction, including property, debt and other corporate transactions and in doing so is able to give due consideration to its wider stakeholder group. The Board relies on the Investment Advisor's sourcing and due diligence conclusions which are presented to the Board before each transaction. In turn, the Board offers a

robust challenge to validate the quality of each investment and the impact of all transactions on stakeholder groups.

The Board also deliberates on the quality of each tenant's robustness, financial viability, reputation, corporate values and operational excellence in its sub-sector before approving each transaction and monitors it on an ongoing basis.

The Board's long-term strategic goal has been to maximise shareholder value by growing the Company in a prudent and accretive manner. As such the Board carefully considers the merits of raising new equity and debt capital before it is approved. It works closely with the Investment Advisor to advance due diligence on a pre-identified pipeline to a defensive position that will allow the timely execution of deals once new capital is raised. The Board considers the respective merits and risks of raising new capital and at what price before any potential equity raise is approved.

Stakeholder engagement during the year

Stakeholder	Why should we engage them?	How we engage with them	Key themes and points of interest	Key Decisions and actions taken
Investors	In order to better align the Company with that of its shareholders, paying particular attention to their aspirations and long-term goals	Through a number of shareholder meetings held throughout the year. Also, indirectly through the Company's website, Annual Report and Interim Report and at the AGM.	High and rising dividend; Growth of the Company; Diversity of the Company's portfolio; Integration of ESG considerations into all aspects of strategy	Following the many shareholder meetings the Board has taken the following actions: Completed the merger with Secure Income REIT plc which almost doubled the size of the Company, enabled the Company to quickly diversify its portfolio of investments ESG has become a key consideration when considering each acquisition. Due diligence requirements have been enhanced beyond EPC ratings, construction certification and Net Zero audits, to include forward looking climate risk assessment, green clauses in leases and a number of social impact and wellbeing criteria.
Tenants	To help the Board develop a clear understanding of the challenges facing tenants and so that the Board can respond rapidly to the changing needs and demands of its tenants.	Extensive due diligence undertaken as part of tenant selection process. Regular communications with tenants are maintained throughout tenancy agreement especially during times of uncertainty (i.e. lockdown). Tenant and industry changing needs are monitored.	ESG continues to increase in importance to each client, driving demand for environmentally sustainable buildings that are also accretive to staff health and wellbeing and foster opportunities to add value to local communities. The evolving business plans of the Company's tenants also identify the changing needs	In response to the changing needs of the Company's tenants, the Board has agreed, and the Investment Advisor has implemented, a number of initiatives to improve the environmental impact of certain of its sites where deemed appropriate, including: Installing EV charging points; Installing solar panels; Improved EPC rating; Taking measures to protect sites at risk from severe weather events e.g. flooding. Exploring opportunities for biodiversity enhancement Supporting tenants with high

		<p>The Board are focused on asset management initiatives to assist tenants in achieving the maximum value from each site and thereby, increasing each sites strategic importance to the tenant and in doing so increasing the security of the Company's revenue stream.</p>	<p>of the end customer, particularly the increase in online shopping along with a ubiquitously growing demand for sustainable products, services and infrastructure (including EV chargers)</p>	<p>quality decarbonisation audits at their sites</p> <p>Assessing opportunities to fund building fabric and M&E improvements through return generating investment</p> <p>Deploying additional resource into evaluating opportunities to collaborate on local social impact initiatives</p>
Key Service Providers	<p>As an externally managed investment trust, the Company conducts all its business through its key service providers.</p> <p>In order to better align the Company's values with that of its key service providers.</p> <p>To ensure the challenges faced by the Company's key service providers are identified and considered by the Board.</p>	<p>The Board performs an annual evaluation of all of its key service providers to ensure inter alia that the Company's values remain aligned. The Board has regular interaction with the Investment Advisor, AIFM, Broker, Company Secretary, Administrator and Depositary and receives reports on the performance of the rest of the key service providers by the Investment Advisor and Company Secretary</p>	<p>The conclusion of the annual evaluation of the Company's service providers did not raise any concerns.</p>	<p>No issues were identified during the year and the Board confirmed that they remained appropriate and that their appointment continue.</p> <p>During the year the Board resolved to appoint a new Company Secretary and on 6 March 2023 LSDC Nominee Secretary Limited was appointed as Company Secretary.</p>
Society and the environment	<p>To ensure that the Company's activities have a positive impact on communities and the environment.</p>	<p>The Board, via their Investment Advisor, seek to engage with its tenants and local communities to gain a greater understanding of</p>	<p>The Board has become aware that there is strong focus on ESG matters at certain sites. Social concerns at certain sites are</p>	<p>The Company has adopted an ESG policy and climate risk strategy that ensure that society and the environment are considered whilst implementing its investment strategy. The ESG policy is available on the Company's website and the</p>

		their concerns and views	considered.	Environmental, Social and Governance report is included in the Annual Report. Further detail on achievements to date and a plan for the future is covered in the Company's ESG Strategy and Roadmap to Net Zero Carbon document available on the website.
Lenders	<p>To ensure the Company's lending needs continue to be met.</p> <p>To ensure the values of the Company's lenders are aligned with that of the Company's.</p>	<p>The Group works closely with lenders to maintain a constructive relationship through ongoing engagement.</p> <p>The Investment Advisor regularly discusses ongoing initiatives and portfolio matters with its lenders.</p>	<p>The Investment Advisor takes into account the terms of its loan agreements when implementing the investment strategy</p>	<p>The Group uses leverage with robust and resilient structures. Including conservative covenants with ample headroom and fixed or hedged interest costs.</p>

Principal risks and uncertainties

The Board of LXi REIT plc has overall responsibility for risk management including reviewing the effectiveness of the risk management processes and internal controls which are operated by the Investment Advisor and the Administrator. As part of their risk management responsibilities at least twice yearly and more often if needed, the Investment Advisor undertakes a formal review to identify new risks and review existing risks. This review considers the velocity of each risk to highlight significant emerging risks that are raised and discussed with the Board and Audit Committee. The principal risks outlined below have the potential to materially impact the execution of the Group's strategy and business model.

Changes to principal risks and uncertainties

In the September 2022 interim report, it was communicated that the following risks were no longer deemed principal risks of the Group but remain on the internal risk register for monitoring:

- Covid-19 global pandemic
- Competition for properties
- REIT status

The following risk has been added as principal risks in the second half of the year:

- Ability to access attractive capital for refinancing

The Board has increased the probability relating to the property valuation and tenant default risks from low to moderate. This is driven by the wider macroeconomic environment in the UK that has seen high inflation levels, increasing interest rates and a slowing economy, with the possibility of entering an economic recession. A recessionary environment could negatively impact real estate valuations and increases the possibility of tenants entering financial difficulty and in turn raises the risk of their defaulting on contractual rental obligations.

Principal risks and uncertainties

Risk	Mitigant	Probability	Impact
Macroeconomic related risks			

<p>Ability to access attractive capital for refinancing risk (new risk in the year)</p> <p>The UK is currently experiencing high levels of inflation and the Bank of England has responded by multiple successive interest rate increases, contributing to an increasing cost of debt finance. The UK has also been impacted by global banking and credit supply challenges.</p>	<p>The Board reviews the Group's financing arrangements and considers options for refinancing well ahead of maturity. There remain opportunities to find attractive leverage terms through for example inflation linked debt, hybrid debt/equity products and 'income strip' sales, such as the Group executed during the period, should the Group need to utilise these options in the future.</p> <p>The post refinancing weighted average term to maturity of the Group's debt is 6 years and the Group has no refinancing events within the next 12 months. The next refinancing event for the Group is December 2024.</p> <p>One response to a lack of financing would be a sale of assets if the investment market supported it; at current valuations, there is significant headroom over debt. Another response would be to raise equity to repay debt.</p>	<p>Moderate</p>	<p>High</p>
<p>Tenant default risk</p> <p>The current environment has increased the risk of tenant default, the extent of which varies significantly by business sector and individual companies.</p> <p>The Group's revenues are concentrated among the top three tenants, contributing to over 55% of total contracted income. A tenant or guarantor could fail to meet its lease obligations because of the specific operational performance of a business at one of the Group's properties in particular or because of issues with the capital structure of that business. This risk is elevated due to current wider economic challenges and the risk the UK economy enters a recession.</p> <p>Dividends payable are dependent on the rent collection of the group and covenant compliance.</p>	<p>Covenant reviews on all tenants over 2% of portfolio rents are provided to the Board quarterly for review.</p> <p>Guarantors are in place for major tenants with financing from global operations of major businesses underpinning rents.</p> <p>Robust monitoring of rent collections with 100% collection throughout the year. Rent collection of 100% is calculated as cash rent collected from tenants in respect of the financial year of £160.1m as a percentage of the total rent demanded in respect of the financial year of £160.2m.</p>	<p>Moderate (from low)</p>	<p>Moderate</p>
<p>Macroeconomic challenges</p> <p>The UK is experiencing historic price rises with the highest inflation rate in 40 years, and a slowing economy. The Bank of</p>	<p>Inflation is monitored closely by the Board. The Group's portfolio rent reviews include a mix of fixed, upward only capped and collared uplifts as well as some uncapped</p>	<p>High</p>	<p>Moderate</p>

<p>England has responded by successive interest rate increases which could lead to a sharp decline in economic activity, stock markets and possibly stagflation. A recessionary environment could impact real estate valuations.</p> <p>Continued high inflation may cause contracted rents to exceed market levels and result in the softening of valuation yields. Where leases have capped rental uplifts, high inflation may cause rent reviews to cap out at maximum values, causing rental uplifts to fall behind inflation.</p> <p>Increasing interest rates may cause the company to find it difficult or costly to finance through debt in the future.</p>	<p>rent reviews, to hedge against a variety of inflationary outcomes. Where lease agreements facilitate data collection, the Group also monitors rent cover and asset level performance.</p> <p>The Group also maintains significant debt covenant headroom to provide protection against a range of economic scenarios.</p> <p>The Group has interest rate caps and swaps in place for all drawn debt over the period to maturity. This covers 99% of all committed debt. The Company intends to hedge the remaining debt by the time it is required to be drawn.</p>		
Business objective risks			
<p>Geopolitical risk</p> <p>Political changes or political instability impacting the Group's performance through changes in regulatory requirements and applicable laws, and political, economic or other developments.</p> <p>A change in government has the potential to impact taxes, spending, environmental and other regulations that could impact the Company.</p> <p>Russia's invasion of Ukraine in February 2022 contributed to a surge in global energy and food prices. The extent and impact of military action, resulting sanctions and further market disruptions is unpredictable which increases the uncertainty, and challenges of tenant operators as well as consumer confidence and financial markets. This could lead to a recession should the conflict move towards a broader regional or global one.</p>	<p>The Board recognises that the level of uncertainty makes the risk difficult to mitigate.</p> <p>The strength of our tenant and guarantor group, tied with our significant covenant headroom levels, reduces the risk of political and economic uncertainty impacting our Company and it should be well positioned to withstand any downturn.</p> <p>Major tenants have a long track record of trading through difficult economic cycles.</p> <p>With the exception of one German asset amounting to less than 4% of total contracted rent, all Group investments are in the UK.</p>	High	Moderate
Property and real estate risks			
<p>Property valuation</p> <p>The Group invests in commercial properties. Property is inherently difficult to value due to the individual characteristics of each</p>	<p>The Group only acquires properties with strong fundamentals that are of strategic importance to their tenants. The Group aims to hold assets for long-term income and embeds income growth into leases</p>	Moderate (from low)	Moderate to high

<p>property. As a result, valuations are subject to uncertainty and there can be no assurance that the estimates resulting from the valuation process will reflect actual sales prices that could be realised by the Group.</p> <p>Such investments may be illiquid; they may be difficult for the Group to sell in a timely manner and the price achieved on any realisation may be at a discount to the most recent prevailing valuation of the relevant property.</p> <p>Reported property valuations are at a point in time and not an indicator of future performance.</p> <p>The Group's independent third party valuer relies on the information provided by the Investment Advisor to produce its valuations. The valuer does not use source documents. An error in the information provided to the valuer could result in material error in the property valuation.</p>	<p>which contributes toward positive valuation movements.</p> <p>An experienced independent third party valuer has been appointed to carry out bi-annual property valuations.</p> <p>The performance of independent third party service providers, including the property valuer, is regularly reviewed by the Board.</p> <p>The valuer inspects each property at least once annually.</p> <p>The Investment Advisor agrees all information included in the valuation report back to source data each time the portfolio is valued and holds meetings with the valuer to discuss each valuation produced.</p> <p>The data provided to the valuer is reviewed internally by the Investment Advisor and by the Board of Directors of the Group.</p> <p>The Board meets separately with the valuers to discuss each valuation.</p>		
<p>Tenant default risk</p> <p>Dividends payable by the Group will be dependent on the income from the properties it owns.</p> <p>Failure by one or more material tenants to comply with their rental obligations could affect the ability of the company to pay dividends</p>	<p>The Investment Advisor undertakes thorough due diligence before proposing investments to the Board and only proposes assets let to strong tenants with proven operating track records who should be able to pay the rents as and when they are due. The assets we hold are also key operating assets to our tenants meaning that the rental income is secure. We also closely monitor rent receipts.</p> <p>The Investment Advisor continues to monitor the creditworthiness of its tenant and guarantor counterparties by quarterly reviews of operating performance and liquidity, as well as reviews of other data including credit ratings and press. The Investment Advisor has regular communication with tenants to discuss the operating performance of its assets as well as at a corporate level.</p> <p>The Investment Advisor focusses on sectors that have a competitive tenant market and properties that demonstrate strong fundamentals such as low rents, low level of specification and strong trading performance at an asset level.</p>	<p>Moderate (from low)</p>	<p>Moderate</p>

	<p>These factors protect against the potential downside impact of tenant default as the property is attractive to alternative users.</p> <p>The Investment Advisor reports covenant reviews on all tenants over 2% of the portfolio to the Board quarterly for review.</p>		
Compliance risks			
<p>Operating within banking covenants</p> <p>The Group's borrowing facilities contain certain financial covenants relating to Loan to Value ratio and Interest Cover ratio, a breach of which could lead to a default on the loan, or which may lead to penalty interest rates, accelerated amortisation or 'cash traps'. The Group must continue to operate within these financial covenants to avoid penalties or default.</p>	<p>The Group aims to acquire property with a low loan to value ratio where there is significant headroom for valuation movements and significant ICR headroom.</p> <p>The Investment Advisor and/or AIFM monitor compliance with the banking loan covenants. In addition we have a number of cure rights under our facilities if needed.</p> <p>The Investment Advisor reports quarterly to the Board on the various debt covenants. The Investment Advisor reports on the headroom of each covenant level under various sensitised scenarios and also carries out reverse stress testing to identify the point at which covenants would be breached.</p>	Low	High
Operational risks			
<p>Dependence on the Investment Advisor</p> <p>The Group relies on the Investment Advisor's services, market intelligence, relationships and expertise. To a large extent, the Group's performance is reliant on the continued service of the Investment Advisor.</p> <p>A termination of the Investment Advisory Agreement would have an adverse impact on the Group's performance if an acceptably high quality alternative replacement could not be found in a timely manner.</p>	<p>The Board has executed a long-term Investment Advisory Agreement, securing the services of the Investment Advisor until 6 July 2028. Key Person provisions exist in the Investment Advisory agreement relating to the senior executives, namely Simon Lee, Frederick Brooks and John White. The provisions require that the individuals' time is spent exclusively in relation to the Company and that the departure of any two of those individuals would require a replacement of at least equal standing. Failure to replace the Key Person could result in termination of the Investment Advisory contract.</p> <p>The Board meets regularly with the Investment Advisor to promote a positive working relationship and the performance of the Investment Advisor is monitored by the Management Engagement</p>	Low	High

	<p>Committee.</p> <p>The Investment Advisory fee is a sliding scale % based on market capitalisation to align the Investment Advisor's interest with those of the shareholders. The senior members of the Investment Adviser are also shareholders in the Company, further aligning their interests.</p> <p>The Investment Advisor is contractually required to grow its own resource to properly service the needs of the business and this has been demonstrated by the recruitment of additional personnel where appropriate to support the continued effective management of the Company.</p>		
Climate-related risks			
<p>Property valuation</p> <p>As institutional property investors and owners increase their focus on climate risk, there is likely to become a larger pool of capital looking to invest in energy efficient assets as well as a pool of capital migrating away from certain less efficient assets.</p> <p>Although this represents an opportunity for those best-in-class assets to achieve a 'green premium', there is likely to be a dwindling pool of capital willing, and a wider yield demanded, to invest in assets that are less energy efficient. The combined effect may result in greater polarisation of property values and/or have an impact on rental values.</p> <p>The assets within the Group's portfolio that are less energy efficient may be exposed to downward pressure on valuation or increased pressure to invest in the improvement of individual assets.</p>	<p>During the period the Investment Advisor recruited a Head of ESG who works with the Board to develop a road map to an energy efficient property portfolio including an appropriate policy for minimum energy performance across the Group's assets, as explained in the ESG section of this report.</p> <p>A Climate Risk Working Group has been created to identify, assess and manage climate related risks. Members of the working group include the Chairman of the Board of Directors.</p> <p>While there is still a lack of clarity on where responsibilities under the various regulations will sit between landlord and tenants, the Investment Advisor has worked with consultants to obtain high level costs estimates to (a) improve EPCs to levels required by the next stage MEES (currently in consultation), (b) decarbonise buildings fully to Net Zero, as per UK ultimate 2050 legally binding target. Immediate strategic focus is on those assets where costs of remediation are likely to be particularly high, it's unlikely the tenant would undertake any of the improvement works.</p> <p>Due to the fast-evolving landscape this is a key area to monitor.</p>	Moderate	High
Access to capital	The Company manages the risk	Moderate	High

<p>There is a risk that investor sentiment restricts the Company's ability to grow through continued investment from existing and new shareholders if investors do not see the Company as fitting within their own investment criteria. This could potentially impact share price and access to capital.</p> <p>As we see an increase in 'green debt' issues (bonds and RCFs), we are seeing an increased preference for lenders toward products with 'green' parameters and a cheaper cost of debt for those instruments. Providers of finance for the Company may set specific climate risk related parameters for counterparties (by policy or by law) that will reduce the Company's access to capital if it does not meet the relevant criteria, or they may increase the Company's cost of debt.</p>	<p>The Company manages the risk associated with access to capital through the implementation of relevant, transparent and comparable reporting to shareholders, investors and the wider stakeholder group.</p> <p>The Investment Advisor also regularly communicates with the Company's shareholders and lenders to discuss changing parameters and requirements for investment.</p> <p>Shareholders have increased their focus on data collected by the Company and consistency of ethos, particularly when it comes to sustainability and climate-related matters.</p> <p>Focus is on data coverage improvement (doubled for 2022 calendar year), improvements to our disclosures and tangible implementation of decarbonisation measures at asset level in collaboration with tenants.</p>		
<p>Regulatory Risk</p> <p>Changes in legislation over the longer-term as well as other factors such as the energy efficiency of real estate being incompatible with legislation and targets that impact the occupier, may result in our assets becoming unlettable or other costs, such as taxes or fines being levied against assets that perform poorly in terms of climate impact.</p>	<p>The Board remains abreast of changes in legislation through the work of the Climate Risk Working Group and engages experts where needed.</p> <p>The Group's overall climate risk strategy is designed to ensure that the Company meets the appropriate 'green' credentials that will continue to allow it access debt and equity capital markets on acceptable terms.</p> <p>Proposed updates to MEES regulation, any further developments in relation to the proposed Carbon Emissions (Buildings) Bill, any advancement in costing carbon in construction as proposed by the parliamentary Environmental Audit Committee and the planned mandatory publication of transition plans by businesses are being closely monitored.</p>	<p>Moderate (from low)</p>	<p>High</p>

Going Concern and Viability

The financial statements of the Group and Company have been prepared on a going concern basis.

The Group has an Investment Grade credit rating, a healthy liquidity position and comfortable headroom against financial covenant levels. In light of current macroeconomic uncertainty, we draw comfort from the Group's robust balance sheet and high-quality portfolio of commercial property assets let or pre-let on

long term, index-linked leases to a wide range of strong tenant covenants highly diversified by tenant, sector and location.

The completion of the acquisition of Secure Income REIT during the year provided further strength and resilience to the balance sheet through scale, with net assets increasing from £1.3bn at 31 March 2022 to £2.1bn at 31 March 2023. The Group also completed a refinancing of over £700m of debt post year end and extended a £60m facility during the year. The refinancing increased the weighted average term to maturity from 3 years at 30 September 2022 to 6 years at 31 March 2023.

Contracted rental income grew from £79.7m in 2022 to £202.2m in 2023 while the EPRA cost ratio decreased from 15.9% to 9.5%, showing increased earnings generation which will support liquidity.

In particular, the Board has regard to the following characteristics of the Company in assessing going concern and viability:

Low-cost debt facilities, with comfortable covenant headroom

- The Group's pro-forma net loan to value ("LTV") as at 31 March 2023 was 37%, following a £232m repayment of the Merlin A Serling facility during the year. Following the Group's refinancing event after the year end, the pro-forma net LTV remains at 37%
- The Group's portfolio is currently valued at £3.4bn reflecting a valuation yield of 5.4%, a 70bps spread from the weighted average cost of debt of 4.7% pa, a slight increase on the pre-refinancing cost of debt of 4.2% pa
- The Group has comfortable headroom to LTV and ICR covenant levels within each facility at covenant levels at 31 March 2023 and at post-refinancing pro-forma covenant levels
- The total weighted average cost of drawn debt across all facilities post refinancing is capped at 4.7% pa over the next three-year period
- No breaches of loan covenants during the forecast going concern period

Defensive and diversified portfolio that is 100% let or pre-let on long leases to strong tenant covenants

- The Group's portfolio is 100% let or pre-let to over 80 strong tenants, across 13 sub-sectors. Furthermore, the tenants are the main trading or parent companies within the tenant groups with strong financial covenants
- The Group draws comfort from the financial robustness of the major tenants and analysis and reports to the Board the financial covenants of all tenants contributing to >2% of contracted rent roll on a quarterly basis
- The Group benefits from a secure income stream of leases with an average 27 years to first break across the portfolio. Each lease is drawn on a fully repairing and insuring basis - tenants are responsible for repair, maintenance and outgoings, so there is no cost leakage for the Company
- 100% rent collected in the year from tenants

Strong liquidity

- At 31 March 2023 the Group had net assets of £2.1bn (31 March 2022: £1.3bn) and a cash balance of £74.4m (31 March 2022: £72.5m), including secured cash of £29.1m
- Post balance sheet date, the Group completed the refinancing of various facilities that were due to expire in the near term resulting in total borrowings of £1,298.6m

Virtually all rent has inflation-protection, through indexed or fixed uplifts, providing substantial protection and the opportunity to generate rental growth in a high inflationary environment.

Debt maturity

Post refinancing, the Group has a 6-year weighted average term to maturity with no debt maturing within 12 months of the approval date of the financial statements. The next refinancing event relates to the £60m HSBC leisure facility which falls due in December 2024. The Group's financial projections show there are sufficient funds for the facility to be repaid in full from free cash. The next large refinancing event following is in October 2025 and relates to the £293m AIG healthcare facility and represents 23% of the total post refinancing committed debt.

LXi REIT plc Company

Although the Company has net current liabilities, there are sufficient distributable reserves to cover the final dividend for the 12 months to 31 March 2023.

Although the intercompany debt within the PLC is classed as non-current, this debt is technically due on demand the sub groups have sufficient equity to repay these liabilities.

Going concern statement

The Board have considered the period to 30 June 2024 for the going concern assessment. Based on the considerations above and on stress tests and reverse stress tests, the Board believes that the Group and the Company have the ability to continue in business for at least twelve months from the date of approval of these financial statements and therefore have adopted the going concern basis in the preparation of this financial information.

Conclusion

On this basis, we consider that there are no material uncertainties in relation to the Group or Company's

ability to:

- 1) continue in operation for the period of at least 12 months from the date of approval of the consolidated financial statements
- 2) Meet its liabilities as they fall due

Longer term viability model

Viability statement

In accordance with the AIC Code of Corporate Governance, the Board must assess the prospects of the Group over a longer period than the 12 months required by the 'Going Concern' provision.

The financial projections used in this report cover a period that is longer than a number of the Group's debt facilities and hedging instruments in place. It is assumed within the projections that these facilities and hedging instruments are renewed or taken out by an equivalent financing arrangement with consistent terms to the current refinanced rates when they expire. This is supported by SONIA forward swap rates at 31 March 2023 being lower than the overall average capped cost of debt across all facilities.

Five years to 31 March 2028 is considered by the Board to be an appropriate viability period for the following reasons:

- The Group's weighted average debt maturity at 31 March 2023 was 5.7 years
- HM Treasury provide medium term inflation forecasts to 2027 which are taken as the inflation forecast assumptions in the projections
- The Group has a WAULT of 27 years, representing secure and predictable income during that time frame
- 44% of leases contain five yearly rent reviews which allows for the forecasts to include the majority of rent reviews
- Five years is covered by the Group's medium term detailed financial projections

Covenant compliance has been modelled over the viability period and the Investment Advisor has presented to the Board for its consideration the sensitivity of the financial projections to key assumptions impacting compliance with secured debt covenants.

The sensitivities performed were designed to be severe but plausible; and to take full account of the availability of mitigating actions that could be taken to avoid or reduce the impact or occurrence of the underlying risks:

Downturn in economic outlook: key assumptions including tenant default, void periods and income growth were sensitised to reflect reasonably likely levels associated with a longer-term economic downturn. The financial projections include rental increases in line with rent reviews, meaning the tightest forecasted covenant headroom in the viability period is the current LTV and ICR covenant headroom levels.

Restricted availability of finance: The Group's first significant refinancing event (assuming all extension options are taken) is December 2024. It is forecast that the Group would have sufficient cash to repay this facility. The next large refinancing event falls in October 2025. The Group's policy is to arrange alternative finance in advance of expected requirements and the Directors have reasonable confidence that an extension, additional or replacement debt facilities will be put in place prior to the refinancing date. Some assurance is taken from the successful recently completed refinancing. Furthermore, the Group has the ability to make disposals of investment properties to meet the future financing requirements if necessary and has demonstrated its ability to do so.

Sensitivity analysis

Analysis performed

Loan covenant reverse stress test

We have performed analysis to test the extent to which the valuation of our current portfolio and rental income should have to fall (due to contractual nature of income and lease length, this could only be the result of a tenant default) in order to result in a breach in each facility for the debt profile as at 31 March 2023 and the post refinancing debt profile. All facilities at 31 March 2023 have comfortable headroom to covenants, with the tightest LTV covenant requiring a 31% reduction in value before a breach and the tightest ICR covenant requiring a 40% loss of rent before a breach. This represents our 'reverse stress test' and shows at what point the Group would breach its covenants.

We have also carried out a 'reverse stress test' on the current post refinancing position which shows comfortable headroom to covenants, the tightest LTV covenant requiring a 30% reduction in value before a breach and the tightest ICR covenant requiring a 31% loss of rent before a breach. For the facilities that contain cash trap covenants, the tightest covenant would require a 30% reduction in value and a 33% loss of rent before a breach.

21% loss of rent before a breach.

In the unlikely event portfolio valuations decrease by the amount required to trigger a breach, the Group has a number of options available to rectify a breach. These include revising dividend payments, considering a rights issue and disposal of assets. Similarly, if rent reduced by an amount to trigger a breach, the Group is able to cash cure with uncommitted cash from elsewhere in the Group.

Conclusion

On this basis we recommend that the Board approves the going concern and longer-term viability section of the annual report.

Approval

The Strategic Report was approved by the Board of Directors

Cyrus Ardalan

Chairman

6 June 2023

Statement of Directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with UK adopted international accounting standards and applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with UK adopted international accounting standards and have elected to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss for the Group for that period.

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 they have been prepared in accordance with UK adopted international accounting standards, subject to any material departures disclosed and explained in the financial statement;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business;
- prepare a directors' report, a strategic report and directors' remuneration report which comply with the requirements of the Companies Act 2006.

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 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 Directors are responsible for ensuring that the annual report and accounts, taken as a whole, are fair, balanced, and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Directors' responsibilities pursuant to DTR4

The directors confirm to the best of their knowledge:

- The financial statements have been prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group.
- The annual report includes a fair review of the development and performance of the business and the financial position of the Group and Company, together with a description of the principal risks and

financial position of the Group and Company, together with a description of the principal risks and uncertainties that they face.

Fair, balanced and understandable

The Directors confirm that to the best of their knowledge the Annual Report and Accounts taken as a whole is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's performance, business model and strategy.

Approval

This Directors' responsibilities statement was approved by the Board of Directors and signed on its behalf

Cyrus Ardalan
Chairman of the Board of Directors
6 June 2023

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 March 2023	Year ended 31 March 2022
	Note	£m	£m
Rental income	4	203.5	58.5
Property expenses		(5.3)	-
Gross profit		198.2	58.5
Administrative and other expenses	5	(18.8)	(9.3)
Operating profit before movements in investment property and financial instruments		179.4	49.2
Change in fair value of investment property	8	(406.7)	117.7
Change in fair value of financial instruments	16	22.2	1.2
Loss on disposal of investment property	8	(2.8)	-
Operating (loss)/ profit		(207.9)	168.1
Loss on disposal of financial instruments		(4.6)	-
Loss on early extinguishment of debt	6	(20.6)	-
Finance costs	6	(54.0)	(6.8)
(Loss)/profit before tax		(287.1)	161.3
Taxation	7	(1.0)	0.7
(Loss)/profit for the year		(288.1)	162.0
Other comprehensive income			
Currency translation gain		1.3	-
Total comprehensive (loss)/income attributable to shareholders		(286.8)	162.0
(Loss)/earnings per share - basic and diluted	25	(19.2p)	22.8p

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Company number: 10535081

	31 March 2023	31 March 2022
Note	£m	£m

Non-current assets

Investment property	8	3,569.6	1,480.1
Fixed assets		0.2	-
Derivative financial instruments	16	29.3	-
Total non-current assets		3,599.1	1,480.1
Current assets			
Trade and other receivables	11	16.8	19.4
Assets held for sale	9	32.3	19.0
Deferred acquisition costs		2.6	0.7
Derivative financial instruments	16	3.1	1.2
Cash and cash equivalents	12	74.4	72.5
Total current assets		129.2	112.8
Total assets		3,728.3	1,592.9
Current liabilities			
Trade and other payables	13	82.6	38.6
Bank borrowings	14	508.7	-
Total current liabilities		591.3	38.6
Non-current liabilities			
Bank borrowings	14	729.8	240.0
Leasehold liabilities	15	43.7	12.5
Other financial liabilities	13	254.7	-
Other payables		0.7	1.1
Total non-current liabilities		1,028.9	253.6
Total liabilities		1,620.2	292.2
Net assets		2,108.1	1,300.7
Equity			
Share capital	17	17.1	9.1
Share premium reserve	17	2,120.8	940.0
Foreign exchange reserve		1.3	-
Capital reduction reserve		-	21.0
Retained earnings		(31.1)	330.6
Total equity		2,108.1	1,300.7
Net asset value per share - basic and diluted	26	123.0	142.7p
EPRA NTA per share	26	121.1	142.6p

The consolidated financial statements were approved and authorised for issue by the Board on 6 June 2023 and signed on its behalf by:

Cyrus Ardalan
Chairman

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Share	Foreign	Capital		
	Share	premium	exchange	reduction	Retained	Total
Year ended 31 March 2023	capital	reserve	reserve	reserve	earnings	equity
	Note	£m	£m	£m	£m	£m
Balance at 1 April 2022		9.1	940.0	-	21.0	330.6
Profit and total comprehensive income attributable to shareholders		-	-	-	(288.1)	(288.1)

Exchange reserve	-	-	1.3	-	-	1.3
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Transactions with owners

Issue of ordinary shares in the year	17	8.0	1,180.8	-	-	-	1,188.8
Dividends paid in the year	18	-	-	-	(21.0)	(73.6)	(94.6)

Balance at 31 March 2023		17.1	2,120.8	1.3	-	(31.1)	2,108.1
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Reserves are defined in Note 17.

Year ended 31 March 2022	Note	Share capital £m	Share premium reserve £m	Capital reduction reserve £m	Retained earnings £m	Total equity £m
Balance at 1 April 2021		6.2	544.5	62.1	168.6	781.4
Profit and total comprehensive income attributable to shareholders		-	-	-	162.0	162.0
Transactions with owners						
Issue of ordinary shares in the year	17	2.9	402.6	-	-	405.5
Share issue costs	18	-	(7.1)	-	-	(7.1)
Dividends paid in the year	18	-	-	(41.1)	-	(41.1)
Balance at 31 March 2022		9.1	940.0	21.0	330.6	1,300.7

CONSOLIDATED CASH FLOW STATEMENT

	Note	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Cash flows from operating activities			
(Loss)/profit before tax		(287.1)	161.3
Adjustments for:			
Finance costs	6	54.0	6.8
Make-whole costs on settlement of debt facility	6	20.6	-
Change in fair value of investment property	8	406.7	(117.7)
Loss on disposal of investment property	8	2.8	-
Loss on disposal of derivative		4.6	-
Change in fair value of derivative		(22.2)	(1.2)
Accretion of tenant lease incentives	4	(37.8)	(9.9)
Tax paid		(0.1)	-
Operating results before working capital changes		141.5	39.3
Decrease / (increase) in trade and other receivables		4.3	(3.2)
Increase in trade and other payables		23.9	15.3
Net cash flow generated from operating activities		169.7	51.4

Cash flows from investing activities

Purchase of investment properties	8	(80.0)	(425.4)
Cash alternative paid to SIR plc shareholders	27	(392.3)	-
Interest received		0.4	-
Proceeds from sale of investment property	8	29.5	8.3
Net cash flow used in investing activities		(442.4)	(417.1)

Cash flows from financing activities

Proceeds from shares issued in the year		-	353.8
Share issue costs paid		-	(7.2)
Dividends paid		(89.0)	(41.1)
Interest paid		(40.4)	(6.6)
Payments on other financial liabilities		(4.5)	-
Interest received on in-the-money financial instruments		2.2	-
Purchase of interest rate cap	16	(26.5)	(0.1)
Proceeds from recognition of income strip	15	257.0	-
Proceeds from close out of interest rate cap	16	23.1	-
Make-whole costs on settlement of debt	6	(20.6)	-
Drawdown of borrowings	14	499.0	239.7
Repayment of borrowings	14	(322.6)	(186.0)
Loan arrangement fees paid		(3.1)	(1.4)
Net cash flow generated from financing activities		274.6	351.1

Net (decrease)/increase in cash and cash equivalents **1.9** **(14.6)**

Cash and cash equivalents at the beginning of the year		72.5	87.1
Cash and cash equivalents at the end of the year	12	74.4	72.5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**1. Basis of preparation**

The financial information contained in this announcement has been prepared on the basis of the accounting policies set out in the financial statements for the year ended 31 March 2023. Whilst the financial information included in this announcement has been computed in accordance with UK adopted international accounting standards this announcement does not itself contain sufficient information to comply with IFRS. The financial information does not constitute the Group's financial statements for the year ended 31 March 2023, but is derived from those financial statements. Those financial statements give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group. Financial statements for the year ended 31 March 2023 will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

The Independent Auditor's report on the 31 March 2023 financial statements was unqualified, and did not contain statements under s498(2) or (3) of the Companies Act 2006.

The financial statements have been prepared for the year ended 31 March 2023. The comparative information included in the financial statements relates to the year ended 31 March 2022.

The Group's financial statements have been prepared on a historical cost basis, as modified for the Group's investment properties and derivative financial instruments which have been measured at fair value with changes recognised through the statement of comprehensive income.

The consolidated financial statements are presented in Sterling, which is also the Company's functional currency, and values are rounded to the nearest hundred thousand except where indicated otherwise.

Euro denominated results of the German operations have been converted to Sterling at the average exchange rate for the period since acquisition of €1: £0.87 which is not considered to produce materially different results from using the actual rates at the date of the transactions. Period end balances have been converted to Sterling at the 31 March 2023 exchange rate of €1: £0.88. The accounting policy for foreign currency translation is in Note 3.

· **Standards effective from 1 April 2022**

New standards impacting the Group that have been adopted for the first time in this set of financial

statements are:

- Amendments to IFRS 3 'Business Combinations': reflecting changes in reference to the Conceptual Framework but not significantly changing its requirements. The amendment is effective for periods beginning on or after 1 January 2022 but is not expected to have a material impact on the Group's accounts. The acquisition by the Group of Secure Income REIT in the period falls outside the definition of a business combination.
- Annual improvements to IFRS standards (applicable to periods beginning on or after 1 January 2022):
 - i) IFRS 9: to add clarification of the fees a company includes in assessing the terms of a new or modified financial liability to determine whether to derecognise a financial liability.
 - ii) IFRS 16: the addition of an illustrative example in the standard in order to remove confusion around lease incentives.

These standards have been assessed to have no significant impact to the Group as they are either not relevant to the Group's activities or require accounting which is consistent with the Group's current accounting policies.

• **Standards issued not yet effective**

The following are new standards, interpretations and amendments, which are not yet effective, and have not been early adopted in this financial information, that will or may have an effect on the Group's future financial statements:

- Amendments to IAS 1 which clarifies the criteria used to determine whether liabilities are classified as current or non-current (Periods beginning after 1 January 2024). These amendments clarify that current or non-current classification is based on whether an entity has a right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. The amendment is not expected to have an impact on the presentation or classification of the liabilities in the Group based on rights that are in existence at the end of the reporting period.
- Update to IAS 8 'Definition of Accounting Estimates' to add clarification around the difference between accounting policies and accounting estimates including a new definition of 'accounting estimates' (Periods beginning after 1 January 2023).
- Update to IAS 1 and IFRS Practice Statement 2 'Disclosure of Accounting Policies' in order to help entities apply materiality judgements to accounting policy disclosure (Periods beginning after 1 January 2023).

There are other new standards and amendments to standards and interpretations which have been issued that are effective in future accounting periods, and which the Group has decided not to adopt early. None of these are expected to have a material impact on the consolidated financial statements of the Group.

• **Going concern**

The financial statements of the Group and Company have been prepared on a going concern basis.

The Group has an Investment Grade credit rating, a healthy liquidity position and comfortable headroom against financial covenant levels. In light of current macroeconomic uncertainty, we draw comfort from the Group's robust balance sheet and high-quality portfolio of commercial property assets let or pre-let on long term, index-linked leases to a wide range of strong tenant covenants highly diversified by tenant, sector and location.

The completion of the acquisition of Secure Income REIT during the year provided further strength and resilience to the balance sheet through scale, with net assets increasing from £1.3bn at 31 March 2022 to £2.1bn at 31 March 2023. The Group also completed a refinancing of over £700m of debt post year end and extended a £60m facility during the year. The refinancing increased the weighted average term to maturity from 3 years at 30 September 2022 to 6 years at 31 March 2023.

Contracted rental income grew from £79.7m in 2022 to £202.2m in 2023 while the EPRA cost ratio decreased from 15.9% to 9.5%, showing increased earnings generation which will support liquidity.

In particular, the Board has regard to the following characteristics of the Company in assessing going concern and viability:

Low-cost debt facilities, with comfortable covenant headroom

- The Group's pro-forma net loan to value ("LTV") as at 31 March 2023 was 37%, following a £232m repayment of the Merlin A Serling facility during the year. Following the Group's refinancing event after the year end, the pro-forma net LTV remains at 37%
- The Group's portfolio is currently valued at £3.4bn reflecting a valuation yield of 5.4%, a 70bps spread from the weighted average cost of debt of 4.7%, a slight increase on the pre-refinancing cost of debt of 4.2%
- The Group has comfortable headroom to LTV and ICR covenant levels within each facility at covenant levels at 31 March 2023 and at post-refinancing pro-forma covenant levels
- The total weighted average cost of drawn debt across all facilities post refinancing is capped at 4.7% over the next three-year period
- No breaches of loan covenants during the forecast going concern period

Defensive and diversified portfolio that is 100% let or pre-let on long leases to strong tenant covenants

- The Group's portfolio is 100% let or pre-let to over 80 strong tenants, across 13 sub-sectors.

Furthermore, the tenants are the main trading or parent companies within the tenant groups with strong financial covenants

- The Group draws comfort from the financial robustness of the major tenants and analysis and reports to the Board the financial covenants of all tenants contributing to >2% of contracted rent roll on a quarterly basis.
- The Group benefits from a secure income stream of leases with an average 27 years to first break across the portfolio. Each lease is drawn on a fully repairing and insuring basis - tenants are responsible for repair, maintenance and outgoings, so there is no cost leakage for the Company
- 100% rent collected in the year from tenants

Strong liquidity

- At 31 March 2023 the Group had net assets of £2.1bn (31 March 2022: £1.3bn) and a cash balance of £74.4m (31 March 2022: £72.5m), including secured cash of £29.1m
- Post balance sheet date, the Group completed the refinancing of various facilities that were due to expire in the near term resulting in total borrowings of £1,298.6m

Virtually all rent has inflation-protection, through indexed or fixed uplifts, providing substantial protection and the opportunity to generate rental growth in a high inflationary environment

Debt maturity

Post refinancing, the Group has a 6-year weighted average term to maturity with no debt maturing within 12 months of the approval date of the financial statements. The next refinancing event relates to the £60m HSBC leisure facility which falls due in December 2024. The Group's financial projections show there are sufficient funds for the facility to be repaid in full from free cash. The next large refinancing event following is in October 2025 and relates to the £293m AIG healthcare facility and represents 23% of the total post refinancing committed debt.

LXi REIT plc Company

Although the Company has net current liabilities, there are sufficient distributable reserves to cover the final dividend for the 12m to 31 March 2023.

Although the intercompany debt within the PLC is classed as non-current, this debt is technically due on demand the sub groups have sufficient equity to repay these liabilities.

Going concern statement

The Board have considered the period to 30 June 2024 for the going concern assessment. Based on the considerations above and on stress tests and reverse stress tests, the Board believes that the Group and the Company have the ability to continue in business for at least twelve months from the date of approval of these financial statements and therefore have adopted the going concern basis in the preparation of this financial information.

Sensitivity analysis

Loan covenant reverse stress test

We have performed analysis to test the extent to which the valuation of our current portfolio and rental income should have to fall (due to contractual nature of income and lease length, this could only be the result of a tenant default) in order to result in a breach in each facility for the debt profile as at 31 March 2023 and the post refinancing debt profile. All facilities at 31 March 2023 have comfortable headroom to covenants, with the tightest LTV covenant requiring a 31% reduction in value before a breach and the tightest ICR covenant requiring a 40% loss of rent before a breach. This represents our 'reverse stress test' and shows at what point the Group would breach its covenants.

We have also carried out a 'reverse stress test' on the current post refinancing position which shows comfortable headroom to covenants, the tightest LTV covenant requiring a 30% reduction in value before a breach and the tightest ICR covenant requiring a 31% loss of rent before a breach. For the facilities that contain cash trap covenants, the tightest covenant would require a 30% reduction in value and a 27% loss of rent before a breach.

In the unlikely event portfolio valuations decrease by the amount required to trigger a breach, the Group has a number of options available to rectify a breach. These include revising dividend payments, considering a rights issue and disposal of assets. Similarly, if rent reduced by an amount to trigger a breach, the Group is able to cash cure with uncommitted cash from elsewhere in the Group.

2. Significant accounting judgments, estimate and assumptions

In the application of the Group's accounting policies the Board is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below:

Estimates:

· **Valuation of investment properties (Note 8)**

The market value of Investment property is determined by an independent property valuation expert to be the estimated amount for which a property should exchange on the date of the valuation in an arm's-length transaction. The Group uses the valuations carried out by Knight Frank LLP (the "Independent Valuer") as the fair value of its property portfolio. The valuation is based upon assumptions including future rental income and the appropriate capitalisation rate. The Independent Valuer makes reference to market evidence of transaction prices for similar properties.

The Group's properties have been independently valued by its Independent Valuer in accordance with the definitions published by the Royal Institute of Chartered Surveyors ("RICS") Valuation - Professional Standards, January 2022, Global and UK Editions (commonly known as the 'Red Book').

Investment properties under construction are financed by the Group where the Group enters into contracts for the development of a pre-let property under a funding agreement. All such contracts specify a fixed amount of consideration. The Group does not expose itself to any speculative development risk as the proposed building is pre-let to a tenant under an agreement for lease and the Group enters into a fixed-price development agreement with the developer. Investment properties under construction are initially recognised at cost (including any associated costs), which reflect the Group's investments in the assets. Subsequently, the assets are remeasured to fair value at each reporting date. The fair value of investment properties under construction is estimated as the capitalised income calculated by the Independent Valuer, less any costs still payable in order to complete, which include an appropriate developer's margin.

With respect to the consolidated financial statements, investment properties are valued at their fair value at each reporting date in accordance with IFRS 13 which recognises a variety of fair value inputs depending upon the nature of the investment. Given the bespoke nature of each of the Group's investments, all of the Group's investment properties are included in Level 3. Details of the nature of these inputs and sensitivity analysis is provided in Note 8.

Judgments:

· **Classification of lease arrangements - the Group as lessor (Note 15)**

The Group has acquired investment property that is leased to tenants. In considering the classification of lease arrangements, at inception of each lease the Group considers the economic life of the asset compared with the lease term and the present value of the minimum lease payments and any residual value compared with the fair value and associated costs of acquiring the asset as well as qualitative factors as indicators that may assert to the risks and rewards of ownership having been substantially retained or transferred. Based on evaluation the Group has determined that it retains all the significant risks and rewards of ownership of its investment property and accounts for the lease arrangements as operating leases.

· **Lease term (Note 4)**

In accordance with accounting standards, rental income is recognised on a straight-line basis over the expected lease term. A judgement has to be made by the Directors as to the expected term of each lease. The judgement involves determining whether extension option clauses on certain leases will be exercised. This judgement impacts the length of time over which lease incentives are recognised. The key element of this judgement is whether the Directors can be "reasonably certain" that any options in place to extend the lease term will be exercised at the expiry of the current lease. The Directors concluded that it was impossible to say with reasonable certainty that an option will be exercised. The Directors concluded that lease terms should be restricted to the initial length of the lease, or to the break date, except where reversionary leases have already been executed or where options to extend have already been exercised.

· **Treatment of corporate acquisitions in the period (Note 27)**

The Merger (the acquisition of the entire issued share capital of Secure Income REIT plc) during the period has been treated as an asset acquisition rather than a business combination and therefore is outside the scope of IFRS 3.

The Company acquired on a share for share basis, with a 25% cash alternative, the shares of Secure Income REIT plc (the "target"). The target company was solely the owner of investment properties complete with extant tenant operating leases along with related cash and leverage and other associated assets and working capital balances.

The target was a real estate investment trust which was managed by Prestbury Investment Partners Limited (the "target adviser"). The management contract with the target advisor made the target advisor responsible for the day to day operations required to manage the property owned by the target.

Simultaneously on the Merger, the target advisor was acquired by the Investment Advisor's group, and the management contract between Prestbury and SIR plc was immediately cancelled as the operations

of the Group were taken over by LXi REIT Advisors Limited who remain Investment Advisor to the enlarged group.

In making the judgement, the Directors considered whether the operations and activities of Secure Income REIT plc (and not the target adviser), being the entity acquired, constituted a business which they consider would require the acquisition of inputs and processes, that are designed to create outputs.

The Directors consider that in order that a business would be capable of being conducted and managed for the purposes defined above, an integrated set of activities and assets requires two essential elements-inputs and the relevant processes applied to those inputs, which together are or will be used to create outputs.

The Directors consider that the Company itself being a passive investor in 'inputs' and thus possessing no 'processes', required to produce 'outputs' mean that a business has not been acquired through the merger. The relevant processes to create outputs are and remain those of the Investment Advisor.

The transaction has therefore been accounted for in the consolidated financial statements as an asset acquisition. See Note 27 for detail.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. The policies have been consistently applied.

· Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group as at the year end date.

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. All intra-group transactions, balances, income and expenses are eliminated on consolidation. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

On 6 July 2022 the Group completed a merger with Secure Income REIT Plc and its subsidiaries, from which date the company's became a wholly owned subsidiaries of the Group.

Accounting policies of the subsidiaries are consistent with the policies adopted by the Company.

· Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is initially recognised at the point where conditions to the purchase are substantially met and measured at cost, being the fair value of the consideration given, including expenditure that is directly attributable to the acquisition of the investment property. After initial recognition, investment property is stated at its fair value at the reporting date. Gains and losses arising from changes in the fair value of investment property are included in the period in which they arise in the statement of comprehensive income.

Investment properties under construction are financed by the Group where the Group enters into contracts for the development of a pre-let property under a funding agreement. All such contracts specify a fixed amount of consideration. The Group does not expose itself to any speculative development risk as the proposed building is pre-let to a tenant under an agreement for lease and the Group enters into a fixed price development agreement with the developer. Investment properties under construction are initially recognised at cost (including any associated costs), which reflect the Group's investment in the assets. Subsequently, the assets are remeasured to fair value at each reporting date. The fair value of investment properties under construction is estimated as the fair value of the completed asset less any costs still payable in order to complete, which include an appropriate developer's margin.

During the period between initial investment and the rent commencement date, the Group receives licence fee income from the developer. Licence fees receivable by the Group in respect of the period are treated as discounts to the cost of investment property. Any economic benefit of the licence fee is recognised through the change in fair value of investment property.

When development completion is reached, the completed investment property is transferred to the appropriate class of investment property at the fair value at the date of practical completion so that any economic benefit of the licence fee is appropriately reflected within investment property under construction.

Subsequent expenditure is capitalised only when it is probable that future economic benefits are associated with the expenditure. Ongoing repairs and maintenance are expensed as incurred.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss

arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is incurred in profit or loss in the period in which the property is derecognised.

Deferred acquisition costs represent costs incurred on investment properties which completed after the period end and will subsequently be capitalised.

Significant accounting judgments, estimates and assumptions made in the valuation of investment properties are described in Note 2.

· **Assets held for sale**

An asset will be classified as held for sale in line with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, where there is Board approval at the year-end date, the asset is available for immediate sale in its current condition and the asset is expected to be disposed of within 12 months after the date of the Consolidated Statement of Financial Position.

· **Financial instruments**

a. Financial assets

The Group classifies its financial assets as fair value through profit or loss or amortised cost, depending on the purpose for which the asset was acquired and based on the business model test. There are no material financial assets held at fair value through profit or loss. The Group's accounting policy for financial assets classified as amortised cost is as follows:

Fair value through profit or loss

These are carried in the Statement of Financial Position at fair value with changes in fair value recognised in the Statement of Comprehensive Income in the finance income or expense line. The Group does not have any assets held for trading nor does it voluntarily classify any financial assets as being at fair value through profit or loss.

Amortised cost

These assets arise principally from the provision of goods and services to customers (e.g. rent receivables), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortised cost being the effective interest rate method, less provision for impairment.

Impairment provisions for receivables are recognised based on the simplified approach within IFRS 9 using a provision matrix in the determination of the lifetime expected credit losses. During this process the probability of the non-payment of the rent receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the rent receivables. For rent receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognised in the consolidated statement of comprehensive income. On confirmation that the receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The Group's financial assets measured at amortised cost comprise rent receivable, restricted cash and cash and cash equivalents in the consolidated statement of financial position.

Cash and cash equivalents comprise cash in hand and deposits held at call with banks. Cash and cash equivalents also includes cash held by lawyers for subsequent completions.

Restricted cash represents cash withheld by the lender on drawdowns of borrowings referred to in Note 14 until the certain security is provided to release the funds as well as amounts withheld when a securitised asset is disposed prior to the bank replacing the asset with adequate security and in consequence, restricted cash does not form an integral part of the Group's cash management as at the reporting date.

Interest rate derivatives

The Group has used interest rate derivatives to hedge its exposure to cash flow interest rate risk.

Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently measured at fair value.

Derivatives are held at fair value through profit and loss.

b. Financial liabilities

The Group classifies its financial liabilities as fair value through profit or loss, depending on the purpose for which the liability was acquired and based on the business model test. There are no financial liabilities held at fair value through profit or loss. The Group's accounting policy for financial liabilities classified as other financial liabilities is as follows:

Other financial liabilities

Bank borrowings which are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensure that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the Group Statement of Financial Position. For the purposes of each financial liability, interest expense includes initial transaction costs and any premium payable on redemption, as well as any interest or coupon payment while the liability is outstanding.

In the event of a modification to the terms of a loan agreement, the Group considers both the quantitative and qualitative impact of the changes. Where a modification is considered substantial, the existing facility is treated as settled and the new facility is recognised. Where the modification is not considered substantial, the carrying value of the liability is restated to the present value of the cash flows of the modified arrangement, discounted using the effective interest rate of the original arrangement. The difference is recognised as a gain or loss on refinancing through the statement of comprehensive income.

Trade and other payables that are financial liabilities are initially recognised at fair value. Where a financial instrument is identified in respect of long-term payables the fair value is calculated with

financing component is identified in respect of long term payables the fair value is calculated with reference to an imputed interest rate and subsequently amortised using the effective interest rate method. Short term financial liabilities are carried at their expected settlement value.

- **Fair value hierarchy**

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation at the end of each reporting period.

- **Leases - the Group as lessor**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group has determined that it retains all the significant risks and rewards of ownership of the properties and accounts for the contracts as operating leases.

Properties leased out under operating leases are included in investment property in the consolidated statement of financial position. Rental income from operating leases is recognised on a straight line basis over the expected term of the relevant leases.

For leases which contain fixed or minimum uplifts, the rental income arising from such uplifts is recognised on a straight line basis over the lease term.

Tenant lease incentives are recognised as a reduction of rental income on a straight line basis over the term of the lease. The Group recognises the impact of the temporary rent reductions agreed to support tenants as a reduction of rental income on a straight line basis over the expected lease term.

Sub-leases of leasehold properties are classified with reference to the right of use asset arising from the head lease. All other leases are classified as operating leases.

- **Leases - the Group as lessee**

All leases where the Group is a lessee are accounted for by recognising a right-of-use asset and a lease liability, except for leases of low value assets and leases with a term of 12 months or less.

Lease liabilities are measured at the present value of the lease payments of ground rents due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless this is not readily determinable, in which case the Group's incremental borrowing rate on commencement of the lease is used. Subsequent to initial measurement, lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made.

Right-of-use assets are initially measured at the amount of the lease liability, reduced for any tenant lease incentives received. As leasehold properties meet the definition of investment property, the right-of-use assets are presented within investment property and are subsequently measured at fair value.

- **Taxation**

Taxation on the profit or loss for the period not exempt under UK REIT regulations or otherwise, comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income except to the extent that it relates to items recognised as direct movement in equity, in which case it is recognised as a direct movement in equity. Current tax is expected tax payable on any non-REIT taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax that is 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 reporting date.

- **Foreign currency translation**

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

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

- **Dividends payable to shareholders**

Dividends to the Company's shareholders are recognised as a reduction in equity in the financial statements at the earlier of the date they are paid and the date they are approved at the AGM.

- **Finance income and finance costs**

Finance income is recognised as interest accrues on cash balances held by the Group. Finance costs consist of interest payable and loan arrangement fees which are expensed using the effective interest rate method over the term of the loan and other costs that the Group incurs in connection with bank and other borrowings which are expensed in the period in which they occur.

Any finance costs that are separately identifiable and directly attributable to the development of an investment property that takes a period of time to complete are capitalised as part of the cost of the asset.

· **Equity issue costs**

The costs of issuing equity instruments are accounted for as a deduction from equity.

4. Rental income

	Year ended 31 March 2023	Year ended 31 March 2022
	£m	£m
Rental income from investment property	160.4	48.6
Accretion of tenant lease incentives (Note 8)	37.8	9.9
Service charge income	4.1	-
Head rent income	1.2	-
	203.5	58.5

5. Administrative and other expenses

	Year ended 31 March 2023	Year ended 31 March 2022
	£m	£m
Investment advisory fees (Note 21)	12.9	7.1
Legal and professional fees	1.4	0.5
Other administrative costs	1.0	0.6
Corporate administration fees	1.1	0.3
Fees paid to the Company's Independent Auditor	0.4	0.2
Directors' fees (Note 21)	0.4	0.3
Recruitment fees	-	0.2
Advertising & Marketing	0.1	0.1
Abortive fees (Note 25)	1.5	-
	18.8	9.3

Fees paid to the Company's Independent Auditor comprise the review of the Interim Report, the audit of the Annual Report and the audit of the financial statements of the Company's subsidiaries.

The Company paid £0.2m of additional fees to the Company's Independent Auditor in the year. £0.1m in respect of interim services and £0.1m in respect of reporting accountant services in the year relating to the merger which have been recognised as capitalised transaction costs on acquisition of the investment properties. (31 March 2022: £0.1m for interim services and £0.1m for reporting accountant work).

6. Finance costs

	Year ended 31 March 2023	Year ended 31 March 2022
	£m	£m
Interest payable on bank borrowings	43.1	5.4
Amortisation of loan arrangement fees	6.1	1.2
Leasehold interest	4.6	0.2
Other bank charges	0.2	-
	54.0	6.8

Capitalised finance costs are included within property acquisitions in Note 8. The total interest payable on financial liabilities carried at amortised cost comprised:

- the interest payable on bank borrowings totalling £43.7m of which £0.6m was capitalised (31 March 2022: £6.5m of which £1.1m was capitalised); and
- the amortisation of loan arrangement fees totalling £6.1m of which £nil was capitalised (31 March 2022: £1.2m of which £nil was capitalised).

The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation during

The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation during the year was 2.95%pa (31 March 2022: 2.85%).

Loss on extinguishment of debt

During the year, the Company made a £20.6m make-whole payment on the early repayment of the £232m Merlin A facility following the completion of the Merlin 'income strip' sale, following which the related interest rate cap was closed out for proceeds of £23.1m, representing a gain of £12.8m versus the book value at 31 March 2022.

7. Taxation

The Group is a real estate investment trust ("REIT") and as a result the profit and gains arising from the Group's property rental business are exempt from UK corporation tax provided the Group meets certain conditions as set out in the UK REIT regulations. Profits arising from any residual activities (e.g. trading activities and interest income), after the utilisation of any available residual tax losses, are subject to corporation tax at the main rate of 19% for the year.

As a result of the Merger the Group acquired one German property and is now subject to German corporation tax on its German property rental business at an effective rate of 15.825%, resulting in a tax charge of £0.4m. A deferred tax liability at acquisition of £11.0m was net off against the investment property acquisition. Going forward deferred tax will be recognised for the German capital gains tax that would potentially be payable on the sale of the relevant investment properties.

The German tax assets have been subject to a routine tax audit by the German tax authorities since January 2021. The current estimate of the tax liability that might arise, including interest up to the balance sheet date but excluding any penalties, is estimated at £0.6m and a provision has been made to that extent.

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Current tax - current year	0.4	(0.7)
Current tax - prior years	0.6	-
Total current tax	1.0	(0.7)
Tax charge/ (credit)	1.0	(0.7)

The tax credit in the prior year related to the release of a previously over-accrued tax charge.

Reconciliation of the total tax charge

The reconciliation of profit before tax multiplied by the standard rate of corporation tax for the year of 19% (31 March 2022: 19%) to the total tax charge in the consolidated statement of comprehensive income is as follows:

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
(Loss)/profit before tax	(287.1)	161.3
Tax at the standard rate of UK corporation tax of 19%	(54.5)	30.6
Effects of:		
REIT exempt income	(21.1)	(8.5)
Revaluation of investment properties	77.3	(22.4)
Valuation adjustment in fair value of derivative investments	(4.2)	-
Loss on disposal of investment properties	0.5	0.4
Residual losses brought forward as at 31 March 2021	-	(0.4)
Residual losses not recognised as deferred tax asset	0.6	0.3
Realised loss on disposal of financial instruments	0.9	-
Exempt expenses not deductible for tax purposes	0.5	-

Local income tax expense	1.0	-
Reversal of overstated tax creditor	-	(0.7)
Tax charge	1.0	(0.7)

UK REIT exempt income includes property rental income that is exempt from UK Corporation Tax in accordance with Part 12 of CTA 2010.

8. Investment property

	Investment property long leasehold £m	Investment property freehold £m	Investment property in course of construction £m	Total £m
Year ended 31 March 2023				
Balance at 1 April 2022	331.0	1,093.4	55.7	1,480.1
Property acquisitions	22.7	51.1	31.9	105.7
Property acquisitions relating to the merger of SIR plc	374.9	2,021.0	-	2,395.9
Licence fee receivable (Note 25)	-	-	0.2	0.2
Tenant lease incentives (Note 4)	11.7	26.1	-	37.8
Property disposals	-	(13.2)	-	(13.2)
Property reclassification Merlin income strip	596.5	(596.5)	-	-
Change in fair value	(95.2)	(288.9)	(22.6)	(406.7)
Currency translation	-	3.2	-	3.2
Headlease movement	(1.1)	-	-	(1.1)
Assets transferred to held for sale	(2.1)	(30.2)	-	(32.3)
Transfers of completed property	10.4	24.7	(35.1)	-
Balance at 31 March 2023	1,248.8	2,290.7	30.1	3,569.6
Year ended 31 March 2022				
Balance at 1 April 2021	147.4	636.0	104.1	887.5
Property acquisitions	49.3	375.3	70.4	495.0
Licence fee receivable (Note 25)	-	-	(3.6)	(3.6)
Tenant lease incentives (Note 4)	2.1	7.3	0.5	9.9
Tenant lease contributions	-	0.9	-	0.9
Property disposals	-	(8.3)	-	(8.3)
Change in fair value	16.4	77.1	24.2	117.7
Assets transferred to held for sale	-	(19.0)	-	(19.0)
Transfers of completed property	115.8	24.1	(139.9)	-
Balance at 31 March 2022	331.0	1,093.4	55.7	1,480.1

The investment property has been independently valued at fair value by Knight Frank LLP, the Independent Valuer who are accredited external valuers with recognised and relevant professional qualifications and recent experience of the location and category of the investment property being valued. The valuations are the ultimate responsibility of the Board.

The Independent Valuer valued the entire property portfolio at £3,356.3m at 31 March 2023 (31 March 2022: £1,544.4m) including capital commitments on forward funded assets. The valuation included a €161.7m valuation of the German asset in the portfolio, the only asset held outside of the UK. This was translated to GBP at a rate of €1: £0.88.

The corporate acquisition during the year has been treated as an asset purchase rather than business combination as the transaction was considered to be acquisition of property rather than a business.

The Group identifies the potential impact of climate-related risks on property valuations as a principal risk as outlined in the Annual Report. The current valuation of the property portfolio is not materially impacted by any climate-related risks. We will continue to work closely with the Independent Valuer to monitor how climate-related factors impact values in long-lease property sector and of our individual asset valuations.

Reconciliation of fair value to total portfolio valuation

	31 March 2023	31 March 2022
	£m	£m
Investment property at fair value	3,569.6	1,480.1
Assets held for sale at fair value	32.3	19.0
Capital commitments on forward funded assets (Note 24)	50.8	53.6
Vendor discount in respect of rent-free periods and top-ups	2.7	3.0
Licence fee receivable	1.0	1.5
Other financial liabilities (Note 15)	(256.3)	-
Leasehold liability (Note 15)	(43.8)	(12.8)
Total completed portfolio valuation	3,356.3	1,544.4

Capital commitments represent the costs to bring the asset to completion under the funding agreements with the developers which includes a developer's margin. These costs are not provided for in the statement of financial position.

Vendor discounts in respect of rent-free periods and top-ups represent amounts by which a purchase price was reduced by the vendor on acquisitions to cover future rent-free periods or periods to the next rent review under the lease. The total portfolio valuation assumes the property to be income generating during the unexpired rent-free periods and passing rent to be the topped-up rent during the unexpired period to next rent review and therefore includes this income in the valuation.

Licence fee receivable represent amounts due from developers under funding agreements that have not been settled at the period end. The valuation assumes the property to be income generating throughout the period of development and therefore includes this income in the valuation.

The valuation of investment property that is long leasehold where headlease rents are material is grossed up to include the carrying value of the leasehold liability. The treatment for the income strip follows the same basis.

Investment property at fair value

	Quoted prices in active markets (Level 1) £m	Significant observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m	Total £m
31 March 2023	-	-	3,356.3	3,356.3
31 March 2022	-	-	1,499.1	1,499.1

Investment property at fair value includes investment property held for sale. There have been no transfers between levels during the year.

The valuations have been prepared in accordance with the RICS Valuation - Professional Standards (incorporating the International Valuation Standards).

The determination of the fair value of investment property requires the use of estimates such as future cash flows from assets (such as lettings, tenants' profiles, future revenue streams, capital values of fixtures and fittings, plant and machinery, any environmental matters and the overall repair and condition of the property) and discount rates applicable to those assets.

The descriptions and definitions relating to valuation techniques and key inputs made in determining fair values are as follows:

Valuation techniques

· Standing assets

Standing assets are valued using the investment valuation method. Using the investment valuation method, the passing rent is divided by an appropriate yield with a deduction of standard purchaser's costs. The method uses analysis of appropriate comparable investments, rental and sale transactions, together with evidence of demand within the vicinity of the subject property and of properties of a similar nature. The yield applied takes into account the size, location, terms, covenant strength and other material factors.

· Investment property in the course of construction

For property in the course of construction the fair value is calculated by estimating the fair value of the completed property using the income capitalisation technique less estimated costs to completion under fixed price developer funding agreements which include an appropriate developer's margin

Observable input: passing rent

The prevailing rent at which space is let at the date of valuation. Passing rents are dependent upon a number of variables in relation to the Group's property. These include property use, size, location, tenant covenant strength and terms of the lease.

Unobservable input: rental growth

The estimated average increase in rent based on both market estimations and contractual arrangements. A reduction of the estimated future rental growth in the valuation model would lead to a decrease in the fair value of the investment property and an inflation of the estimated future rental growth would lead to an increase in the fair value. No quantitative sensitivity analysis has been provided for estimated rental growth as a reasonable range would not result in a significant movement in fair value.

Unobservable input: net initial yield

The net initial yield is defined as the initial gross income as a percentage of the market value (or purchase price as appropriate) plus standard costs of purchase.

Sector	Passing rent pa	Passing rent	Valuation	Valuation yield
	31 March 2023 ¹	pa range ¹	31 March 2022 ¹	range ¹
	£m	£m	£m	%
Healthcare	45.2	0.0 - 9.4	916.9	4.1 - 7.7
Budget hotels	42.8	0.0 - 2.2	617.3	4.9 - 13.5
Theme parks	37.9	1.9 - 12.8	562.8	4.9 - 4.9
Foodstores	20.2	0.1 - 2.7	374.4	4.0 - 9.0
Industrial	13.3	0.2 - 3.7	260.7	4.2 - 7.5
Pubs	8.7	0.1 - 3.8	128.8	5.0 - 7.1
Arena	7.1	0.1 - 4.3	90.6	6.8 - 6.8
Car parks	4.5	0.1 - 1.1	70.6	5.3 - 6.4
Garden centres	3.2	0.4 - 1.0	53.2	5.5 - 5.9
Life sciences	2.9	2.9 - 2.9	53.9	5.0 - 5.0
Drive-thru coffee	2.7	0.1 - 0.2	39.4	4.6 - 6.1
Education	2.2	0.1 - 0.3	35.5	5.8 - 6.0
Other	11.5	0.0 - 1.8	152.2	5.1 - 9.1
Portfolio	202.2	0.0 - 12.8	3,356.3	4.0 - 13.5

Sector	Passing rent pa	Passing rent	Valuation	Valuation yield
	31 March 2022 ¹	pa range ¹	31 March 2022 ¹	range ¹
	£m	£m	£m	%
Foodstores and essentials	16.3	0.1 - 2.7	386.3	3.3 - 7.5
Industrial	13.8	0.2 - 3.5	352.4	3.0 - 6.8
Hotel	10.4	0.1 - 1.8	212.6	4.1 - 6.5
Healthcare	6.3	0.0 - 1.0	110.4	5.0 - 6.4
Car parks	4.3	0.0 - 1.1	82.4	4.0 - 5.3
Garden Centre	2.1	0.3 - 0.9	43.3	4.6 - 4.6
Life sciences	2.9	2.9 - 2.9	59.8	4.5 - 4.5
Drive-thru coffee	2.5	0.0 - 0.1	38.6	4.0 - 5.8
Pubs	2.6	0.1 - 0.4	41.3	5.5 - 6.2
Education	1.9	0.0 - 0.1	34.8	5.0 - 5.0
Other	11.4	0.0 - 1.8	182.5	4.0 - 9.5
Portfolio	74.5	0.0 - 3.5	1,544.4	3.0 - 9.5

¹ Excludes assets that had exchanged but not completed at the reporting date

Sensitivities of measurement of significant inputs

As set out within significant accounting estimates and judgments above, the Group's property portfolio valuation is open to judgments and is inherently subjective by nature. The table below shows the sensitivities of measurement of the Group's investment property to certain inputs:

Valuation	-5% in passing	+5% in passing	+25bps in net	-25bps in net
	rent	rent	initial yield	initial yield
	£m	£m	£m	£m
31 March 2023	(182.9)	182.9	(162.5)	178.3

31 March 2022	(60.8)	60.8	(64.9)	72.7
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Realised gain on disposal of investment property

During the year, the Group disposed of certain of its investment properties. The table below shows a reconciliation of the gain recognised on disposal through the consolidated statement of comprehensive income and the realised gain on disposals in the year which includes changes in fair value of the investment property recognised in previous periods.

	31 March 2023 £m	31 March 2022 £m
Consideration received	29.5	8.3
Less:		
Carrying value	(32.1)	(8.3)
Selling costs	(0.2)	-
(Loss)/gain on disposal of investment property	(2.8)	-
Add:		
Change in fair value recognised in previous periods	3.6	2.1
Realised gain on disposal of investment property	0.8	2.1

9. Assets held for sale

	31 March 2023 £m	31 March 2022 £m
Assets held for sale	32.3	19.0

Assets held for sale relate to investment property for which there was board approval to dispose of at the year end date and the intention is to dispose of these assets within 12 months. Two properties are classified as held for sale at the year end for which contracts have been exchanged to sell.

10. Financial instruments

Set out below is a comparison of the book value and fair value of the Group's financial instruments where a difference exists. For all other financial instruments, the book value is equal to the fair value.

Bank borrowings	Book value £m	Fair value £m
31 March 2023	1,238.5	1,184.0
31 March 2022	240.0	237.1

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

11. Trade and other receivables

	31 March 2023 £m	31 March 2022 £m
Recoverable VAT	-	5.7
Licence fee receivable	2.9	5.3
Rent receivable	8.6	8.0
Rent deposit	2.8	-
Prepayments and other receivables	2.5	0.4
Amounts due within one year	16.8	19.4

The carrying value of trade and other receivables classified at amortised cost approximates fair value.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. To measure expected credit losses on a collective basis, trade receivables are grouped based on similar credit risk and ageing.

The expected loss rates are based on the Group's historical credit losses experienced over the period from incorporation to 31 March 2023. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Group's customers. The expected credit loss provision as at 31 March 2023 is £nil (31 March 2022: £0.1m).

Trade and other receivables that are financial assets amount to £11.5m (31 March 2022: £13.3m) which comprises licence fee receivable and rent receivable.

The following table sets out the maturity profile of trade and other receivables that are financial assets:

	31 March 2023	31 March 2022
	£m	£m
30 days or fewer	11.5	13.0
31 to 60 days	-	0.1
61 to 90 days	-	0.1
91 days or more	-	0.1
Over one year	-	-
	11.5	13.3

12. Cash reserves

	31 March 2023	31 March 2022
	£m	£m
Cash at bank	43.6	26.0
Cash held by lawyers	1.7	46.5
Secured cash	29.1	-
Total cash and cash equivalents	74.4	72.5

Cash held by lawyers is money held in escrow for expenses expected to be incurred in relation to investment properties pending completion. These funds are available immediately on demand.

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

There are times throughout the year when the Group has restricted cash. At the year-end £nil was held as restricted cash (31 March 2022: £nil). Restricted cash is money held in accounts to which the Group does not have immediate access and as such do not form part of the Group's short-term cash management. These amounts arise both when initially drawing on term-loans prior to the bank taking adequate security and where a securitised asset is disposed prior to the bank replacing the asset with adequate security.

13. Trade and other payables

	31 March 2023	31 March 2022
	£m	£m
Accrued investment property costs	1.7	4.0
Deferred rental income	44.3	14.5
Accruals	6.5	0.4
Trade and other payables	22.3	17.9
Other financial liabilities	1.6	-
Leasehold liability	0.2	0.3
Retentions payable	1.5	1.5
VAT payable	4.5	-
Amounts due within one year	82.6	38.6
Leasehold liability	43.7	12.5

Other financial liabilities	254.7	-
Retentions payable	0.7	1.1
Amounts due in more than one year	299.1	13.6

Trade and other payables that are financial liabilities amount to £332.7m (31 March 2022: £37.7m) which comprises accrued investment property costs, accruals, retentions, trade and other payables, the leasehold liability and the other financial liability.

During the year, the Group entered into the sale of a 65-year income strip of Alton Towers and Thorpe Park in October 2022 for £257m. The sale price represented a net initial yield of 2.96% NIY on 30% of the annual rental income. The structure comprised selling the freehold in the properties to a UK institutional investor, with 999-year leases granted back to the Company pursuant to which the Company pays an annual aggregate rent of £8.2m, representing 30% of the annual rental income received from the tenant. The Company can acquire the freehold back for £1 in year 65. The obligations in relation to this transaction amount to £256.3m at the year end and the balance is classified separately from leasehold liabilities as an other financial liability. Of this balance £1.6m is due within one year and £254.7m is due in more than one year.

14. Bank borrowings

	Drawn £m	Undrawn £m	Total £m
Year ended 31 March 2023			
At beginning of the year	246.0	89.0	335.0
Book value of debt on SIR plc merger	826.1	-	826.1
New facilities	385.0	-	385.0
Drawdown of existing facilities	114.0	(114.0)	-
Repayments	(322.6)	88.0	(234.6)
Foreign currency translation	1.5	-	1.5
At end of the year	1,250.0	63.0	1,313.0
Less: unamortised loan arrangement fees	(11.5)	-	(11.5)
	1,238.5	63.0	1,301.5

Year ended 31 March 2022			
At beginning of the year	192.3	77.7	270.0
New facilities	-	65.0	65.0
Drawdowns	239.7	(239.7)	-
Repayments	(186.0)	186.0	-
At end of the year	246.0	89.0	335.0
Less: unamortised loan arrangement fees	(6.0)	-	(6.0)
	240.0	89.0	329.0

	31 March 2023 £000	31 March 2022 £000
Current borrowings	512.9	-
Less: unamortised loan arrangement fees	(4.2)	-
Total current borrowings	508.7	-
Non current borrowings	737.1	246.0
Less: unamortised loan arrangement fees	(7.3)	(6.0)
Total non current borrowings	729.8	240.0
	1,238.5	240.0

Maturity of bank borrowings

	31 March 2023 £000	31 March 2022 £000
Repayable within 1 year	512.9	-
Repayable between 1 and 2 years	215.0	-
Repayable between 2 and 5 years	352.1	74.6
Repayable after 5 years	170.0	165.4
	1,250.0	240.0

The Group's borrowings comprise the following:

Scottish Widows Term Loan Facilities

- A fixed rate, interest only loan facility of £55.0m. The facility has an all-in rate of 2.74% pa, for the duration of the loan term and is due for repayment in December 2033
- A fixed rate, interest only loan facility of £40.0m. The facility has an all-in rate of 2.74% pa, for the duration of the loan term and is due for repayment in December 2033
- A fixed rate, interest only loan facility of £75.0m. The facility has a fixed all-in rate payable of 2.99% pa, for the duration of the loan term and is due for repayment in December 2033

Other secured loans

- A SONIA linked floating rate 'Leisure' facility with HSBC Plc of £60.0m which was extended on 1 March for repayment in December 2024. The loan has a margin of 2.05% is fixed at an all-in rate of 4.55% using an interest rate cap.
- A fixed rate, interest only 'Budget hotels 1' facility of £59.0m with M&G. The facility has a fixed all-in rate payable of 2.71% pa, for the duration of the loan term and is due for repayment in October 2023. This was repaid following the Group refinancing post year-end.
- A mixed rate, interest only 'Budget hotels 2' facility with M&G of £65.4m, £52.2m of which is fixed at an all-in rate of 3.25% pa and £13.2m is SONIA linked with a margin of 2.32%. The Group uses interest rate derivatives to cap the interest on the floating elements of the facility at a total of 3.75%. The loan is due for repayment in April 2023. This was repaid following the Group refinancing post year-end.
- A EURIBOR linked floating rate 'Merlin B' facility with Blackstone of €60.2m. The facility has a margin of 3.45%, is capped at an all-in rate of 4.95% pa and is due for repayment in March 2025. The loan has two one-year extension options. This was repaid following the Group refinancing post year-end.
- A SONIA linked floating rate 'Merlin A' facility with Blackstone of £232.0m. The facility has a margin of 3.45%, is capped at an all-in rate of 4.95% and was due for repayment in March 2025. Following the completion of the disposal of the Merlin 'income strip', the facility was repaid in full and the cap sold. As part of this repayment, we paid £20.6m of early repayment charges, following which the related interest rate cap was closed-out for proceeds of £23.1m, representing a gain of £12.8m versus the book value at 31 March 2022. See Note 6 for more detail.
- A fixed rate amortising loan 'Healthcare 1' facility of £63.4m with Legal and General. The facility has a fixed all-in rate payable of 4.29% pa, for the duration of the loan term and is due for repayment in September 2025. Annual amortisation on the loan is £0.3m
- A fixed rate amortising 'Healthcare 2' facility of £294.9m with AIG. The facility has a fixed all-in rate payable of 5.30% pa, for the duration of the loan term and is due for repayment in October 2025. Annual amortisation on the loan is £3.2m.

Revolving credit facility (Lloyds Bank plc and the Royal Bank of Scotland International Ltd)

- A revolving credit facility of £165.0m (of which £100.0m was drawn down as at 30 September 2022) with Lloyds and RBSi at a 1.55% margin over SONIA maturing in August 2024. Group has traded interest rate derivatives to cap the interest on the full facility at a total of 2.95%. This was repaid following the Group refinancing post year-end.

Acquisition facility

- In May 2022 the Group entered into a £385.0m unsecured interest only loan with Barclays Bank Plc and HSBC Plc in order to fund the Merger. Interest on the loan increases by 25bps every quarter, from a starting point of 1.5%. The rate payable as at 31 March 2023 1.75%. The loan is repayable in May 2024 assuming two six-month extension options are exercised. This was repaid following the Group refinancing post year-end.

The Group has remained compliant with the covenants throughout the period up to the date of this report. The facilities are secured against respective pools of the Group's investment property.

Reconciliation of liabilities to cash flows from financing activities

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Bank borrowings, other financial liabilities and leasehold liability at start of the year	252.8	190.4
Cash flows from financing activities		
Bank borrowings drawn	499.0	239.7
Bank borrowings repaid	(322.6)	(186.0)
Other financial liability arising from income strip disposal	257.0	-
Loan arrangement fees paid	(3.1)	(1.4)
Non-cash movements		
Amortisation of loan arrangement fees	6.1	1.1
Revaluation FX on loan	1.4	-
Bank debt acquired on SIR plc merger at fair value on acquisition	817.8	-
Amortisation of headlease present value	0.7	-

Increase in leasehold liability resulting from property acquisitions	29.6	9.0
Bank borrowings and other financial liability at the end of the year	1,538.7	252.8

15. Leasehold liabilities

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

	31 March 2023	31 March 2022
Minimum headlease payments	£m	£m
Within one year	2.3	0.3
Between one and five years	9.2	1.3
More than five years	196.0	36.6
Less future finance charges	(163.6)	(25.4)
	43.9	12.8

The earliest expiry date of all the headlease obligations is in more than five years. £1.5m (2022: £nil) of the minimum headlease payments due within one year are recoverable from occupational tenants.

The Group's accounting policy for headleases is disclosed in Note 3.

The leasehold liabilities relate to where the Group has long term leasehold properties and under the leasehold agreement is required to pay the freeholder rent. These total £43.9m and are reflected on the face of the Statement of Financial Position. Of this balance £0.2m due in less than one year and £43.7m is due in more than one year. The leasehold assets are held within investment property see Note 8. The lease terms are generally fixed rent payable, subject to periodic CPI or RPI uplifts.

16. Interest rate derivatives

To mitigate the interest rate risk that arises as a result of entering into variable rate loans, the Group has entered into a number of interest rate derivatives. A number of interest rate caps and one interest rate swap have been taken out in respect of the Group's variable rate debt to fix or cap the rate to which compounded SONIA can rise.

	Year ended 31 March 2023	Year ended 31 March 2022
	£m	£m
Current Assets - Derivative financial instruments	3.1	1.2
Non-current Assets - Derivative financial instruments	29.3	-
	32.4	1.2

The interest rate derivatives are valued by the relevant counterparty banks on a quarterly basis in accordance with IFRS 9. Any movement in the mark-to-market values of the derivatives are taken to the Group profit or loss.

	Year ended 31 March 2023	Year ended 31 March 2022
	£m	£m
Interest rate derivative valuation brought forward	1.2	-
Derivatives acquired on merger	12.4	-
Premium paid	26.5	0.1
Disposals	(27.7)	-
Amounts received on interest rate derivatives held at fair value through profit and loss	(2.2)	-
Changes in fair value of interest rate derivatives	22.2	1.1
	32.4	1.2

Fair value hierarchy

The fair value of Group's interest rate derivatives is recorded in the Group Statement of Financial Position and is determined by forming an expectation that interest rates will exceed strike rates and discounting these future cash flows at the prevailing market rates as at the year end.

This valuation technique falls within Level 2 of the fair value hierarchy as defined by IFRS 13. There have been no transfers between Level 1 and Level 2 during any of the years, nor have there been any transfers between Level 2 and Level 3 during any of the years.

17. Reserves

Share capital

Shares of £0.01 each	31 March 2023 No. (million)	31 March 2023 £m	31 March 2022 No. (million)	31 March 2022 £m
At the beginning of the year	911.6	9.1	621.8	6.2
Issued during the year	802.9	8.0	289.8	2.9
At the end of the year	1,714.5	17.1	911.6	9.1
Issued and fully paid	1,714.5	17.1	911.6	9.1

In the prior financial year, on 5 July 2021 the Company issued 78.0 million ordinary shares at 133.0p per share (1p nominal value and a premium of 132.0p) for total consideration of £104m.

In the prior financial year, on 7 January 2022 the Company issued 35.7 million ordinary shares at 145.0p per share (1p nominal value and a premium of 144.0p) as part consideration for the acquisition of a long-let property let to Sainsbury's Supermarkets Ltd. The transaction had no profit or loss impact in the year and there is no liability in respect of the transaction as at the year end date. The remaining consideration was settled in cash. The transaction was measured directly at the fair value of the assets and liabilities acquired.

In the prior financial year, on 14 February 2022 the Company issued 176.1 million ordinary shares at 142.0p per share (1p nominal value and a premium of 141.0p) for total consideration of £250m.

On 7 July 2022 the Company issued 802.9 million ordinary shares at 143.4p per share (1p nominal value and a premium of 142.4p). The shares were issued as consideration for the acquisition of 100% of the issued share capital of SIR plc along with a partial cash settlement. SIR plc shareholders were entitled to receive 3.32 shares for each SIR plc share held, with the option to elect to receive cash instead of some, or potentially all, of the shares to which they would otherwise be entitled. The issue price of the shares reflects the fair value of the assets acquired.

Share premium reserve

The share premium relates to amounts subscribed for share capital in excess of nominal value net of directly attributable share issue costs.

Share premium reserve	31 March 2023 £m	31 March 2022 £m
At the beginning of the year	940.0	544.5
Premium on issue of ordinary shares	1,180.8	402.6
Share issue costs	-	(7.1)
At the end of the year	2,120.8	940.0

Share issue costs relating to the merger have been capitalised see Note 27.

Foreign exchange reserve

Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date that the fair value was determined. Gains and losses arising on exchange are included in the profit or loss for the year, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly to equity, and any exchange component of that gain and loss is also recognised directly to equity.

Capital reduction reserve

In 2017, the Company by way of Special Resolution cancelled the then value of its share premium account by an Order of the High Court of Justice, Chancery Division. As a result of this cancellation

account, by an Order of the High Court of Justice, Chancery Division. As a result of this cancellation, £134.0m were transferred from the share premium account into the capital reduction reserve account. The capital reduction reserve account is classed as a distributable reserve. Movements in the current year relate to dividends paid.

Retained earnings

Retained earnings relates to all net gains and losses not recognised elsewhere.

Note although the Group has negative retained earnings at the year-end due to the downward revaluation in property, the Company still has a large amount of distributable reserves. At our AGM we will seek to cancel the share premium of the Group to create even further headroom.

18. Dividends

Dividends paid and declared	£m
Dividends in respect of the year ended 31 March 2022	
Fourth quarterly dividend at 1.50p per share	13.6
Dividends in respect of the year ended 31 March 2023	
First quarterly dividend at 1.575p per share	27.0
Second quarterly dividend at 1.575p per share	27.0
Third quarterly dividend at 1.575p per share	27.0
Total dividends paid	94.6
Total dividend per share paid in the year	6.225p
Total dividend per share proposed in respect of the year	6.3p

Dividends in respect of the year ended 31 March 2023

On 22 September 2022, the Company announced a first quarterly dividend in respect of the year ended 31 March 2023 of 1.575p per share which was paid on 18 November 2022 to shareholders on the register on 30 September 2022.

On 24 November 2022, the Company announced a second quarterly dividend in respect of the year ended 31 March 2023 of 1.575p per share which will be paid on 4 January 2023 to shareholders on the register at 2 December 2022.

On 9 February 2023, the Company announced a third quarterly dividend in respect of the year ended 31 March 2023 of 1.575p per share which was paid on 10 March 2023 to shareholders on the register on 16 February.

On 6 June 2023 the Board approved a fourth quarterly dividend in respect of the year ended 31 March 2023 of 1.575 pence per share, payable on 7 July 2023 to shareholders on the register at 16 June 2023. The ex-dividend date will be 15 June 2023.

Dividends paid and declared in the prior year	£m
Dividends in respect of the year ended 31 March 2021	
Fourth quarterly dividend at 1.46p per share	9.1
Dividends in respect of the year ended 31 March 2022	
First quarterly dividend at 1.50p per share	10.5
Second quarterly at 1.50p per share	10.5
Third quarterly dividend at 1.50p per share	11.0
Total dividends paid	41.1
Total dividend per share paid in the year	5.96p
Total dividend per share proposed in respect of the year	6.0p

Dividends in respect of the year ended 31 March 2022

On 17 September 2021, the Company announced a first quarterly dividend in respect of the year ended 31 March 2022 of 1.50p per share which was paid on 29 October 2021 to shareholders on the register on 1 October 2021.

On 24 November 2021, the Company announced a second quarterly dividend in respect of the year ended 31 March 2022 of 1.50p per share which was paid on 30 December 2021 to shareholders on the

ended 31 March 2022 of 1.50p per share which was paid on 30 December 2021 to shareholders on the register on 3 December 2021.

On 28 January 2022, the Company announced a third quarterly dividend in respect of the year ended 31 March 2022 of 1.50p per share which was paid on 25 March 2022 to shareholders on the register on 11 February 2022.

On 19 May 2022, the Company announced a final dividend in respect of the year ended 31 March 2022 of 1.50p per ordinary share, which was paid on 24 June 2022 to shareholders on the register at the close of business on 27 May 2022.

19. Leases

The Group as lessor

The future minimum lease receivable by the Group under non-cancellable operating leases are as follows:

Lease receivables	< 1 year £m	1-5 years £m	> 5 years £m	Total £m
31 March 2023	197.1	825.1	6,090.1	7,112.3
31 March 2022	68.2	281.8	1,288.5	1,638.5

An overview of the Group's leasing activities is given in the Investment Advisors Report.

The Group as lessee

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be paid after the reporting date:

Lease payables	< 1 year £m	1-5 years £m	> 5 years £m	Total £m
31 March 2023	2.3	9.2	196.0	207.5
31 March 2022	0.3	1.3	36.6	38.2

The above is in respect of leasehold properties held by the Group. There are 194 properties (2022: 37) held under leasehold with lease ranges from 99 years to 999 years.

The Group's leasing arrangements with lessors are headlease arrangements on land and buildings that have been sub-let under the Group's normal leasing arrangements (see above) to tenants. The Group carries its interest in these headlease arrangements as long leasehold investment property (Note 8).

20. Segmental information

Operating segments are identified on the basis of internal financial reports about components of the Group that are regularly reviewed by the chief operating decision maker (which in the Group's case is the Board, comprising the non-executive Directors, and the Investment Advisor) in order to allocate resources to the segments and to assess their performance.

The internal financial reports contain financial information at a Group level as a whole and there are no reconciling items between the results contained in these reports and the amounts reported in the consolidated financial statements. These internal financial reports include the IFRS figures but also report the non-IFRS figures for the EPRA and alternative performance measures as disclosed in Notes 24 and 25 and the Additional Information.

The Group's property portfolio comprises investment property, diversified across 13 different property sub-sectors. The Board considers that all the properties have similar economic characteristics. Therefore, in the view of the Board, there is one reportable segment.

The geographical split of revenue and material applicable non-current assets was:

Revenue

	31 March 2023 £m	31 March 2022 £m
UK	187.0	58.5
Germany	16.5	-
	203.5	58.5

Investment properties

	31 March 2023	31 March 2022
	£m	£m
UK	3,427.3	1,480.1
Germany	142.3	-
	3,569.6	1,480.1

During the year the Group had three tenants (31 March 2022: Nil) that are considered major customers, contributing more than 10% of the Group's contractual annual passing rent per tenant. The Group's turnover is allocated to major customers as follows:

Revenue excluding tenant lease incentives

	31 March 2023	31 March 2022
	£m	£m
Major customers	51% 81.9	- -
Other tenants (each less than 10%)	49% 78.5	100% 48.6
Rental income from investment property (Note 4)	100% 160.4	100% 48.6

21. Related party transactions

Transactions with the Board of Directors

In respect of the year ended 31 March 2023 there were £0.4m fees payable to the Directors (31 March 2022: £0.3m) in the form of short-term employee benefits. Employers NI contributions were nil in the year (31 March 2022: nil).

The following table summarises the number of ordinary shares purchased during the year by Directors and the number of ordinary shares held at 31 March 2023:

		31 March 2023	31 March 2022
		Number	Number
Cyrus Ardalan (appointed 13 January 2022)	Acquired	-	206,000
	Held	206,000	206,000
John Cartwright*	Acquired	-	-
	Held	66,687	66,687
Jan Etherden (resigned 15 July 2022)	Acquired	-	-
	Held	77,274	77,274
Patricia Dimond (resigned 19 July 2022)**	Acquired	-	14,084
	Held	39,520	39,520
Hugh Seaborn (appointed 13 January 2022)	Acquired	40,595	-
	Held	40,595	-
Ismat Levin (appointed 13 January 2022)	Acquired	-	14,084
	Held	14,084	14,084
Nick Leslau (appointed 6 July 2022)*	Converted on merger	95,978,407	-
	Held	95,978,407	-
Sandy Gumm (appointed 6 July 2022)	Converted on merger	639,345	-
	Held	639,345	-

* Includes companies wholly owned and persons closely associated (as defined by the UK Market Abuse Regulation) with the Director.

** Includes persons closely associated (as defined by the UK Market Abuse Regulation) with the Director

None of the Directors sold any shares in the Company during the year.

Transactions with the Investment Advisor

A fee of £12.9m was payable to the Investment Advisor in respect of the year (31 March 2022: £7.1m). At 31 March 2023, £1.2m was due to the Investment Advisor (31 March 2022: £0.9m) for provision of key management services.

The investment advisory fee is calculated in arrears in respect of each month, in each case based upon the average market capitalisation of the Company on the following basis:

- One-twelfth of 0.75% per calendar month of market capitalisation up to or equal to £500m;
- One-twelfth of 0.65% per calendar month of market capitalisation between £500m and £2.0bn; and;
- One-twelfth of 0.55% per calendar month of market capitalisation above £2bn.

No performance fee is payable to the Investment Advisor.

The previous fee structure which applied up until 7 July 2022 is as follows:

- One-twelfth of 0.75% per calendar month of market capitalisation up to or equal to £500m; and
- One-twelfth of 0.65% per calendar month of market capitalisation above £500m.

No performance fee is payable to the Investment Advisor.

After the year end the Directors became aware that certain dividends paid since the Merger had been made otherwise than in accordance with the Companies Act 2006 as the relevant accounts of the Company did not show distributable reserves at the time of payment.

The affected dividends are the interim dividend of 1.575 pence per Ordinary Share for the quarter ended 30 June 2022 (paid on 18 November 2022), the interim dividend of 1.575 pence per Ordinary Share for the quarter ended 30 September 2022 (paid on 4 January 2023) and the interim dividend of 1.575 pence per Ordinary Share for the quarter ended 31 December 2022 (paid on 10 March 2023) (the "**Relevant Dividends**").

Under the Companies Act 2006, a public company can only pay a dividend out of its distributable profits as shown in its "relevant accounts". Although there were sufficient profits and other distributable reserves within the Company's group to pay the Relevant Dividends at each payment date, the relevant accounts of the Company (being the accounts for the year ended 31 March 2022) did not show sufficient distributable reserves and the payment of the Relevant Dividends therefore constitutes a procedural breach of the Companies Act 2006.

At the time of the distribution, the shareholders did not know, nor had reasonable grounds for believing, that the distribution was in contravention of the Companies Act 2006. As the Company has taken action to remedy the situation, the payments in the year continue to be recognised as a dividend payment as opposed to a receivable from shareholders.

At the forthcoming AGM of the Company's shareholders a special resolution will be proposed to remedy this issue, including authorising the appropriation of distributable profits to the payment of the relevant dividends and removing any right for the Company to pursue its shareholders or directors for repayment of those dividends. The overall effect of this resolution being passed will be to return all parties (so far as possible) to the position they would have been had the Relevant Dividends been made in full compliance with the Companies Act 2006. The removal of any right for the Company to pursue its directors for repayment of the Relevant Dividends constitutes a related party transaction under IAS 24 and, for the purposes of the UK Listing Rules, a smaller related party transaction under Listing Rule 11.1.10R.

22. Consolidated entities

The Company owns 100% of the equity shares of all subsidiaries listed below and has the power to appoint and remove the majority of the Board of Directors of those subsidiaries. The relevant activities of the below subsidiaries are determined by the respective Directors based on simple majority votes. Therefore, the Board of the Company has concluded that the Company has control over all these entities and all these entities have been consolidated within this set of financial statements.

Name of entity	Principal activity	Country of	
		incorporation	Ownership
LXi Property Holdings 1 Limited	Property investment	UK	100%
LXi Property Holdings 2 Limited ¹	Property investment	UK	100%
LXi Property Holdings 3 Limited	Property investment	UK	100%
LXi Property Holdings 4 Limited	Property investment	UK	100%
LXi Property Holdings 4a Limited*	Property investment	UK	100%
Alco 1 Limited ¹	Property investment	UK	100%
FPI Co 223 Limited ¹	Property investment	UK	100%
LXi Cowdenbeath Limited ¹	Property investment	UK	100%
SM Plymouth Hotel Limited ¹	Property investment	UK	100%

Corby (General Partner) Limited ¹	Property investment	UK	100%
Corby Rail Services Limited ¹	Property investment	UK	100%
Corby Limited Partnership ¹	Property investment	UK	100%
Firethorn Glasgow Limited ²	Property investment	UK	100%
Corby (No.2) Unit Trust ¹	Property investment	Jersey	100%
Grove Asset 8 S.A.R.L. ¹	Property investment	Luxembourg	100%
LXi Spirit Limited	Property investment	Isle of Man	100%
Welling Property Limited	Property investment	BVI	100%
LXi Property Holdings 5 Limited	Property investment	UK	100%
LXi Property Holdings 5a Limited ¹	Property investment	UK	100%
<i>Acquired in the period:</i>			
LXi Finco Limited ²	Intermediate parent company	UK	100%
LXi Cornbow Limited	Property investment	UK	100%
LXi SIR Holdco Limited (previously			
Secure Income REIT Plc) ²	Intermediate parent company	UK	100%
SIR Theme Park Subholdco Limited ¹	Intermediate parent company	UK	100%
SIR ATH Limited ¹	Property investment	UK	100%
SIR ATP Limited ¹	Property investment	UK	100%
SIR HP Limited ¹	Property investment and borrower (incorporated in England, operating in Germany)	UK	100%
SIR TP Limited ¹	Property investment	UK	100%
SIR WC Limited ¹	Property investment	UK	100%
SIR Hospital Holdings Limited ^{1,2}	Intermediate parent company	UK	100%
SIR Umbrella Limited ^{1,2}	Intermediate parent company	UK	100%
SIR Hospitals Propco Limited ^{1,2}	Intermediate parent company	UK	100%
SIR Duchy Limited ^{1,2}	Property investment	UK	100%
SIR Springfield Limited ^{1,2}	Property investment	UK	100%
SIR Healthcare 1 Limited ^{1,2}	Intermediate parent company	UK	100%
SIR Healthcare 2 Limited ^{1,2}	Intermediate parent company	UK	100%
SIR Fitzwilliam Limited ^{1,2}	Property investment	UK	100%
SIR Fulwood Limited ^{1,2}	Property investment	UK	100%
SIR Lisson Limited ^{1,2}	Property investment	UK	100%
SIR Midlands Limited ^{1,2}	Property investment	UK	100%
SIR Oaklands Limited ^{1,2}	Property investment	UK	100%
SIR Oaks Limited ^{1,2}	Property investment	UK	100%
SIR Pinehill Limited ^{1,2}	Property investment	UK	100%
SIR Rivers Limited ^{1,2}	Property investment	UK	100%
SIR Woodland Limited ^{1,2}	Property investment	UK	100%
SIR Yorkshire Limited ^{1,2}	Property investment	UK	100%
Thomas Rivers Limited ^{1,2}	Property investment	UK	100%
SIR Hotels 1 Limited ^{1,2}	Intermediate parent company	UK	100%
SIR Hotels Jersey Limited ¹	Intermediate parent company	Jersey	100%
SIR Unitholder 1 Limited ¹	Intermediate parent company	Jersey	100%
SIR Unitholder 2 Limited ¹	Intermediate parent company	Jersey	100%
Grove Property Unit Trust 6 ¹	Property investment and borrower	Jersey	100%
Grove Property Unit Trust 7 ¹	Property investment and borrower	Jersey	100%
Grove Property Unit Trust 9 ¹	Property investment and borrower	Jersey	100%
Grove Property Unit Trust 11 ¹	Property investment and borrower	Jersey	100%
Grove Property Unit Trust 12 ¹	Property investment and borrower	Jersey	100%
Grove Property Unit Trust 16 ¹	Property investment and borrower	Jersey	100%

SIR Hotels 2 Limited ^{1,4}	intermediate parent company	UK	100%
SIR Hotels Jersey 2 Limited ¹	Intermediate parent company and property investment	Jersey	100%
SIR Unitholder 3 Limited ¹	Intermediate parent company	Jersey	100%
SIR Unitholder 4 Limited ¹	Intermediate parent company	Jersey	100%
Grove Property Unit Trust 2 ¹	Property investment and borrower	Jersey	100%
Grove Property Unit Trust 5 ¹	Property investment and borrower	Jersey	100%
Grove Property Unit Trust 13 ¹	Property investment and borrower	Jersey	100%
Grove Property Unit Trust 14 ¹	Property investment and borrower	Jersey	100%
Grove Property Unit Trust 15 ¹	Property investment and borrower	Jersey	100%
SIR Maple 4 Limited ¹	Property investment and borrower	UK	100%
SIR Maple Holdco Limited ^{1,2}	Intermediate parent company	UK	100%
SIR Maple 1 Limited ^{1,2}	Intermediate parent company	UK	100%
SIR Unitholder 5 Limited ¹	Intermediate parent company	Jersey	100%
MIF 1 Unit Trust ¹	Property investment and borrower	Jersey	100%
SIR Maple 2 Limited ^{1,2}	Property investment and borrower	UK	100%
SIR Maple 3 Limited ^{1,2}	Property investment and borrower	UK	100%
SIR New Hall Limited ^{1,2}	Dormant	UK	100%
SIR MTL Limited ^{1,2}	Dormant	UK	100%
Charcoal Bidco Limited ^{1,2}	Dormant	UK	100%
SIR Hotels 2 Holdco Limited ¹	Dormant	Jersey	100%
SIR Hotels 2 GP Limited ¹	Dormant	Jersey	100%
SIR Hotels 2 Nominee Limited ¹	Dormant	Jersey	100%
SIR Newco Limited ¹	Dormant	UK	100%
SIR Newco 2 Limited ¹	Dormant	UK	100%
<i>Newly incorporated in the period</i>			
LXi Property Holdings 6 Limited	Property investment	UK	100%
LXi Finco 1 Limited ^{1,2}	Dormant	UK	100%
LXi Holdco 1 Limited ²	Dormant	UK	100%
LXi Finco 2 Limited ^{1,2}	Dormant	UK	100%
LXi Holdco 2 Limited ²	Dormant	UK	100%

1 Subsidiaries indirectly owned.

2 These subsidiary undertakings are taking advantage of the exemption from audit under section 479a of the Companies Act 2006 and as a result LXI REIT Plc will provide a statutory guarantee for any outstanding liabilities of these undertakings as at 31 March 2023, all of which have been included in these consolidated financial statements.

The registered office for UK subsidiaries is 8th Floor, 100 Bishopsgate, London, EC2N 4AG.

The registered office of Jersey subsidiaries is 26 New Street St Helier Jersey JE2 3RA.

The registered office of Luxembourg subsidiaries is 2 rue du Fosse, L-1536, Luxembourg.

The registered office for BVI (British Virgin Islands) subsidiaries is Wickhams CAY II, Tortola, British Virgin Islands, VG 1110.

The registered office of Isle of Man subsidiaries is First Names House, Victoria Road, Douglas, IM2 4DF.

23. Financial risk management

The Group is exposed to interest rate risk, credit risk and liquidity risk in the current and future periods. The Board of Directors oversees the management of these risks. The policies of the Directors for managing each of these risks are summarised below.

• Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group has reduced the interest rate risk on its external borrowing by fixing the rate of interest payable.

payable.

· **Credit risk**

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group will be exposed to credit risk on both its leasing activities and financing activities, including deposits with banks and financial institutions.

Credit risk related to financial instruments and cash deposits

One of the principal credit risks of the Group arises with the banks and financial institutions. The Board of Directors believes that the credit risk on short term deposits and current account cash balances is limited because of low counterparty risk, the counterparties being banks with high credit ratings.

All financial assets are regularly monitored. The maximum exposure to credit risk at the reporting date is the carrying value of financial assets disclosed in Note 11.

Credit risk related to leasing activities

In respect of occupational leasing arrangements, in the event of a default by a tenant, the Group may suffer a void period where no rents are received and incur additional re-letting costs. The quality of the tenant is assessed based on an extensive tenant covenant review scorecard prior to acquisition of the property. The assessment of the tenant credit worthiness is also monitored on an ongoing basis. Credit risk is assisted by the vast majority of occupational leases requiring that tenants pay rentals in advance. The Investment Advisor monitors the rent collection in order to anticipate and minimise the impact of defaults by tenants. Outstanding rent receivables are regularly monitored. The Group defines default as a tenant being unable to make the required payments on their rental obligations. Rent collection statistics are benchmarked in internal reports to identify any problems at any early stage, and if necessary and where possible (in the absence, for example, of a Government imposed moratorium on the enforcement of rent collection) rigorous credit control procedures are applied to facilitate the recovery of trade receivables.

· **Liquidity risk**

The Group manages its liquidity and funding risks by considering cash flow forecasts and ensuring sufficient cash balances are held within the Group to meet future needs. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of financing through appropriate and adequate credit lines, and the ability of customers to settle obligations within normal terms of credit. The Group ensures, through forecasting of capital requirements, that adequate cash is available.

The following table details the Group's liquidity analysis in respect of its financial liabilities on contractual undiscounted payments:

	< 3 months £m	3-12 months £m	1-5 years £m	> 5 years £m	Total £m
31 March 2023					
Financial liabilities					
Bank borrowings (Note 14)	451.3	61.6	567.1	170.0	1,250.0
Interest payable on bank borrowings	9.8	22.6	51.5	27.7	111.6
Trade and other payables	30.5	-	-	-	30.5
Lease payables	0.6	1.7	9.2	196.0	207.5
Other financial liability	2.1	6.2	32.8	488.5	529.6
Retentions payable	0.7	0.2	0.7	-	1.6
	495.0	92.3	661.3	882.2	2,130.8
31 March 2022					
Financial liabilities					
Bank borrowings (Note 14)	-	-	76.0	170.0	246.0
Interest payable on bank borrowings	1.5	4.4	19.7	32.5	58.1
Trade and other payables	17.9	-	-	-	17.9
Lease payables	0.1	0.2	1.3	36.6	38.2
Retentions payable	-	1.5	1.1	-	2.6
	19.5	6.1	98.1	239.1	362.8

As at 31 March 2023 there are a large level of bank borrowings which are due in the next 12 months, which if not refinanced would have a material impact on the Group. The Group was undertaking detailed discussions around the balance sheet date with lenders with regard to refinancing these liabilities. On 25 April 2023 the Group announced these refinancing discussions were completed and new facilities had

been signed, resulting in a 6-year weighted average term to maturity (excluding extension options). It also means that the earliest refinancing event is now not until December 2024.

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group considers proceeds from share issuance, bank borrowings and retained earnings as capital. The Group's policy on borrowing is as set out below:

- The level of borrowing will be on a prudent basis for the asset class and will seek to achieve a low cost of funds, whilst maintaining flexibility in the underlying security requirements and structure of the Group.
- The Board intends to maintain a conservative level of aggregate borrowings with a medium term maximum target of 30% of the Group's total assets.

The Group has remained compliant with all of its banking covenants during the year and up to the date of this report.

Foreign currency exchange risk

The Group prepares its financial statements in Sterling. Following the Merger, on an IFRS basis, 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. On an EPRA NTA basis, the Euro exposure is 4%. This risk is partially hedged because within the Group's German operations, rental income, interest costs and the majority of both assets and liabilities are Euro denominated. An unhedged currency risk remains on the value of the Group's net investment in, and net returns from, its German operations.

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

	Year ended 31 March 2023 £m
Investment property revaluation	(2.7)
Other income statement movements	1.7
Increase in profit / (loss) for the year	(1.0)
Increase in other comprehensive income and equity	7.5

24. Capital commitments

At 31 March 2023 the Group had capital commitments of £50.8m (31 March 2022: £53.6m) in relation to the cost to complete its forward funded pre-let development assets and £5.7m in respect of acquisitions for which contracts had exchanged but conditions to completion remain outstanding (31 March 2022: £90.1m).

25. Earnings per share

Earnings per share is calculated by dividing profit for the period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the period. Amounts shown below are both basic and diluted measures as there were no dilutive instruments in issue throughout the current or comparative periods.

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Earnings	(288.1)	162.0
Weighted average number of ordinary shares (million)	1,501.1	710.2
Earnings per share ("EPS")	(19.2)	22.8p

Adjustments to remove:

Change in fair value of investment property	406.7	(117.7)
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Loss on disposal of investment property	2.8	-
Loss on disposal of derivative	4.6	-
Loss on extinguishment of debt	20.6	-
Change in fair value of interest rate derivative (Note 16)	(22.2)	(1.2)
EPRA earnings	124.4	43.1
Weighted average number of ordinary shares (million)	1,501.1	710.2
EPRA EPS	8.3	6.1p
Adjustments to include:		
Licence fees receivable	3.1	3.6
Amortisation of loan fees	6.1	-
Amounts received on interest rate derivatives held at fair value through profit and loss	2.2	-
Amortisation of cash backed rental top ups and rent-free periods	0.9	3.2
Adjustments to exclude:		
Accretion of tenant lease incentives (Note 8)	(37.8)	(9.9)
Abortive fees (Note 5)	1.5	0.6
Adjusted cash earnings	100.4	40.6
Weighted average number of ordinary shares (million)	1,501.1	710.2
Adjusted cash EPS	6.7	5.7p

Adjusted cash EPS is a performance measure used by the Board to assess the Company's dividend payments. The metric adjusts EPRA earnings to include licence fees receivable from developers, amortisation of rental top ups, amounts receivable from in-the-money financial instruments and exclude amortisation of loan fees, accretion of tenant lease incentives and one-off abortive costs.

The Group's accounting policy for licence fees, cash backed rental top ups received from vendors and rent-free periods that are cash covered by developers receivable is to recognise them as a discount to the cost of the investment property, however the Board considers these returns an important component of the Group's performance and key to underpinning the Company's dividend targets and payment.

26. Net asset value per share

Net asset value per share is calculated by dividing the consolidated net assets attributable to ordinary equity holders of the Company by the number of ordinary shares outstanding at the reporting date. Amounts shown below are both basic and diluted measures as there were no dilutive instruments in issue throughout the current or comparative periods.

	31 March 2023	31 March 2022
	£m	£m
Net asset value ("NAV")	2,108.1	1,300.7
Number of ordinary shares (million)	1,714.5	911.6
NAV per share	123.0p	142.7p
Adjustments to calculate EPRA NTA	(32.4)	(1.2)
EPRA NTA	2,075.7	1,299.5
Number of ordinary shares	1,714.5	911.6
EPRA NTA per share	121.1	142.6p

A reconciliation of IFRS NAV per share to the three EPRA NAV measures under the new BPR (NTA, NRV and NDV) and the two measures under old BPR (NAV and NNNAV) is included in the section Notes to EPRA NAV calculations.

27. Secure Income REIT plc merger

On 11 May 2022, the Company announced the terms of the proposed Merger of the Company with Secure Income REIT plc. Voting from respective shareholder groups demonstrated overwhelming support for the merger, which completed on 6 July 2022.

The Company acquired on a share for share basis, with a 25% cash alternative, 100% of the shares of

Secure Income REIT plc. The operations of SIR plc were solely the ownership of investment properties complete with extant tenant operating leases along with related cash and leverage and other associated assets and working capital balances.

The Exchange Ratio (the number of LXi shares that SIR shareholders would receive per share) was based on the adjusted and unaudited EPRA NTA per LXi Share as at 31 March 2022 of 143.4 pence and the adjusted and unaudited EPRA NTA per SIR Share as at 31 March 2022 of 475.5 pence. Both net asset values were based on independent valuations as at 31 March 2022. A partial cash alternative was made available under which SIR Shareholders could elect to receive cash instead of some LXi shares up to a maximum of 25% of their entitlements. On 7 July 2022 the Company issued 802.9 million ordinary shares at 143.4p per share (1p nominal value and a premium of 142.4p) and paid £390.2m of cash to the SIR shareholders under the partial cash alternative.

The merger has been treated as an asset acquisition for accounting purposes rather than a business combination. Further detail of the accounting judgement can be found in Note 2 of this report.

In accordance with the accounting requirements of an asset acquisition, the acquisition costs related to the transaction were capitalised as part of the transaction. This included the share issuance costs.

This reporting period includes the results of the enlarged entity from the date of completion which was 6 July 2022.

The merger resulted in the addition of 160 investment properties to the portfolio, recognised at £2,395.9m as disclosed in Note 8, being the fair value of those assets at the date the merger completed. £827.4m of SIR plc borrowings were also brought into the Group, as disclosed in Note 14, being the fair values of those liabilities at the date the merger completed.

28. Post balance sheet events

Dividends

- On 6 June 2023 the Board approved a fourth quarterly dividend in respect of the year ended 31 March 2023 of 1.575 pence per share, payable on 7 July 2023 to shareholders on the register at 16 June 2023. The ex-dividend date will be 15 June 2023.

Debt

- The Company completed its significant refinancing programme on 24 April 2023 with a new, £565m secured, interest-only debt facility with a syndicate of banks comprising a number of the Company's existing lenders. The Company has drawn the new facilities, resulting in a 6-year weighted average term to maturity (excluding extension options) and a weighted average capped all-in cost of debt of 4.7%.
- On 24 April 2023 the Group drew down a £148m secured interest-only debt facility with Canada Life.

29. Controlling parties

There is no ultimate controlling party of the Group.

Company statement of financial position

Company number: 10535081

	Note	31 March 2023 £m	31 March 2022 £m
Non-current assets			
Investment in subsidiaries	4	2,177.3	597.7
Trade and other receivables	6	455.2	-
Investment property	5	5.1	65.0
Total non-current assets		2,637.6	662.7
Current assets			
Trade and other receivables	6	0.9	397.6
Derivative financial instruments		1.1	-
Cash and cash equivalents	7	0.6	13.5
Total current assets		2.6	411.1
Total assets		2,640.2	1,073.8
Current liabilities			
Trade and other payables	8	220.0	444.4

Trade and other payables	8	230.0	111.1
Borrowings	9	384.5	-
Total current liabilities		614.5	111.1
Total liabilities		614.5	111.1
Net assets		2,025.7	962.7
Equity			
Share capital	11	17.1	9.1
Share premium reserve	12	2,120.8	940.0
Capital reduction reserve		-	21.0
Retained earnings		(112.2)	(7.4)
Total equity		2,025.7	962.7
Net asset value per share - basic and diluted	13	118.2p	106.0p

The Company has taken advantage of the exemption allowed under Section 408 of the Companies Act 2006 and has not presented its own profit and loss account in these financial statements. The loss and total comprehensive loss attributable to shareholders of the parent Company for the year amounted to £31.2m (31 March 2022: £9.5m loss).

The Company financial statements were approved and authorised for issue by the Board on 6 June 2023 and signed on its behalf by:

Cyrus Ardalan
Chairman

Company statement of changes in equity

Year ended 31 March 2023	Note	Share capital £m	Share premium reserve £m	Capital reduction reserve £m	Retained earnings £m	Total equity £m
Balance at 1 April 2022		9.1	940.0	21.0	(7.4)	962.7
Loss and total comprehensive income attributable to shareholders		-	-	-	(31.2)	(31.2)
Transactions with owners						
Issue of ordinary shares in the year	11,12	8.0	1,180.8	-	-	1,188.8
Dividends paid in the year	10	-	-	(21.0)	(73.6)	(94.6)
Balance at 31 March 2023		17.1	2,120.8	-	(112.2)	2,025.7

Year ended 31 March 2022	Note	Share capital £m	Share premium reserve £m	Capital reduction reserve £m	Retained earnings £m	Total equity £m
Balance at 1 April 2021		6.2	544.5	62.1	2.1	614.9
Loss and total comprehensive income attributable to shareholders		-	-	-	(9.5)	(9.5)

Transactions with owners

Issue of ordinary shares in the year	11,12	2.9	402.6	-	-	405.5
Share issue costs	12	-	(7.1)	-	-	(7.1)
Dividends paid in the year	10	-	-	(41.1)	-	(41.1)
Balance at 31 March 2022		9.1	940.0	21.0	(7.4)	962.7

NOTES TO THE COMPANY FINANCIAL STATEMENTS

Basis of preparation

The financial information contained in this announcement has been prepared on the basis of the accounting policies set out in the financial statements for the year ended 31 March 2023. Whilst the financial information included in this announcement has been computed in accordance with Financial Reporting Standard 100 Application of Financial Reporting Requirements ('FRS 100') and Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101'), this announcement does not itself contain sufficient information to comply with FRS 100 and FRS 101. The financial information does not constitute the Company's financial statements for the year ended 31 March 2023, but is derived from those financial statements.

Those financial statements give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company. Financial statements for the year ended 31 March 2023 will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

The Independent Auditor's report on the 31 March 2023 financial statements was unqualified, and did not contain statements under s498(2) or (3) of the Companies Act 2006.

The Company is registered in England and Wales under company registration number 10535081.

Disclosure exemptions adopted

In preparing these financial statements the Company has taken advantage of disclosure exemptions conferred by FRS 101 and therefore these financial statements do not include:

- Certain disclosures regarding the Company's capital;
- A statement of cash flows;
- The effect of future accounting standards not yet adopted;
- The disclosure of the remuneration of key management personnel; and
- Disclosure of related party transactions with other wholly owned members of the Company.

In addition, and in accordance with FRS 101 further disclosure exemptions have been adopted because equivalent disclosures are included in the Group Financial Statements. These financial statements do not include certain disclosures in respect of:

- Financial instruments; and
- Fair value measurement other than certain disclosures required as a result of recording financial instruments at fair value.

The principal accounting policies applied in the preparation of the financial statements are set out below.

The Company's financial statements are presented in Sterling, which is also the Company's functional currency.

- **Standards effective from 1 April 2022**

See Note 1 of the Consolidated Financial Statements.

2. Significant accounting judgments, estimate and assumptions

In the application of the Company's accounting policies, which are described in Note 3, the Board is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below:

Estimates:

- **Valuation of investment property**

The Company's estimates in relation to its investment property are consistent with the Group for which details are given in the Note 2 to the consolidated financial statements.

Judgments:

- **Classification of lease arrangements - the Company as lessor**

The Company's judgments in relation to its classification of lease arrangements are consistent with the

Group for which details are given in the Note 2 to the consolidated financial statements.

· Lease term

Rental income is recognised on a straight-line basis over the expected lease term. A judgement has to be made by the Directors as to the expected term of each lease. The judgement involves determining whether extension option clauses on certain leases will be exercised. This judgement impacts the length of time over which lease incentives are recognised. The key element of this judgement is whether the Directors can be "reasonably certain" that any breaks in place to extend the lease term will be exercised at the expiry of the current lease. The Directors concluded that it was impossible to say with reasonable certainty that an option will be exercised. The Directors concluded that lease terms should be restricted to the initial length of the lease, or to the break date, except where reversionary lease have already been executed or where options to extend have already been exercised.

3. Principal accounting policies

The principal accounting policies adopted in the preparation of the Company financial statements are consistent with the Group which are described in Note 3 to the consolidated financial statements. Policies adopted in the preparation of the Company's financial statements that are not included in the consolidated financial statements are given below:

· Investment in subsidiaries

Investment in subsidiaries is included in the statement of financial position at cost less provision for impairment.

· Loans to subsidiaries

Impairment provisions for receivables from and loans to subsidiaries are recognised based on a forward-looking expected credit loss model. The methodology used to determine the amount of provision is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset, twelve month expected credit losses along with gross interest income are recognised. For those for which credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised.

4. Investment in subsidiaries

	31 March 2023	31 March 2022
	£m	£m
At beginning of the year	597.7	597.7
Additions in the year	1,579.6	-
At end of the year	2,177.3	597.7

A list of the Company's subsidiary undertakings is included in Note 22 to the consolidated financial statements.

5. Investment property

	Freehold £m
Year ended 31 March 2023	
Balance at 1 April 2022	65.0
Investment property disposals	(58.8)
Change in fair value	(1.1)
Balance at 31 March 2023	5.1
Year ended 31 March 2022	
Balance at 1 April 2021	4.5
Investment property additions	61.9
Change in fair value	(1.4)
Balance at 31 March 2022	65.0

Detailed information about the valuation of investment property is included in Note 8 to the consolidated financial statements.

6. Trade and other receivables

	31 March 2023	31 March 2022
	£m	£m
Amounts due from subsidiaries	-	396.2
Recoverable VAT	0.8	0.5
Rent receivable	-	0.8
Prepayments and other receivables	0.1	0.1
Total current trade and other receivables	0.9	397.6
Amounts due from subsidiaries	455.2	-
Total non current trade and other receivables	455.2	-

Following the merger with SIR plc the company undertook a detailed review of the intercompany balances and determined that they no longer expect the balances to be settled within one year. As such, following the change in intentions, the amounts due from subsidiaries have been reclassified to non current assets.

7. Cash and cash equivalents

	31 March 2023	31 March 2022
	£m	£m
Cash at bank	0.1	3.0
Cash held by lawyers	0.5	10.5
Total cash at bank	0.6	13.5

8. Trade and other payables

	31 March 2023	31 March 2022
	£m	£m
Amounts due to subsidiary undertakings	217.3	109.1
Accruals and deferred income	5.8	1.1
Trade creditors	1.2	-
Other creditors	5.7	0.9
	230.0	111.1

All amounts are due for payment within one year.

9. Bank borrowings

	Drawn £m	Undrawn £m	Total £m
Year ended 31 March 2023			
At beginning of the year	-	-	-
New facilities	385.0	-	385.0
At end of the year	385.0	-	385.0
Less: unamortised loan arrangement fees	(0.5)	-	(0.5)
	384.5	-	384.5
Year ended 31 March 2022			
At beginning of the year	-	-	-
New facilities	-	-	-
Drawdowns	-	-	-
Repayments	-	-	-
At end of the year	-	-	-
Less: unamortised loan arrangement fees	-	-	-
	-	-	-

Maturity of bank borrowings

	31 March 2023	31 March 2022
	£000	£000

Repayable within 1 year	385.0	-
Repayable between 1 and 2 years	-	-
Repayable between 2 and 5 years	-	-
Repayable after 5 years	-	-
	385.0	-

The Company's borrowings comprise the following:

Acquisition facility

- In May 2022 the Company entered into a £385.0m unsecured interest only loan with Barclays Bank Plc and HSBC Plc in order to fund the Merger. Interest on the loan increases by 25bps every quarter, from a starting point of 1.5%. The rate payable as at 31 March 2023 1.75%. The loan is repayable in May 2024 assuming two six-month extension options are exercised. This was repaid post year-end.

The Company has remained compliant with the covenants throughout the period up to the date of this report.

10. Dividends

	31 March 2023	31 March 2022
	£m	£m
Dividends paid	94.6	41.1

Detailed information about the dividends paid by the Company is included in Note 18 to the consolidated financial statements.

After the year end the Directors became aware of a technical issue in respect of certain dividends paid since the Merger. Further detail is given in the Directors' report in the Annual Report.

11. Share capital

	31 March 2023	31 March 2022
	£m	£m
Share capital	17.1	9.1

Detailed information about the share capital of the Company is included in Note 17 to the consolidated financial statements.

12. Share premium reserve

	31 March 2023	31 March 2022
	£m	£m
Share premium	2,120.8	940.0

Detailed information about the share premium of the Company is included in Note 17 to the consolidated financial statements.

13. Net asset value per share

Net Asset Value ("NAV") per share is calculated by dividing net assets in the company statement of financial position attributable to ordinary equity holders of the parent by the number of ordinary shares outstanding at the end of the period. There are no dilutive equity instruments outstanding.

	31 March 2023	31 March 2022
	£m	£m
NAV	2,025.7	962.7
Number of ordinary shares (million)	1,714.5	911.6
NAV per share	118.2p	105.6p

14. Related party transactions

The Company has taken advantage of the exemption not to disclose transactions with other members of the Group as the Company financial statements are presented together with the consolidated financial statements.

Note 21 to the consolidated financial statements includes details of other related party transactions undertaken by the Company and its subsidiaries.

15. Guarantees

The Company has given a full guarantee on some of the Group's loan facilities to the lenders.

16. Ultimate controlling party

There is no ultimate controlling party of the Company.

17. Post balance sheet events

Since the year end the Company has received dividends totalling £370m from its subsidiaries.

NOTES TO THE EPRA AND ALTERNATIVE PERFORMANCE MEASURES (UNAUDITED)

The Group considered EPRA NTA to be the most relevant NAV measure for the Group and we are now reporting this as our primary NAV measure, replacing our previously reported EPRA NAV and EPRA NAV per share metrics. EPRA NTA excludes the cumulative fair value adjustments for debt-related derivatives which are unlikely to be realised.

As at 31 March 2023			
	EPRA NTA £m	EPRA NRV £m	EPRA NDV £m
Net asset value	2,108.1	2,108.1	2,108.1
Mark-to-market adjustments of derivatives	(32.4)	(32.4)	-
Fair value of debt ¹	-	-	(54.5)
Real estate transfer tax	-	176.3	-
At 31 March 2023	2,075.7	2,252.0	2,053.6
Number of ordinary shares (million)	1,714.5	1,714.5	1,714.5
Per share	121.1	131.4	119.8

As at 31 March 2022			
	EPRA NTA £m	EPRA NRV £m	EPRA NDV £m
Net asset value	1,300.7	1,300.7	1,300.7
Mark-to-market adjustments of derivatives	(1.2)	(1.2)	-
Fair value of debt	-	-	8.8
Real estate transfer tax	-	101.5	-
At 31 March 2022	1,299.5	1,401.0	1,309.5

At 31 March 2023	1,299.5	1,401.0	1,309.5
Number of ordinary shares (million)	911.6	911.6	911.6
Per share	142.6	153.7	143.7

EPRA NIY and EPRA 'Topped Up' NIY

	31 March 2023 £m	31 March 2022 £m
Investment property - wholly owned	3,356.3	1,544.4
Less: development properties	(85.7)	(123.6)
Completed property portfolio	3,270.6	1,420.8
Allowance for estimated purchasers' costs	222.4	96.5
Gross up completed property portfolio valuation (B)	3,493.0	1,517.3
Annualised passing rental income	201.9	74.5
Less: contracted rental income in respect of development properties	(4.8)	(5.6)
Property outgoings	-	-
Annualised net rents (A)	197.1	68.9
Contractual increases for lease incentives ²	129.8	31.9
Topped up annualised net rents (C)	326.9	100.8
EPRA NIY (A/B)	5.6%	4.5%
EPRA Topped Up NIY (C/B)	9.4%	6.6%

EPRA Vacancy Rate

	31 March 2023 £m	31 March 2022 £m
Annualised estimated rental value of vacant premises	-	-
Portfolio estimated rental value ³	197.1	68.9
EPRA Vacancy Rate	0%	0%

EPRA Cost Ratio

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Property operating costs	-	-
Vacant property costs	-	-
Administration expenses ⁴	18.8	9.3
Total costs (both including and excluding vacant property costs⁵)	18.8	9.3
Total gross rental income	198.2	58.5
Total EPRA cost ratio (including and excluding vacant property costs)	9.5%	15.9%

EPRA LTV

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
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Borrowings from financial institutions	1,250.0	246.0
Net payables	53.7	20.3
Exclude cash	(74.4)	(72.5)
Net debt (a)	1,229.3	193.8
Built investment property at fair value	3,356.3	1,544.4
Fair value of properties under development	30.1	-
Net receivables	-	-
Total property value (b)	3,386.4	1,544.4
LTV (a/b)	36%	13%

Total NAV return

	Year ended 31 March 2023 p	Year ended 31 March 2022 p
EPRA NTA per share at beginning of the period	142.6	125.7
EPRA NTA per share at end of the period	121.1	142.6
Change in EPRA NTA per share in the period	(21.5)	16.9
Dividend per share paid in the period	6.3	6.0
Total of change in EPRA NTA and dividend per share	(15.2)	22.9
Total NAV return	(10.7)%	18.2%

1 Difference between interest bearing loans included in the EPRA net assets at amortised cost, and the fair value of interest bearing loans

2 E.g. Step rents and expiry of rent free periods

3 Excludes contracted rents receivable on development properties

4 The Group does not have a policy of capitalising overheads and all administrative expenses are recognised in the P&L in the period to which they relate

5 The Group has no vacant property costs

FINANCIAL INFORMATION

This announcement does not constitute the Group or Company's statutory accounts. The financial information for the year ended 31 March 2022 is derived from the statutory accounts for the same year, which will be delivered to the registrar of companies. The Independent Auditor's report on the 31 March 2023 financial statements was unqualified, and did not contain statements under s498(2) or (3) of the Companies Act 2006.

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