

# Regulatory Story

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**Supermarket Income REIT PLC** - SUPR Final Results  
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## **SUPERMARKET INCOME REIT PLC**

(the "Group" or the "Company")

LEI: 2138007FOINJKAM7L537

### **FULL YEAR AUDITED RESULTS FOR THE PERIOD FROM 1 JUNE 2017 TO 30 JUNE 2018**

Supermarket Income REIT plc (LSE: SUPR), the real estate investment trust dedicated to investing in supermarket property forming a key part of the future model of UK grocery, is today reporting its audited consolidated results for the Group for the period from incorporation on 1 June 2017 to 30 June 2018.

#### **HIGHLIGHTS FOR THE PERIOD**

- IPO in July 2017 raised gross proceeds of £100 million at an issue price of 100 pence per ordinary share. Shares were admitted to trading on the London Stock Exchange on 21 July 2017.
- Two follow-on equity fundraisings in November 2017 and May 2018, raised an additional £85 million in total gross proceeds, both oversubscribed.
- Following the IPO and each subsequent fundraising, the Company was able to fully deploy the proceeds including leverage within 6 weeks.
- During the period, acquired five supermarket assets in the UK that operate as physical supermarkets and as online fulfilment centres.
- The investment properties benefit from highly attractive terms:
  - 19 years weighted average unexpired lease term
  - strong tenant covenants of Tesco and Sainsbury's
  - upward-only, RPI-linked rent reviews
  - annualised rental income of £13.7 million in the financial year
  - average rental increases of 3.6% for the Period
  - all assets acquired off market

- Investment properties independently valued on 30 June 2018 at £264.9 million, representing an increase of 4.1% above the aggregate acquisition price (excluding acquisition costs) generating 4.9% weighted average net initial yield.
- Net loan to value ratio of 32.4%, with a cost of debt of 2.4%, as at 30 June 2018.
- Four quarterly dividends declared for the Period totalled 5.5 pence per ordinary share, achieving our IPO target.
- Total shareholder return for the Period was 8.0%.
- EPRA Net Asset Value per ordinary share of 96 pence as at 30 June 2018.

#### **POST BALANCE SHEET EVENTS**

- Acquisition of a sixth supermarket, a Morrisons store in Sheffield, for £51.7 million (net of acquisition costs), reflecting a net initial yield of 4.9%.
- £52million debt facility provided by Bayerische Landesbank, fixed at 2.55% for the five year term of the facility.
- Increased dividend target:
  - For the period September to December 2018, and thereafter, an increase in the quarterly dividend of 3.2% to 1.419 pence per share
  - For the FY 2018/19, 5.63 pence per share

#### **Nick Hewson, Chairman of Supermarket Income REIT plc, commented:**

"We have rapidly built our portfolio of supermarket property assets, precisely in line with the business plan outlined at IPO and have successfully delivered our 5.5 pence per ordinary share dividend target.

Our high-quality portfolio produces attractive inflation linked income for shareholders together with the potential for long term capital returns. Supermarket Income REIT is committed to providing investors with stable, long-term, inflation-protected income, supported by a compelling real estate and pricing opportunity."

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## CHAIRMAN'S STATEMENT

I am pleased to present the Group's results from incorporation on 1 June 2017 to 30 June 2018 ("the Period").

### Overview

We invest in omnichannel stores which we believe are the future model of grocery in the UK. We have acquired a high quality portfolio of omnichannel supermarkets which operate both as physical supermarkets and as online fulfilment centres.

Our Portfolio is let on fully repairing and insuring lease terms, with upward-only, RPI-linked rent reviews, generating an annualised passing rent roll of £13.7 million with a current weighted average unexpired lease term of 19 years.

Following our £100 million IPO in July 2017 (the "IPO") our Investment Adviser, Atrato Capital Limited, expeditiously invested the proceeds in three supermarkets let on long leases to Tesco and Sainsbury's.

The number of attractive opportunities available to us was such that we performed two further equity issuances, in November 2017 and May 2018, raising an additional £85 million in total gross proceeds. We are pleased that our shareholders recognised the attractiveness of our proposition, resulting in both fundraisings being oversubscribed.

In the 12 months since the IPO, we have built a portfolio of five omnichannel supermarkets, deploying the proceeds from the equity issues within 4 weeks. Our Investment Adviser has demonstrated considerable market knowledge, and an ability to negotiate off-market deals.

### Financial results

The Group's investment properties were independently valued on 30 June 2018 at £264.9 million, representing an increase of 4.1% above the aggregate acquisition price (excluding acquisition costs).

This valuation growth, in the short period since the acquisition of the Portfolio, highlights our success in sourcing deals at favourable prices.

Rental increases were an average of 3.6% in the Period. All our properties have contractual, upward-only, inflation-linked, rental uplifts.

The high degree of certainty of income inherent in the Group's long leases, combined with the improving financial performance of the supermarket operators, gives the Board confidence that further valuation growth can be achieved in the future. The Group's EPRA NAV at 30 June 2018 equates to 96 pence per ordinary share.

Our EPRA earnings for the Period were £4.7 million, generating earnings per share for the Period of 3.8 pence per share. The Group has a highly-transparent and low cost base. The adjusted EPRA cost ratio (excluding non-recurring establishment costs) of 20% compares favourably with many of our peers.

### **Dividends**

One of our core objectives is to deliver a high-quality, low-risk income stream to shareholders. We declared four quarterly interim dividends totalling 5.5 pence per share for the Period, fully achieving the objectives we set out at the time of our July 2017 IPO.

For the period from September to December 2018, we are targeting a 3.2% increase in the quarterly dividend, resulting in a dividend target of 5.63 pence per share for the 2018/19 financial year.

### **Debt Financing**

As of 30 June 2018, we have drawn down debt facilities totalling £88.8 million, with a further £12.2 million of facilities undrawn at the period end. We have broadened our banking arrangements during the second half of the calendar year, adding Bayerische Landesbank to our initial relationship with HSBC (see Post balance sheet events).

The average unexpired term of our borrowing is 4.2 years (including the two, one-year extension options on the HSBC facility.)

Our favourably-priced debt facilities reflect the quality of the Portfolio and strength of the tenant covenants. As at 30 June 2018, the Group's net loan-to-value (LTV) ratio was 32.4%. The Group will target an LTV ratio of 30-40% in the medium term once the portfolio growth phase is complete, which the Board considers conservative, given the low risk nature of the Portfolio.

### **Hedging and loan interest**

Managing risk is essential to delivering the quality of income we are targeting for our shareholders. We have, therefore, entered into an interest rate cap derivative to hedge our interest rate exposure on the debt facilities we had drawn by the period end.

The notional value of our interest rate cap was £63.5 million at 30 June 2018, meaning that we had effectively hedged over 70% of our debt. The strike of the interest rate cap is 1.75%. i.e. if three-month Libor rises above 1.75%, the Group's cost of debt is effectively fixed at 3.35% on the hedged notional amount (including the lenders initial margin).

### **Post balance sheet events**

On 19 July 2018, we completed the acquisition of our sixth supermarket asset, a Morrisons store in Sheffield, for £51.7 million (net of acquisition costs), reflecting a net initial yield of 4.9%.

The Company has also arranged a new five-year, interest-only loan facility with Bayerische Landesbank. The £52.1 million facility has a margin of 1.25% above three-month LIBOR and is secured against the new Morrisons supermarket in Sheffield and the Sainsbury's supermarket in Ashford. This new facility was hedged using an interest rate swap, thus fixing the Company's cost of debt at 2.55% on this borrowing for the term of the facility.

## **Outlook**

During the Period we have demonstrated our ability to source high quality investments and to buy them at favourable prices. We are very pleased to have delivered a total shareholder return of 8% in our first year.

We remain confident of delivering strong returns for our shareholders through a stable and growing income stream with the potential for capital appreciation.

The Board and the Investment Manager continue to see multiple opportunities in the market which meet the Company's investment objectives whilst potentially adding further geographical, covenant and income diversification to the portfolio. These opportunities are still at an early stage and remain subject to the Investment Adviser's and Company's stringent due diligence procedures as well as agreement around key terms including pricing. If these opportunities reach a more advanced stage, the Board will consider possible ways to fund these accretive purchases including raising new equity pursuant to its existing share issuance programme.

**A N Hewson**  
**Chairman**  
**4 September 2018**

## **ACHIEVEMENTS IN BRIEF**

Since our IPO in July 2017, we have successfully achieved our investment aims and secured the support of our shareholders through further equity fundraisings. Set out below is a summary of our achievements during the Period:

<b>Date</b>	<b>Activity</b>
<b>July 2017</b>	The Company's IPO raises £100 million gross proceeds
<b>August 2017</b>	Acquisition of a Tesco superstore in Thetford, Norfolk, for £43.2 million
<b>August 2017</b>	Acquisition of a Tesco superstore in Lime Trees Road, Bristol, for £28.5 million
<b>August 2017</b>	Secured a Revolving Credit Facility of £100 million from HSBC
<b>September 2017</b>	Acquisition of the Sainsbury's Bybrook superstore in Ashford, Kent, for £79.8 million

<b>September 2017</b>	Declared first interim dividend of 1.375 pence per Ordinary Share
<b>November 2017</b>	Oversubscribed Placing of 20 million new Ordinary Shares at an issue price of 100 pence per share
<b>December 2017</b>	Acquisition of a Tesco Extra supermarket in Cumbernauld, North Lanarkshire, for £50.0 million
<b>February 2018</b>	Declared second interim dividend of 1.375 pence per Ordinary Share
<b>April 2018</b>	Declared third interim dividend of 1.375 pence per Ordinary Share
<b>May 2018</b>	Oversubscribed placing of 65 million new Ordinary Shares at an issue price of 101 pence per share
<b>May 2018</b>	Acquisition of a Tesco Extra supermarket in Scunthorpe, North Lincolnshire, for £53.0 million
<b>July 2018*</b>	Declared fourth interim dividend of 1.375 pence per Ordinary Share
<b>July 2018*</b>	Secured a 5-year term Credit Facility of £52.1 million from Bayerische Landesbank
<b>July 2018*</b>	Acquisition of a Morrisons supermarket in Hillsborough, Sheffield, for £51.7 million

\*Post balance sheet events

#### OUR PORTFOLIO

<b>Tenant</b>	Tesco	Tesco	Sainsbury's	Tesco	Tesco	Morrisons <sup>1</sup>
<b>Location</b>	Thetford, Norwich	Lime Trees, Bristol	Ashford, Kent	Cumbernauld, North Lanarkshire	Gallagher Retail Park, Scunthorpe	Hillsborough, Sheffield
<b>Acquisition Date</b>	August 2017	August 2017	August 2017	December 2017	May 2018	July 2018
<b>Purchase Price (millions)</b>	£43.2	£28.5	£79.8	£50.0	£53.0	£51.7
<b>Valuation at 30 June 2018 (millions)</b>	£43.8	£29.1	£83.4	£54.5	£54.1	N/A
<b>Passing annual rent (millions)</b>	£2.56	£1.53	£3.82	£2.94	£2.88	£2.54
<b>Size (sq.ft.)</b>	78,000	55,000	125,000	117,000	98,000	113,000
<b>Rent review basis</b>	Annual RPI	Annual RPI	Annual RPI	Annual RPI	Annual RPI	5 yearly RPI
<b>Lease Expiry</b>	Dec 2029	Mar 2031	Sep 2038	Aug 2040	Aug 2040	Oct 2039
<b>Tenure</b>	Virtual freehold <sup>2</sup>	Virtual freehold <sup>2</sup>	Freehold	Virtual freehold <sup>2</sup>	Virtual freehold <sup>2</sup>	Virtual freehold <sup>2</sup>

1 Asset acquired post balance sheet

2 Long leasehold i.e. greater than 900 years or purchase option at expiry for a nominal sum.

### **Tesco, Thetford**

A Tesco Superstore comprising 78,000 sq. ft. on a 10.4 acre site with more than 500 parking spaces, a petrol filling forecourt and dedicated online fulfilment distribution docks. The Group acquired the property in August 2017 for £43.2 million, reflecting a net initial yield of 5.6% after taking into account the agreed RPI-linked rent review in December 2017.

The property is leased to Tesco under annual, upward only, RPI-linked (capped and floored) rent reviews on full repairing and insuring terms with the first break being at the time of lease expiry in December 2029. The property has a long history of strong trading and is situated directly adjacent to the future Kingsfleet development. The Crown Estate has detailed planning consent to build 5,000 homes, three schools and associated infrastructure adjacent to this store. The Kingsfleet development is expected to take over 10 years to complete, with Phase 1 commencing later this year, and will ultimately re-position this Tesco store in the centre of the significantly enlarged town of Thetford.

This store fulfils both online home delivery and click and collect.

### **Tesco, Bristol**

A Tesco Superstore comprising 55,000 sq. ft. on a 5.7 acre site with more than 450 parking spaces, which was acquired by the Group in August 2017 for £28.5 million, reflecting a net initial yield of 4.9%.

The property is leased to Tesco under annual, upward only, RPI-linked (capped and floored) rent reviews on full repairing and insuring terms with the first break being at the time of lease expiry in March 2031. The property is situated within the Henleaze suburb of Bristol and has a long history of strong trading performance. This suburban store facilitates online fulfilment via click and collect.

### **Sainsbury's, Ashford**

A Sainsbury's store comprising 125,000 sq. ft. on 17 acres in Ashford, Kent which was acquired by the Group in August 2017 for £79.8 million, reflecting a net initial yield of 4.5%.

The site has more than 700 parking spaces, a petrol filling forecourt and dedicated online fulfilment distribution docks. The property is leased to Sainsbury's under annual, upward only, RPI-linked (capped and floored) rent reviews on full repairing and insuring terms with the first break being at the time of lease expiry in September 2038.

This property is ideally located to serve the ever-growing Ashford population, located in close proximity to the town centre and directly adjacent to the M20 and a major leisure park. This store plays an important role in Sainsbury's online fulfilment network in the South East and fulfils both online home delivery and click and collect. The store has benefited from significant capital investment with Sainsbury's undertaking a major extension and refurbishment of the entire site in 2011.

### **Tesco, Cumbernauld**

A Tesco Extra supermarket comprising 117,000 sq. ft. on a 9.5 acre site with 570 parking spaces, a petrol filling forecourt and dedicated online fulfilment

distribution docks. The Group acquired the property in December 2017 for £50.0 million, reflecting a net initial yield of 5.3%.

The property is leased to Tesco under annual, upward only, RPI-linked (capped and floored) rent reviews on full repairing and insuring terms with the first break being at the time of lease expiry in August 2040. The site occupies a town centre location equidistant from Glasgow and Stirling.

The store has a strong trading record and plays an important role in Tesco Scottish online fulfilment network. This store fulfils both online home delivery and click and collect.

#### **Tesco, Scunthorpe**

A Tesco Extra supermarket in the north Lincolnshire town of Scunthorpe. Developed in 2002, the store totals 98,000 sq. ft. on an 8-acre site with more than 580 parking spaces, an 8-pump petrol filling forecourt and dedicated online fulfilment distribution docks. The Group acquired the property in May 2017 for £53.0 million, reflecting a net initial yield of 5.1%.

It was acquired with an unexpired lease term of 22 years with annual, upward-only, RPI-linked rent reviews (subject to cap and floor) on fully repairing and insuring terms.

The store is strategically located to support online fulfilment given the excellent motorway and road connections and plays an important role in the Tesco online fulfilment network. The store has a strong trading record on site and is situated adjacent to the Lincolnshire Lakes development, which consists of more than 6,000 new homes. This store fulfils both online home delivery and click and collect.

#### **Morrisons, Sheffield\***

A Morrisons supermarket located on an 8.4-acre site in the historic and prominent Hillsborough Barracks. It comprises a 113,000 sq ft store, approximately 860 parking spaces and a 12-pump petrol filling station. The store has a history of strong trading and is prominently placed to serve the Hillsborough area.

It was acquired with an unexpired lease term of 21 years with five-yearly, upward-only, RPI-linked rent reviews compounded annually (subject to cap and floor). The next rent review is scheduled for October 2019.

\*Asset acquired post balance sheet

### **INVESTMENT ADVISER'S REPORT**

Atrato Capital Limited is the Investment Adviser to Supermarket Income REIT plc and is pleased to report on the operations of the Group for the Period.

#### **Overview**

The Company's investment policy is to invest in stores which deliver the future model of grocery in the UK. As grocery retailers are increasingly adopting a strategy of integrating online and offline shopping, with all of the big four operators now utilising well-located stores as last-mile fulfilment centres, the Group acquires stores that operate both as physical supermarkets and online fulfilment centres, via home delivery and/or click and collect, with the following characteristics:

- located in areas with large catchment populations and excellent transportation links
- strong underlying trading performance
- long unexpired lease terms with index linked rental uplifts
- attractive property fundamentals with opportunities for active asset management

To date, the Group has invested in a portfolio of principally freehold and virtual freehold properties let to Tesco and Sainsbury's, and since the balance sheet date, Morrisons. All our properties benefit from long dated leases with contractual RPI-linked rental increases.

### **Investment activity**

The Group acquired five omnichannel supermarket assets between the IPO in July 2017 and 30 June 2018, which comprise the properties in the table below.

These are high quality supermarket properties, which operate both as physical stores and online fulfilment centres. Each property is located on a large site with the potential for income and capital growth opportunities.

The Portfolio benefits from highly attractive leases to strong tenant covenants (Tesco and Sainsbury's (and Morrisons post 30 June)), with upward-only, RPI-linked rent reviews and long unexpired lease terms (weighted average 18.7 years).

The properties in the table below are listed chronologically in order of acquisition. Acquisitions after the period end date are described in the post balance sheet event note below.

### **Portfolio valuation**

Cushman & Wakefield valued the Portfolio at 30 June 2018, in accordance with the RICS Valuation Professional Standards July 2017. The properties were valued individually without premium/discount applying to the portfolio as a whole. The Portfolio market value was £264.9 million, compared with the assets' combined purchase price of £254.5 million excluding purchase costs. This represents an increase of £10.4 million or 4.1%, above the aggregate acquisition price (excluding acquisition costs).

This valuation growth in the short period since acquisition of the Portfolio reflects: (i) the supermarket operators entering a period of recovery and improving their covenant strength as tenants; (ii) favourable supply and demand characteristics in the investment market; and (iii) the off-market nature of all of the Group's acquisitions.

With contracted rents increasing on average by 3.6% in the Period and the high degree of certainty of income inherent in the Group's long leases, the Investment Adviser believes further valuation growth will be achieved in the future.

**Financial results**

EPRA earnings for the Period was £4.7 million. The driver of this operating performance was strong rental income.

Contracted annual rent reviews in the Period resulted in rental increases of an average of 3.6%. Administrative and other expenses were £2.1 million, which comprised £0.3 million of non-recurring costs relating to the establishment of the Group and £1.8 million of costs relating to the management of the Group during the Period. When adjusted for non-recurring costs, our adjusted EPRA cost ratio was 20%, which compares favourably with our peers.

Change in fair values of investment properties in the Period was a deficit of £4.1m, which comprises £14.1 million acquisition costs offset via a £10.4 million increase in valuation. The Group's EPRA NAV at 30 June 2018 equates to 96 pence per ordinary share.

The total IFRS profit before tax for the Period was £0.8 million. The Group entered the UK Real Estate Investment Trust ("REIT") regime on 21 December 2017. Post entry, the REIT regime exempts profits of the Group's property rental business from UK corporation tax. In the intervening period from the incorporation of the Company on 1 June 2017 to 21 December 2017 the Group was subject to UK corporation tax on its property rental business at an effective rate of 19%, resulting in a non-recurring £0.2 million tax charge.

Total shareholder return generated during the Period was 8%. This is measured as the growth in share price over the Period, plus dividends declared for the Period ending 30 June 2018.

**Financing and hedging**

On 30 August 2017, the Group secured a revolving credit facility of £100 million from HSBC. The credit facility has an opening margin of 160 basis points over three-month Libor, which is equivalent to a total cost of debt of 2.4% for the Period.

Total net debt as at 30 June 2018 is £85.8 million, reflecting a net loan-to-value "(LTV)" ratio of 32.4%. The Group's medium-term target is an LTV ratio of 30%-40% of the Portfolio's valuation.

Each loan drawn under the credit facility requires interest payments only until maturity and is secured against both the subject property and the shares of the property-owning entity. Each property-owning entity is either directly or ultimately owned by the Company.

The Group has negotiated significant headroom on its LTV covenants. The covenants contain a 60% LTV threshold and 200% interest cover ratio for each asset in the Portfolio. As at 30 June 2018, the Group could afford to suffer a fall in property values of 30% before being in breach of its LTV covenants and, with the current hedging arrangements it has in place, it has significant interest cover headroom.

In July 2018, the Investment Adviser successfully broadened the Group's debt funding relationships, adding Bayerische Landesbank as a lender in addition to HSBC (see Post Balance Sheet Events).

The Group has designed its debt strategy to minimise the effect of a significant rise in underlying interest rates through the use of an interest rate cap derivative. During the Period the Group purchased a £63.5 million notional cap on three-month Libor for the initial term of the HSBC facility. The cap strike rate is 1.75%. The Group is, therefore, exposed to increases in three-month Libor up to 1.75%. If three-month Libor rises above 1.75% the Group's cost of debt is effectively fixed at 3.35% on the hedged notional amount.

### **Dividends**

The Company has declared four interim dividends for the Period as follows:

- on 28 September 2017, a first interim dividend of 1.375 pence per share, which was paid on 27 October 2017.
- on 5 February 2018, a second interim dividend of 1.375 pence per share, which was paid on 3 March 2018.
- on 16 April 2018, a third interim dividend of 1.375 pence per share, which was paid on 21 May 2018.
- on 18 July 2018, a fourth interim dividend of 1.375 pence per share, which was paid on 21 August 2018.

In line with its objective at IPO, the Company has declared an annualised dividend of 5.5 pence per Ordinary Share. The Group's dividend cover ratio was 1.02 pence for each 1 pence of dividend paid in the Period, based on profit for the period (excluding changes in fair values of investment properties).

The Company intends to target an increase of 3.2% in the quarterly dividend in relation to the period 30 September to 31 December 2018 to 1.419 pence (representing an increase by the latest published RPI). The Company intends to target a quarterly dividend of 1.375 pence payable for the period 30 June to 30 September 2018 and is expected to be declared in October. As such the Company is targeting a dividend for the year to 30 June 2019 of 5.63 pence per share.

### **Asset management**

The Investment Adviser is engaged in detailed discussions with the operators of a number of the Company's sites on asset management initiatives linked to the following activities:

- The repurposing of space allowing operators to maximise the value of their building and potentially increase underlying footfall or revenues per square foot by adding new customer offerings or facilities in or around the site.
- Investing in green energy efficiency schemes, such as energy efficient lighting, solar panelling and combined heat and power.

Further details will be published in due course.

### **Post balance sheet events:**

On 19 July 2018, the Group completed the acquisition of its sixth supermarket asset, a Morrisons store, in Sheffield for £51.7 million (net of acquisition costs), reflecting a net initial yield of 4.9%.

The Company has also arranged a new five-year, interest-only loan facility with Bayerische Landesbank. The £52.1 million facility has a margin of 125 basis points

above three-month LIBOR and is secured against the new Morrisons supermarket in Sheffield and the Sainsbury's supermarket in Ashford. This new facility was hedged using an interest rate swap, thus fixing the Company's cost of debt at 2.55% on this borrowing for the term of the facility.

**Atrato Capital Limited**  
**Investment Adviser**  
**4 September 2018**

## **OUR MARKET**

Supermarket real estate assets represent an attractive asset class for investors seeking long dated, secure, inflation-linked income with capital appreciation potential over the longer term.

### **The UK grocery market**

UK consumer spending on grocery products has grown year-on-year since 1999. According to forecasts by IGD Retail Analysis, total spending will continue to increase by a further 15% in the next five years from £190 billion in 2018 to £219 billion by 2023. Tesco, Asda, Sainsbury's and Morrisons (the "Big Four") have a combined market share of approximately 70% and together operate more than 9,000 stores in the UK. Each of the Big Four have multi-billion-pound revenues, an established consumer brand and strong credit covenants.

Although dominated by a few players, the market is dynamic and highly competitive and has fragmented over the last 15 years, with lower-price operators (the "discounters"), led by Aldi and Lidl, experiencing strong sales growth. The discounters continue to expand their presence by adding new stores and competing on price. This has resulted in them successfully gaining market share principally from the smaller independent operators.

One of the many reasons that the Big Four have been able to protect their market share has been due to the nature of their underlying store portfolio. The larger operators benefitted from a first mover advantage and benefit from the largest sites in the best locations. As sales channels continue to evolve however, the larger stores remain the bedrock of the larger operators' business models. According to IGD Retail Analysis research, hypermarket and supermarket stores to generate more than 55% of sales in the UK, followed by convenience stores at 21%. This trend is not expected to change over the next five years. Discounters are expected to continue to grow and ultimately define their own distinct sales channel with the discount channel representing approximately 15% of the total market by 2023.

### **Supermarket property**

#### **Lease structures**

Supermarket lease agreements are often long dated and index-linked. Original lease tenures range from 20 to 30 years without break options. Rent reviews link the growth in rents to an inflation index such as RPI, RPIX or CPI (with caps and floors), or, alternatively, may have a fixed annual growth rate. Such rent reviews take place either annually or every five years, with the rent review delivering an increase in the rent at the growth rate, compounded over the period.

Landlords often benefit from "full repairing and insuring leases". These are lease agreements whereby the tenant is obligated to pay all taxes, building insurance, other outgoings and repair and maintenance costs on the property, in addition to the rent and service charge. Under such a lease, the tenant is responsible for all costs associated with the repair and maintenance of the building.

Operators will typically have the option to acquire the leased property at the lease maturity date at market value. Furthermore, to ensure that the operator does not transfer its lease obligation to other parties, assignment of the lease is often prohibited.

### **Investment yields**

Supermarket property has a long record of positive total returns underpinned by strong income returns due in part to the long length of lease commitments, upward-only rent review growth and strong occupier covenants.

Investment yields on supermarket property have consistently been lower than UK all-property yields and reached a low of 4.3% in 2007. However, since 2013, the market dynamics have changed: in contrast to most other long-income property yields, the supermarket sector has experienced a negative yield shift with yields increasing by 20% from March 2007 to 5.2% as at June 2018.

Supermarket yields have now been trading at higher yields than UK all-property since 2015. Over the last five years the distribution warehouse subsector of the property market has seen a significant improvement in yields. Distribution warehouses are fundamentally performing a different role to supermarkets in the supply chain. However, the Investment Adviser believes there are certain similarities in areas such as online sales, with supermarkets often fulfilling online deliveries out of their larger omnichannel stores. Despite these similarities, there has been a significant difference in how the underlying property yields of the two sectors have performed.

The grocery sector is now entering a period of increased stability. Competitive intensity is still high among operators, but multiple datapoints during 2017/18 suggest growth has returned to the UK grocery sector together with a more constructive margin environment.

In this current climate, the Investment Adviser believes that secure, long income supermarket property leases with index-linked rent can be acquired at attractive investment yields.

### **Inflation protection**

The Investment Adviser believes that, currently, real estate markets are undervaluing the inflation protection characteristics embedded in supermarket leases when compared to other comparable inflation-linked products, such as UK index-linked gilts. UK index-linked gilts have traded at negative real yields since 2013.

### **Opportunities for asset management**

In addition to current rental yields, supermarket property has additional potential for asset management upside opportunities to enhance total shareholder returns. These multiple asset management opportunities can be categorised into two distinct segments:

#### ***Light asset management***

Light asset management typically involves small-scale changes and improvements to a building which require limited additional capital and/or planning approvals. Examples include investing in green energy efficiency schemes, such as energy efficient lighting, solar paneling, battery capture and storage and combined heat and power. These types of schemes may provide incremental additional returns for investors on a risk-adjusted basis, but, importantly, can also assist the underlying operator in meeting certain strategic objectives in areas such as sustainability targets.

### ***Repurposing space***

The repurposing of space allows operators to maximise the value of their building and, potentially, increase underlying footfall or revenues per square foot by adding new customer offerings or facilities in or around the store. Repurposing space typically requires an increased level of interaction with the operator and an element of planning approval. However, the primary use of the majority of the asset is not expected to change. Examples include adding restaurants, cafes and drive-through facilities on excess car parking or adapting some of the existing store for alternative use such as click-and-collect facilities.

The Company will engage and work closely with its tenants on all available asset management opportunities with a view to enhancing long-term shareholder returns by increasing cash yields from light asset management and repurposing, and, where appropriate over the longer term, releasing development profit opportunities from heavy asset management.

### **Supply and demand**

After a period of heavy expansion in store numbers since 2000, the Big Four have substantially completed their store expansion plans and are now in a consolidation phase. Few new large properties are being developed by the operators and the strategic focus has generally shifted from creating new assets to increasing efficiencies on the supply side, meeting customer concerns with an improved shopping experience and further diversification in brands, merchandise and sales channels.

The effect of this shift in strategic focus has been an end to sale-and-leaseback transactions involving the Big Four, and, therefore, there has been a decline in the number of assets being offered to the investment market. 2016 was the first year in which operators produced no new sale-and-leaseback supply since the early 2000s. Indeed, in a reversal of recent trends, Tesco has now become a net buyer of stores, spending around £1.5 billion on store buybacks since 2015.

The Investment Adviser believes that operator buybacks will continue to be a key theme in the investment market, as changes to accounting rules through IFRS 16 mean that reducing existing lease commitments will be an increasingly attractive way for the operators to strengthen their underlying balance sheet. IFRS 16 effectively requires all rental obligations to be capitalised on a balance sheet as a financing liability and then expensed as a finance cost rather than rental expense in the income statement.

Demand for supermarket assets has been growing. According to Colliers International, more than £1.4 billion of secondary market transactions took place in 2017, an increase of 18% on 2016. Other than the transactions carried out by the Company, the majority of this activity arose from operators seeking to buy back stores and overseas investors who appear to have taken advantage of the decline in sterling exchange rates and attractive asset pricing.

The Investment Adviser believes that the reduced supply of new stock from operators combined with a growing demand for supermarket assets will generate favourable future supply and demand dynamics and therefore trigger a long-term compression in yields closer to those for all property, with a corresponding increase in asset market values.

## **OUR PRINCIPAL RISKS**

The Board of the Company and JTC Global AIFM Solution Limited, the Company's Alternative Investment Fund Manager (the "AIFM"), together have joint overall responsibility for the Company's risk management and internal controls, with the Audit Committee reviewing the effectiveness of the Board's risk management processes on its behalf.

We aim to operate in a low-risk environment, focusing on a single sector of the UK real estate market. The Board and the AIFM therefore recognise that effective risk management is key to the Group's success. Risk management ensures a defined approach to decision making that seeks to decrease the uncertainty surrounding anticipated outcomes, balanced against the objective of creating value for shareholders.

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance over the forthcoming financial year and could cause actual results to differ materially from expected and historical results.

### **Principal risks**

The list below outlines the key risk factors identified but does not purport to be exhaustive as there may be additional risks that materialise over time that the Group and the AIFM have not yet identified or have deemed not likely to have a potentially material adverse effect on the Group.

#### **Property risk**

**1.1 The lower-than-expected performance of the Portfolio could reduce property valuations and/or revenue, thereby affecting our ability to pay dividends or lead to a breach of our banking covenants.**

#### **Impact**

An adverse change in our property valuations may lead to breach of our banking covenants. Market conditions may also reduce the revenues we earn from our property assets, which may affect our ability to pay dividends to shareholders. A severe fall in values may result in us selling assets to repay our loan commitments, resulting in a fall in our net asset value.

#### **Mitigation**

Our property portfolio is 100% let with long unexpired weighted average lease terms and an institutional-grade tenant base. All the leases contain upward-only rent reviews which are inflation linked. These factors help maintain our asset values.

We manage our activities to operate within our banking covenants and constantly monitor our covenant headroom on loan to value and interest cover.

**1.2 Our ability to source assets may be affected by competition for investment properties in the supermarket sector.**

**Impact**

The Company faces competition from other property investors. Competitors may have greater financial resources than the Company and a greater ability to borrow funds to acquire properties.

**Mitigation**

The Investment Adviser has extensive contacts in the sector and we often benefit from off-market transactions. They also maintain close relationships with a number of investors and agents in the sector, giving us the best possible opportunity to secure future acquisitions for the Group.

We are not exclusively reliant on acquisitions to grow the portfolio. Our leases contain upward-only rent review clauses, which mean we can generate additional income and value from the current portfolio. We also have the potential to add value through asset management and we are actively exploring opportunities for all our sites.

**1.3 The default of one or more of our lessees would reduce revenue and may affect our ability to pay dividends.****Impact**

Our focus on supermarket property means we directly rely on the performance of UK supermarket operators. Insolvencies could affect our revenues earned and property valuations.

**Mitigation**

Our investment policy requires the Group to derive at least 60% of its rental income from a portfolio let to the largest four supermarket operators in the UK by market share. Focusing our investments on assets let to tenants with strong financial covenants and limiting exposure to smaller operators in the sector decreases the probability of a tenant default.

Before investing, we undertake a thorough due diligence process with emphasis on the strength of the underlying covenant and receive a recommendation on any proposed investment from the AIFM. All our leases are either guaranteed by the parent company in the operator group or are a direct obligation of the main UK operating entity of the operator group.

We select assets that have strong property fundamentals (good location, large sites with low site cover) and which should be attractive to other occupiers or have strong alternative use value should the current occupier fail.

**Financial risk****2.1 Our use of floating rate debt will expose the business to underlying interest rate movements.****Impact**

Interest on our debt facility is payable based on a margin over Libor. Any adverse movements in Libor could significantly impair our profitability and ability to pay dividends to shareholders.

**Mitigation**

We have entered into interest rate derivative contracts to partially mitigate our direct exposure to movements in Libor, by capping our exposure to Libor increases.

We aim to prudently hedge our Libor exposure, by utilising hedging instruments with a view to keeping the overall exposure at an acceptable level.

## **2.2 A lack of debt funding at appropriate rates may restrict our ability to grow.**

### **Impact**

Without sufficient debt funding we may be unable to pursue suitable investment opportunities in line with our investment objectives. If we cannot source debt funding at appropriate rates, this will impair our ability to maintain our targeted level of dividend.

### **Mitigation**

Before we contractually commit to buying an asset, we enter discussions with our lenders to get outline heads of terms on debt financing, which ensures that we can borrow against the asset and maintain our borrowing policy.

The Board keeps our liquidity and gearing levels under review. We have recently broadened our lender base, entering banking facilities with a new lender. This has created new banking relationships for us with the aim of keeping lending terms as competitive as possible.

Supermarket property should remain popular with lenders, owing to long leases and letting to single tenants with strong financial covenants.

## **2.3 We must be able to operate within our banking covenants.**

### **Impact**

If we were unable to operate within our banking covenants, this could lead to default and our bank funding being recalled.

### **Mitigation**

We and the AIFM continually monitor our banking covenant compliance to ensure we have sufficient headroom and to give us early warning of any issues that may arise. We will enter into interest rate caps and swaps to mitigate the risk of interest rate rises and also invest in assets let to institutional grade covenants.

## **Corporate risk**

### **3.1 There can be no guarantee that we will achieve our investment objectives.**

#### **Impact**

Our investment objectives include achieving the dividend and total returns targets. The amount of any dividends paid or total return we achieve will depend, among other things, on successfully pursuing our investment policy and the performance of our assets. Future dividends are subject to the Board's discretion and will depend, among other things, on our earnings, financial position, cash requirements, level and rate of borrowings, and available profit.

#### **Mitigation**

At 30 June 2018, we had acquired five supermarket assets that meet our investment criteria. The Investment Adviser's significant experience in the sector should continue to provide us with access to assets that meet our investment criteria going forward.

Rental income from our current portfolio, coupled with our hedging policy, supports the current 5.5 pence per share dividend target. Movement in capital value is subject to market yield movements and the ability of the Investment Adviser to execute asset management strategies.

### **3.2 We are reliant on the continuance of the Investment Adviser.**

#### **Impact**

We rely on the Investment Adviser's services and reputation to execute our investment strategy. Our performance will depend to some extent on the Investment Adviser's ability and the retention of its key staff.

#### **Mitigation**

Unless there is a default, either party may terminate the Investment Advisory Agreement by giving not less than 12 months' written notice, which may not be given before the fifth anniversary of the IPO. The Board regularly reviews and monitors the performance of the Investment Adviser.

The interests of the Company and the Investment Adviser are aligned due to (a) key staff of the Investment Adviser having significant personal equity investments in the Company and (b) any fees paid to the Investment Adviser in shares of the Company are to be held for a minimum period of 12 months. The Board can pay up to 25% of the Investment Adviser fee in shares of the Company.

In addition, the Board meets regularly with the Investment Adviser to ensure we maintain a positive working relationship and the AIFM receives and reviews regular reporting from the Investment Adviser and reports on to the Company's Board on the Investment Adviser's performance. The AIFM also reviews and makes recommendation to the Company's Board on any proposed investments or significant asset management initiatives.

#### **Taxation risk**

**4.1 We operate as a UK REIT and have a tax-efficient corporate structure, with advantageous consequences for UK shareholders. Any change to our tax status or in UK tax legislation could affect our ability to achieve our investment objectives and provide favourable returns to shareholders.**

#### **Impact**

If the Company fails to remain a REIT for UK tax purposes, our profits and gains will be subject to UK corporation tax.

#### **Mitigation**

The Board takes direct responsibility for ensuring we adhere to the UK REIT regime, by monitoring the REIT compliance. The Board has also engaged third-party tax advisers to help monitor REIT compliance requirements and the AIFM also monitors compliance by the Company with the REIT regime.

#### **Political risks**

**5.1 Vote to leave the European Union ("Brexit")**

#### **Impact**

The vote in June 2016 to leave the European Union has resulted in political and economic uncertainty that could have a negative effect on the performance of the

Group. Until the terms of the settlement with the European Union become clearer the exact outcome on the business is difficult to predict at this early stage.

### **Mitigation**

The Group operates with a focus on the UK supermarket sector. It is currently well positioned with long term secure leases to institutional-grade tenants with strong balance sheets and well placed to withstand any downturn in the UK economy.

### **Market Price Risk**

**6.1 Shareholders may not be able to realise their shares at a price above or the same as they paid for the shares or at all.**

### **Impact**

Although the Company's Ordinary Shares have to date traded in a relatively narrow range closely related to the price at which they were issued, this is largely a function of supply and demand for the Ordinary Shares in the market and cannot therefore be controlled by the Board. Shareholders who wish to sell their Ordinary Shares may be obliged to sell their Ordinary Shares at a significant discount or may not be able to sell them at all.

### **Mitigation**

The Company may seek to address any significant discount to NAV at which its Ordinary Shares may be trading by purchasing its own Ordinary Shares in the market on an *ad hoc* basis. The Directors have the authority to make market purchases of up to 14.99 per cent. of the Ordinary Shares in issue as at IPO. Ordinary Shares will be repurchased only at prices below the prevailing NAV per Ordinary Share, which should have the effect of increasing the NAV per Ordinary Share for remaining Shareholders. It is intended that a renewal of the authority to make market purchases will be sought from Shareholders at each annual general meeting of the Company. Purchases of Ordinary Shares will be made within guidelines established from time to time by the Board.

Investors should note that the repurchase of Ordinary Shares is entirely at the discretion of the Board and no expectation or reliance should be placed on such discretion being exercised on any one or more occasions or as to the proportion of Ordinary Shares that may be repurchased.

### **Going concern**

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

### **Viability statement**

The Board has assessed the prospects of the Group over the five years from the balance sheet date to 30 June 2023, which is the period covered by the Group's longer term financial projections. The Board considers the resilience of projected liquidity, as well as compliance with secured debt covenants and UK REIT rules, under a range of RPI and property valuation assumptions.

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

<b>Risk</b>	<b>Assumption</b>
<b>Tenant risk</b>	Tenants (or guarantors where relevant) continue to comply with their rental obligations over the term of their leases and do not suffer any insolvency events over the term of the review.
<b>Borrowing risk</b>	The Group continues to comply with all relevant loan covenants. The Group is able to refinance the £100 million RCF falling due in August 2020 on acceptable terms.
<b>Liquidity risk</b>	The Group continues to generate sufficient cash to cover its costs while retaining the ability to make distributions.

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

#### **Other disclosures**

Disclosure in relation to the Company's business model and strategy have been included within the Investment Adviser's report on pages 10 to 13. Disclosures in relation to the main industry trends and factors that are likely to affect the future performance and position of the business have been included within Our Market on pages 14 to 16. Disclosures in relation to environmental matters, employees, social and human rights issues, employee diversity have not been included as the Directors' do not consider these to be relevant to the company.

#### **Key Performance Indicators (KPIs)**

The KPIs used by the Group in assessing its strategic progress have been included within the supplementary information on pages 64 to 68.

The Strategic Report, which comprises the Chairman's Statement, Achievements in Brief, Our Portfolio, Investment Adviser's Report, Our Market and Our Principal Risks section in the Annual Report was signed on behalf of the Board on 4 September 2018

**A N Hewson**  
**Chairman**  
**4 September 2018**

## **DIRECTORS' REPORT**

The Directors present their report together with the audited financial statements for the period ended 30 June 2018. The Group's Strategic Report can be found on pages 17 to 32

#### **Results and dividends**

The results for the Period are set out in the attached financial statements. It is the policy of the Board to declare and pay dividends as quarterly interim dividends. During and subsequently to the Period, the following interim dividends amounting to aggregate 5.5 pence per share were declared:

- on 28 September 2017, a first interim dividend of 1.375 pence per share, which was paid on 27 October 2017.

- on 5 February 2018, a second interim dividend of 1.375 pence per share, which was paid on 3 March 2018.
- on 16 April 2018, a third interim dividend of 1.375 pence per share, which was paid on 21 May 2018.
- on 18 July 2018, a fourth interim dividend of 1.375 pence per share, which was paid on the 21 August 2018.

### **Dividend policy**

Subject to market conditions and performance, financial position and financial outlook, it is the Directors' intention to pay an attractive level of dividend income to shareholders on a quarterly basis. The minimum targeted annual dividend is 5.5p per Ordinary share. The Company intends to grow the dividend progressively, through investment in upward-only, inflation-protected, long-term lease agreements.

### **Principal activities and status**

Supermarket Income REIT plc (the Company and Group) is registered as a public limited company in terms of the Companies Act 2006. It is an Investment Company as defined by Section 833 of the Companies Act 2006 and has been established as a closed-ended investment company with an indefinite life. The Company has a single class of shares in issue which are listed on the Specialist Fund segment of the Official List and traded on the London Stock Exchange's Main Market. The Group has subsequent to its launch, entered the Real Estate Investment Trust (REIT) regime for the purposes of UK taxation.

The Company is a member of the Association of Investment Companies (AIC).

### **Strategy and investment policy**

The strategy and investment objectives of the Group are set out in the Strategic Report on pages 17 to 32.

### **Risk management and internal control**

The Board is responsible for financial reporting and controls, including the approval of the Annual Report and Accounts, the dividend policy, any significant changes in accounting policies or practices, and treasury policies including the use of derivative financial instruments. During the period the Board has carried out a robust assessment of the principal risks facing the Group and how they are being mitigated, as described in the Strategic Report on pages 17 to 32.

In light of the Group's current position and principal risks, the Board has assessed the prospects of the Group for a period of 12 months from the date of this Annual Report, reviewing the Group's liquidity position, compliance with loan covenants and the financial strength of its tenants, together with forecasts of the Group's future performance under various scenarios. The Board has concluded there is a reasonable expectation that the Group will be able to continue in operation and meet its liabilities over that period. The Board has also assessed the prospects of the Group over a longer period than the going concern review and has a reasonable expectation that the Group will be able to continue in business over the five year period examined in that assessment.

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

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

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

Directors are expected to attend all meetings of the Board and all meetings of those committees on which they sit, as well as the Annual General Meeting ("AGM"). Meetings called outside the scheduled quarterly Board meetings may need to be convened at relatively short notice and therefore at times when not every Director is available. Every meeting during the year has however been correctly convened with an appropriate quorum and with the Directors independent of the Investment Adviser.

Details of Directors' attendance at each of the scheduled Board and Committee meetings during the Period are set out below:

<b>Director</b>	<b>Audit Committee</b>	<b>Quarterly Board</b>
Nick Hewson	N/A	3/3
Vincent Prior	2/2	3/3
Jon Austen	2/2	3/3

All directors attended the Company's EGM held on Monday 21 May 2018.

#### **Directors**

In accordance with the Articles of Association, all Directors are required to retire and seek re-election at the AGM following their initial appointment to the Board. All three Directors will therefore retire and seek re-election at the next AGM having been appointed during June 2017 for an initial period of three years.

The Company maintains £10 million of Directors' and Officers' Liability Insurance cover for the benefit of the Directors, which was in place throughout the period and which continues in effect at the date of this report.

#### **Directors' interests**

The beneficial interests of the Directors and their families in the Ordinary shares of the Company as at 30 June 2018 were as follows:

<b>Percentage</b>
<b>Number of shares</b>

		<b>of issued share capital</b>
Andrew Nicholas Hewson	360,000	0.20
Jonathan Austen	99,000	0.05
Vincent Prior	35,431	0.02

### **Significant shareholdings**

As at 24 August 2018 the Directors have been notified that the following shareholders have a disclosable interest of 3% or more in the ordinary shares of the Company:

	<b>Number of shares</b>	<b>Percentage of issued share capital</b>
Quilter Cheviot Investment Management	26,217,690	14.22%
Premier Fund Management	16,285,863	8.83%
Miton Asset Management	14,436,828	7.83%
BMO Global Asset Management	13,417,500	7.28%
Smith & Williamson Investment Management	13,407,844	7.27%
West Yorkshire Pension Fund	12,066,791	6.55%
Cannacord Genuity Wealth	10,988,832	5.96%
River & Mercantile Asset Management	9,775,280	5.30%
TR Property Investment Trust	9,482,500	5.14%
Ruffer	9,454,343	5.13%
Charles Stanley	5,794,652	3.14%

### **Political contributions**

The Group made no political contributions during the Period.

### **Greenhouse gas emissions reporting**

The Board has considered the requirement to disclose the Company's measured carbon emissions sources under the Companies Act 2006 (Strategic report and Director's report) Regulations 2013.

During the period ended 30 June 2018:

- any emissions from the Group's properties have been the tenant's responsibility rather than the Group's, so the principle of operational control has been applied;
- any emissions that are either produced from the Company's registered office or from offices used to provide administrative support are deemed to fall under the Adviser and Manager's responsibility; and
- the Group has not leased or owned any vehicles which fall under the requirements of Mandatory Emissions Reporting.

As such, the board believes that the Company has no reportable emissions for the Period ended 30 June 2018.

**Employees**

The Group has no employees and therefore no employees share scheme or policies for the employment of disabled persons or employee engagement

**Post balance sheet events**

On 19 July 2018, the Group completed the acquisition of its sixth supermarket asset, a Morrisons store, in Sheffield for £51.7 million (net of acquisition costs), reflecting a net initial yield of 4.9%.

The Company has also arranged a new five-year, interest-only loan facility with Bayerische Landesbank. The £52.1 million facility has a margin of 125 basis points above three-month LIBOR and is secured against the new Morrisons supermarket in Sheffield and the Sainsbury's supermarket in Ashford. This new facility was hedged using an interest rate swap, thus fixing the Company's cost of debt at 2.55% on this borrowing for the term of the facility.

**Other disclosures**

Disclosures of financial risk management objectives and policies and exposure to financial risks are included in note 16 to the financial statements. Details of future developments are included in the Strategic Report on pages 17 to 32.

**Disclosure of information to auditors**

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

**Auditors**

BDO LLP were appointed as auditors by the Directors in June 2017 and have expressed their willingness to continue as auditor for the financial year ending 30 June 2019. A resolution to appoint BDO LLP as auditors to the company will be proposed at the AGM.

Signed by order of the Board on 4 September 2018.

**A N Hewson**

**Chairman**

**4 September 2018**

**STATEMENT OF DIRECTOR'S RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND ACCOUNTS**

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

Company law requires the Directors to prepare financial statements for each financial period. Under that law, the Directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and the Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic

of Ireland". Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period.

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006 and as regards the Group financial statements, Article 4 of the IAS Regulation. 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 such internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Director's Remuneration Report and Corporate Governance Statement that comply with the relevant law and regulations.

The Company is required to make the annual report and financial statements available on a website. The Company's website address is [www.SupermarketIncomeREIT.co.uk](http://www.SupermarketIncomeREIT.co.uk). Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from such legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

#### **Responsibility Statement**

The Directors confirm to the best of their knowledge:

- The Group financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and Article 4

of the IAS regulation, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group.

- The Annual Report and Accounts include a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that they face;
- The Annual Report and Accounts taken as whole, is fair, balanced and understandable and the information provided to shareholders is sufficient to allow them to assess the Group's performance, business model and strategy.

This Responsibility Statement was approved by the Board of Directors and is signed on its behalf by:

**A N Hewson**  
**Chairman**  
**4 September 2018**

## **ALTERNATIVE INVESTMENT FUND MANAGER'S REPORT**

### **Background**

The AIFMD came into force on 22 July 2013, although there was a transitional period for compliance by existing AIFMs and AIFs until 21 July 2014 under the UK's Alternative Investment Fund Managers Regulations, 2013 (the "AIFMD Regulations"). The objective of the AIFMD is to ensure a common regulatory regime for funds marketed in or into the EU which are not regulated under the UCITS regime, primarily for investors' protection and to enable European regulators to obtain adequate information in relation to funds being marketed in or into the EU to assist their monitoring and control of systemic risk issues.

The Company's Alternative Investment Fund Manager (the "AIFM") is a non-EU AIFM, although the Company is an EU Alternative Investment Fund (an "AIF") and the Company is marketed into the EU, primarily the United Kingdom. Although the AIFM is a non-EU AIFM, so the depositary rules in Article 21 of the Alternative Investment Fund Managers Directive (the "AIFMD") do not apply, the transparency requirements of Articles 22 (annual report) and 23 (Disclosure to investors) of the AIFMD do apply to the AIFM and therefore to the Company. In compliance with those articles, the following information is provided to the Company's shareholders by the AIFM.

### **1. Material Changes in the Disclosures to Investors**

During the financial period under review, there were no material changes to the information required to be made available to investors before they invest in the

Company under Article 23 of the AIFMD from that information set out in the Company's prospectus dated 25 April, 2018 (comprising the registration document, summary and securities note), save as disclosed below and in the Strategic Report, which comprises the Chairman's Statement, Achievements in Brief, Our Portfolio, Investment Adviser's Report, Our Market and Our Principal Risks sections in this annual financial report.

## **2. Risks and Risk Management Policy**

The current principal risks facing the Company and the main features of the risk management systems employed by AIFM and the Company to manage those risks are set out in the Strategic Report and in notes 16 and 18 to the financial statements.

## **3. Leverage and borrowing**

The Company is entitled to employ leverage in accordance with its investment policy and as described in the sections entitled "Debt Financing" in the Chairman's Statement and "Financing and Hedging" in the Investment Adviser's Report and in notes 17 and 25 to the financial statements. Other than as disclosed therein, there were no changes in the Company's borrowing powers and policies.

## **4. Remuneration of the AIFM's Directors and Employees**

During the financial period under review, no separate remuneration was paid by the AIFM to its directors, all of whom were executives, because they were all employees of the JTC group of companies, of which the AIFM forms part. Other than the directors, the AIFM has no other employees. The Company has no agreement to pay any carried interest to the AIFM.

## **5. Remuneration of the AIFM Payable by the Company**

The AIFM was during the year under review paid a fee of 0.04% *per annum* of the net asset value of the Company, subject to a minimum of £25,000 *per annum*. With effect from 1 July, 2018, the minimum fee was increased to £50,000 *per annum*.

**JTC Global AIFM Solutions Limited**  
**Alternative Investment Fund Manager**  
**4 September 2018**

## **CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

For the period from 1 June 2017 to 30 June 2018

Notes

1 June 2017 to  
30 June 2018

		<b>£'000</b>
Rental income	4	8,942
Administrative and other expenses	5	(2,097)
<b>Operating profit before changes in fair value of investment properties</b>		<b>6,845</b>
Changes in fair values of investment properties	12	(4,081)
<b>Operating profit</b>		<b>2,764</b>
Finance expense	8	(1,917)
<b>Profit before taxation</b>		<b>847</b>
Tax charge for the period	9	(227)
<b>Profit for the period</b>		<b>620</b>
<i>Items to be reclassified to profit or loss in subsequent periods</i>		
Changes in fair value of interest rate derivatives	16	(82)
<b>Total comprehensive income for the period</b>		<b>538</b>
<b>Total comprehensive income for the period attributable to ordinary shareholders</b>		<b>538</b>
Earnings per share - basic and diluted	10	0.5 pence

No operations were discontinued in the financial period.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	As at 30 June 2018 £'000
<b>Non-current assets</b>		
Investment properties	12	264,900
Interest rate derivatives	16	37
<b>Total non-current assets</b>		<b>264,937</b>
<b>Current assets</b>		
Trade and other receivables	14	1,035

Cash and cash equivalents		2,239
<b>Total current assets</b>		<b>3,274</b>
<b>Total assets</b>		<b>268,211</b>
<b>Non-current liabilities</b>		
Bank borrowings	17	88,099
<b>Total non-current liabilities</b>		<b>88,099</b>
<b>Current liabilities</b>		
Deferred rental income		1,666
Corporation tax liability		227
Trade and other payables	15	1,473
<b>Total current liabilities</b>		<b>3,366</b>
<b>Total liabilities</b>		<b>91,465</b>
<b>Net assets</b>		<b>176,746</b>
<b>Equity</b>		
Share capital	19	1,844
Share premium reserve	19	149,039
Capital reduction reserve	19	25,325
Retained earnings		620
Cash flow hedge reserve		(82)
<b>Total equity</b>		<b>176,746</b>
Net asset value per share - basic and diluted	23	96 pence
EPRA NAV per share	23	96 pence

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 4 September 2018 and were signed on its behalf by:

**A N Hewson**

**Chairman**

**4 September 2018**

## **CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

**For the period from 1 June 2017 to 30 June 2018**

	Share capital £'000	Share premium reserve £'000	Cash flow hedge reserve £'000	Capital reduction reserve £'000	Retained earnings £'000	Total £'000
<b>As at 1 June 2017</b>						
Comprehensive income for the period						
Profit for the period	-	-	-	-	620	620
Other comprehensive income	-	-	(82)	-	-	(82)

Total comprehensive income for the period	-	-	(82)	-	620	538
<hr/>						
<i>Transactions with owners</i>						
Ordinary shares issued at a premium during the period	1,844	183,156	-	-	-	185,000
Share issue costs	-	(4,117)	-	-	-	(4,117)
Issue of redeemable preference shares	12	-	-	-	-	12
Redemption of redeemable preference shares	(12)	-	-	-	-	(12)
Transfer to capital reduction reserve	-	(30,000)	-	30,000	-	-
Interim dividends paid	-	-	-	(4,675)	-	(4,675)
<b>As at 30 June 2018</b>	<b>1,844</b>	<b>149,039</b>	<b>(82)</b>	<b>25,325</b>	<b>620</b>	<b>176,746</b>

## NOTES TO THE FINANCIAL STATEMENTS

		<b>1 June 2017 to 30 June 2018 £'000</b>
	<b>Notes</b>	
<b>Operating activities</b>		
Profit for the period (attributable to ordinary shareholders)		620
Adjustments for:		
Changes in fair value of Investment properties	12	4,081
Movement in rent smoothing adjustments	4	(328)
Finance expense	8	1,917
Tax expense	9	227
Cash flows from operating activities before changes in working capital		6,517
Increase in trade and other receivables		(1,035)
Increase in deferred rental income		1,666
Increase in trade and other payables		913
<b>Cash flows from operating activities</b>		<b>8,061</b>
<b>Investing activities</b>		
Acquisition of investment properties	12	(254,540)
Capitalised acquisition costs		(14,113)
<b>Net cash flows from investing activities</b>		<b>(268,653)</b>
<b>Financing activities</b>		
Proceeds from issue of ordinary share capital	19	185,000
Costs of share issues	19	(4,117)

Issue of redeemable preference shares	19	12
Redemption of redeemable preference shares	19	(12)
Bank borrowings drawn	17	98,430
Bank borrowings repaid	17	(9,586)
Loan arrangement fees paid	17	(1,029)
Bank interest paid	17	(1,053)
Bank commitment fees paid	17	(94)
Interest rate cap premium paid	16	(158)
Dividends paid to equity holders	11	(4,562)
<b>Net cash flows from financing activities</b>		<b>262,831</b>
<b>Net increase in cash and cash equivalents for the period</b>		<b>2,239</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>-</b>
<b>Cash and cash equivalents at the end of the period</b>		<b>2,239</b>

## 1. Basis of preparation

### General information

Supermarket Income REIT plc (the "Company") is a company registered in England and Wales with its registered office at 7th Floor 9 Berkeley Street, London, United Kingdom, W1J 8DW. The principal activity of the Company and its subsidiaries (the "Group") is to provide its shareholders with an attractive level of income together with the potential for capital growth by investing in a diversified portfolio of supermarket real estate assets in the UK.

At 30 June 2018 the Group comprised the Company and its wholly-owned subsidiaries as set out in Note 13. Each of these subsidiaries is incorporated in England and Wales and has the same registered office as the Company.

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 period ended 30 June 2018. Whilst the financial information included in this announcement has been computed in accordance with IFRS, as adopted by the European Union, this announcement does not itself contain sufficient information to comply with IFRS. The financial information does not constitute the Group's financial statements for the period ended 30 June 2018, but is derived from those financial statements. Those accounts give a true and fair view of the assets, liabilities, financial position and results of the Group. Financial Statements for the period ended 30 June 2018 will be delivered to the Registrar of Companies in due course. The auditors' report on the 30 June 2018 financial statements was unqualified; did not draw attention to any matters by way of emphasis; and did not contain statements under section 498 (2) or (3) of the Companies Act 2006.

The consolidated financial statements for the period from the Company's incorporation on 1 June 2017 to 30 June 2018, have been prepared in accordance with:

- International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB) as adopted by the European Union (IFRS);

- The Disclosure and Transparency Rules of the Financial Conduct Authority; and
- The Companies Act 2006, as applicable to companies reporting under IFRS

#### **Accounting convention and currency**

The audited consolidated financial statements (the "financial statements") have been prepared on a historical cost basis, except that investment properties and interest rate derivatives are measured at fair value.

The financial statements are presented in Pounds Sterling and all values are rounded to the nearest thousand (£'000), except where otherwise indicated. Pounds Sterling is the functional currency of the Company and the presentation currency of the Group.

#### **Going concern**

In assessing the going concern basis of accounting the Directors have had regard to the guidance issued by the Financial Reporting Council.

During the period covered by this report, the Group has raised a total of £185 million from the issue of equity shares and a further £100 million under the HSBC credit facility referred to in note 17, of which a total of £11.2 million remained available for drawdown as at 30 June 2018. All financial covenants have been met to date.

During July 2018 the Group entered into a £52.1 million credit facility with Bayerische Landesbank and acquired a further investment property for £51.7 million plus acquisition costs. Further details are set out in note 25.

The Group generated net cash flow from operating activities in the period of £8.1 million, with its cash balances at 30 June 2018 totalling £2.2 million and the Group having no capital commitments or contingent liabilities as at that date.

The Group benefits from a secure income stream from its property assets that are let to tenants with excellent covenant strength under long leases that are subject to upward only annual RPI rent reviews.

As a result, the Directors believe that the Group is well placed to manage its financing and other business risks and that the Group will remain viable, continuing to operate and meet its liabilities as they fall due. The Directors are therefore of the opinion that the going concern basis adopted in the preparation of the financial statements is appropriate.

#### **New standards, interpretations and amendments**

The new standards, interpretations and amendments set out below, which are all not yet effective and have not been early adopted in these financial statements, may have an effect on the future financial statements of the Group.

Description of new standards:

- **IFRS 9 "Financial Instruments"**: This standard is replacing IAS 39 "Financial Instruments" and contains two primary measurement categories for financial assets. The standard also introduces new requirements that align hedge accounting more closely with risk management and establishes a more principles-based approach. This standard has been endorsed by the

European Union and is to be effective for annual periods beginning on or after 1 January 2018.

- **IFRS 15 "Revenue from contracts with customers"**: This standard is replacing IAS 11 'Construction Contracts' and IAS 18 "Revenue." The standard introduces a new revenue recognition model that recognises revenue either at a point in time or over time. This standard has been endorsed by the European Union and is to be effective for annual periods beginning on or after 1 January 2018.
- **IFRS 16 "Leases"**: This standard introduces a single, on-balance sheet accounting model for leases which refers primarily to accounting for lessees. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. This standard has been endorsed by the European Union and is to be effective for annual periods beginning on or after 1 January 2019.

**Current assessment of expected impact:**

The Directors do not currently anticipate that the adoption of IFRS 9 will have a material impact on the financial statements, other than on presentation and disclosure, when the standard is first required to be applied by the Group, assuming that the existing capital structure and financing arrangements remain in place when it becomes effective.

Under IFRS 9 financial instruments, trade and other receivables, trade and other payables and borrowings would be classified and measured at amortised cost. This is in line with the accounting policies already adopted for these financial instruments.

Under IFRS 9 expected credit losses would be recognised from the point at which financial instruments are originated or purchased. There would no longer be a threshold (such as a trigger loss event of default) before expected credit losses would start to be recognised. With limited exceptions, a 12-month expected credit losses must be recognised initially for all assets subject to impairment. For example, an entity recognises a loss allowance at the initial recognition of a purchased debt instrument rather than when an event of default by the issuer occurs. The amount of expected credit losses that are recognised would depend on the change in the credit quality since initial recognition to reflect the link between expected credit losses and the pricing of the financial instrument. With limited exceptions, IFRS 9 requires that at each reporting date, an entity shall measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition.

The Group's assessment in applying the new impairment approach to financial assets at amortised cost as required under IFRS 9 for expected credit losses is not expected to result in any material changes given the Group's requirement for tenants to pay rental payments in advance. Therefore there is no restatement anticipated in the current period once the standard is adopted and becomes effective.

The Group's revenues are currently all derived from property leases, which are outside the scope of IFRS 15 but within the scope of IFRS 16. The Directors

therefore do not currently expect that IFRS 15 will have an impact on the financial statements when the standard is first required to be applied by the Group.

Since IFRS 16 will not result in significant changes of accounting policies for lessors, the Directors do not currently expect that the adoption of this standard will have a material impact on the financial statements when first required to be applied by the Group.

## **2. Significant accounting judgements, estimates and assumptions**

In the application of the Group's accounting policies, which are summarised in note 3, the Directors are required to make judgements, estimates and assumptions that affect the reported amounts recognised in the financial statements and the disclosures therein.

The judgements, estimates and assumptions that the Directors consider have a significant risk of causing a material adjustment to the carrying amounts of the Group's assets and liabilities within the next 12 months are outlined below.

### ***Key estimate: Fair value of investment properties***

The valuation of the Group's investment properties is at fair value, which is determined by the Group's independent valuer on the basis of market value in accordance with the RICS Valuation - Global Standards (the 'Red Book'). Recognised valuation techniques are used by the independent valuer which are in accordance with those recommended by the International Valuation Standard Committee and compliant with IFRS 13 "Fair Value Measurement."

The independent valuer is considered to have sufficient current local and national knowledge of the supermarket property market and the requisite skills and understanding to undertake the valuation competently.

In forming an opinion as to fair value, the independent valuer makes a series of assumptions, which are typically market-related, such as those in relation to net initial yields and expected rental values. These are based on the independent valuer's professional judgement. Other factors taken into account by the independent valuer in arriving at the valuation of the Group's investment properties include the length of property leases, the location of the properties and the strength of tenant covenants.

The fair value of the Group's investment properties as determined by the independent valuer, along with the significant methods and assumptions used in estimating this fair value, are set out in note 12.

### ***Key judgement: Acquisition of investment properties***

The Group has acquired and intends to acquire further investment properties. At the time of each purchase the Directors assess whether an acquisition represents the acquisition of an asset or the acquisition of a business. To date all acquisitions of properties have been direct asset purchases. The Group may in the future acquire entities that own property assets. These acquisitions would be accounted for as a business combination only if an integrated set of activities were to be acquired in addition to the property. In the situations where such an acquisition was not being judged to be an acquisition of a business, the Group would not treat it as a business combination. Rather, the cost to acquire the entity concerned would be allocated between the identifiable assets and liabilities of the entity

based upon their relative fair values at the acquisition date. Accordingly, no goodwill or additional deferred taxation would arise from such an acquisition.

***Key judgement: Operating lease contracts - the Group as lessor***

The Group has acquired investment properties that are subject to commercial property leases with tenants. The Directors have concluded, based on an evaluation of the terms and conditions of the arrangements, in particular the duration of the lease terms and the minimum lease payments, that the Group retains all the significant risks and rewards of ownership of the properties acquired to date and so has accounted for these leases as operating leases rather than finance leases. Such considerations are required each time that the Group acquires a new property.

**3. Summary of significant accounting policies**

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

**3.1 Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries drawn up to 30 June 2018.

Subsidiaries are those entities including special purpose entities, directly or indirectly controlled by the Company. Control exists when the Company is exposed or has rights to variable returns from its investment with the investee and has the ability to affect those returns through its power over the investee. In assessing control, potential voting rights that presently are exercisable are taken into account.

The financial statements of subsidiaries are included in the consolidated financial information from the date that control commences until the date that control ceases.

In preparing the consolidated financial information, intra group balances, transactions and unrealised gains or losses are eliminated in full.

Uniform accounting policies are adopted for all companies within the Group.

**3.2 Segmental information**

The Directors are of the opinion that the Group is currently engaged in a single segment business, being investment in United Kingdom in supermarket property assets.

**3.3 Rental income**

Rental income arising on investment properties is accounted for in profit or loss on a straight-line basis over the lease term, as adjusted for the following:

- Any rental income from fixed and minimum guaranteed rent review uplifts is recognised on a straight-line basis over the shorter of the term to lease expiry or to the first tenant break option;
- Lease incentives are spread evenly over the lease term, even if payments are not made on such a basis. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the

option to continue the lease, where, at the inception of the lease, the Directors are reasonably certain that the tenant will exercise that option.

Contingent rents, such as those arising from indexed-linked rent uplifts or market based rent reviews, are recognised in the period in which they are earned.

Where income is recognised in advance of the related cash flows due to fixed and minimum guaranteed rent review uplifts or lease incentives, an adjustment is made to ensure that the carrying value of the relevant property, including the accrued rent relating to such uplifts or lease incentives, does not exceed the external valuation.

Rental income is invoiced in advance with that element of invoiced rental income that relates to a future period being included within current liabilities in the consolidated statement of financial position.

### **3.4 Finance expense**

Finance expenses consist principally of interest payable and the amortisation of loan arrangement fees.

Loan arrangement fees are expensed using the effective interest method over the term of the relevant loan. Interest payable and other finance costs, including commitment fees, which the Group incurs in connection with bank borrowings, are expensed in the period to which they relate.

### **3.5 Administrative and other expenses**

Administrative and other expenses, including the investment advisory fees payable to the Investment Adviser, are recognised in profit and loss on an accruals basis.

### **3.6 Dividends payable to shareholders**

Dividends to the Company's shareholders are recognised when they become legally payable, as a reduction in equity in the financial statements. Interim equity dividends are recognised when paid. Final equity dividends will be recognised when approved by shareholders at an AGM.

### **3.7 Taxation**

#### **Non-REIT taxable income**

Taxation on the Group's profit or loss for the period that is not exempt from tax under the UK-REIT regulations comprises current and deferred tax, as applicable. Tax is recognised in profit or loss except to the extent that it relates to items recognised as direct movements in equity, in which case it is similarly recognised as a direct movement in equity.

Current tax is the expected tax payable on any non-REIT taxable income for the period, using tax rates enacted or substantively enacted at the end of the relevant period.

#### **Entry to the UK-REIT regime**

The Group obtained its UK-REIT status effective from 21 December 2017. Entry to the regime results in, subject to continuing relevant UK-REIT criteria being met, the profits of the Group's property rental business, comprising both income and capital gains, being exempt from UK taxation.

The Group intends to ensure that it complies with the UK-REIT regulations on an on-going basis and regularly monitors the conditions required to maintain REIT status.

### **3.8 Investment properties**

Investment properties consist of land and buildings (all supermarkets) which are held to earn income together with the potential for capital growth.

Investment properties are recognised when the risks and rewards of ownership have been transferred and are measured initially at cost, being the fair value of the consideration given, including transaction costs. Transaction costs include transfer taxes and professional fees for legal services. Any subsequent capital expenditure incurred in improving investment properties is capitalised in the period incurred and included within the book cost of the property. All other property expenditure is written off in profit and loss as incurred.

After initial recognition, investment properties are measured at fair value, with gains and losses recognised in profit and loss in the period in which they arise.

Gains and losses on disposals of investment properties will be determined as the difference between the net disposal proceeds and the carrying value of the relevant asset. These will be recognised in profit and loss in the period in which they arise.

### **3.9 Financial assets and liabilities**

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

#### ***Financial assets***

Financial assets are recognised initially at their fair value. All of the Group's financial assets, except interest rate derivatives, currently constitute 'loans and receivables' which are measured at amortised cost using the effective interest method, less any impairment.

#### ***Cash and cash equivalents***

Cash and cash equivalents consist of cash in hand and short-term deposits in banks with an original maturity of three months or less.

#### ***Trade and other receivables***

Trade and other receivables, including rents receivable, are recognised and carried at the lower of their original invoiced value and recoverable amount. A provision for impairment will be made where there is objective evidence that the Group will not be able to recover balances in full. Balances will be written-off in profit or loss in circumstances where the probability of recovery is assessed as being remote.

#### ***Trade and other payables***

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

#### ***Bank borrowings***

Bank borrowings are initially recognised at fair value net of attributable transaction costs. After initial recognition, bank borrowings are subsequently measured at

amortised cost, using the effective interest method. The effective interest rate is calculated to include all associated transaction costs.

#### ***Derivative financial instruments and hedge accounting***

The Group's derivative financial instruments currently comprise interest rate caps that are designated as hedging instruments and for which hedge accounting is being applied. These instruments are used to manage the Group's cash flow interest rate risk.

The instruments are initially recognised at fair value on the date that the derivative contract is entered into, being the cost of any premium paid at inception, and are subsequently re-measured at their fair value at each reporting date.

#### ***Fair value measurement of derivative financial***

The fair value of derivative financial instruments is the estimated amount that the Group would receive or pay to terminate the agreement at the period end date, taking into account current interest rate expectations and the current credit rating of the relevant group entity and its counterparties.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs significant to the fair value measurement as a whole.

A number of assumptions are used in determining the fair values including estimations over future interest rates and therefore future cash flows. The fair value represents the net present value of the difference between the cash flows produced by the contract rate and the valuation rate.

#### ***Hedge accounting***

At the inception of a hedging transaction, the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking the hedging transaction.

The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Assuming the criteria for applying hedge accounting continue to be met the effective portion of gains and losses on the revaluation of such instruments are recognised in other comprehensive income and accumulated in the cash flow hedging reserve. Any ineffective portion of such gains and losses will be recognised in profit or loss within finance income or expense as appropriate.

The cumulative gain or loss recognised in other comprehensive income is reclassified from the cash flow hedge reserve to profit or loss (finance expense) at the same time as the related hedged interest expense is recognised.

### **3.10 Equity instruments**

Equity instruments issued by the Company are recorded at the amount of the proceeds received, net of directly attributable issue costs. Costs not directly attributable to the issue are immediately expensed in profit or loss.

Further details of the accounting for the proceeds from the issue of shares in the period are disclosed in note 19.

### 3.11 Fair value measurements and hierarchy

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

The fair value hierarchy to be applied under IFRS 13 is as follows:

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 carried at fair value and which will be recorded in the financial information on a recurring basis, the Group will determine whether transfers have occurred between levels in the hierarchy by reassessing categorisation at the end of each reporting period.

### 3.12 Occupational leases

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

## 4. Rental income

	<b>1 June 2017 to 30 June 2018 £'000</b>
Rental income - freehold property	3,510
Rental income - long leasehold property	5,432
<b>Total rental income</b>	<b>8,942</b>

Included within rental income is a £328,000 rent smoothing adjustment that arises as a result of IAS 17 'Leases' requiring that rental income in respect of leases with rents increasing by a fixed percentage to be accounted for on straight-line basis over the lease term. During the period this resulted in an increase in rental income and an offsetting entry being recognised in profit or loss as an adjustment to the investment property revaluation.

On an annualised basis, rental income comprises £5,432,000 relating to the Group's largest tenant and £3,510,000 relating to the Group's second largest tenant.

## 5. Administrative and other expenses

	1 June 2017 to 30 June 2018 £'000
Investment Adviser fees (Note 24)	1,079
Directors' remuneration (Note 7)	160
Corporate administration fees	216
Legal and professional fees	297
Other administrative expenses	345
<b>Total administrative and other expenses</b>	<b>2,097</b>

The fees relating to the issue of shares in the period have been treated as share issue expenses and offset against the share premium reserve. Legal and professional fees and other administrative expenses include £260,000 of non-recurring costs relating to the establishment of the Company.

## 6. Operating profit

Operating profit is stated after charging fees for:

	1 June 2017 to 30 June 2018 £'000
Audit of the Company's consolidated and individual financial statements	55
Audit of subsidiaries, pursuant to legislation	15
<b>Total audit services</b>	<b>70</b>
Audit related services: audit of the Historical Financial Information for the period ended 31 December 2017 for inclusion in the April 2018 Prospectus	55
Audit related services: interim review for the period ended 31 December 2017	20
Audit related services: audit of the company's initial financial information to 18 September 2017	10
<b>Total audit and audit related services</b>	<b>155</b>

The Group's auditor also provided the following services in relation to the placing of share capital and the fees for which have been recognised within equity as a deduction from share premium:

	1 June 2017 to 30 June 2018 £'000
Other non-audit services: corporate finance services in connection with the July 2017 placing	40
Other non-audit services: corporate finance services in connection with the May 2018 placing	30
<b>Total other non-audit services</b>	<b>70</b>
<b>Total fees charged by the Group's auditor</b>	<b>225</b>

The other non-audit services charged to income in the current period relate to work as Reporting Accountants in connection with the share placings in July 2017 and May 2018. The audit-related services are as described above.

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

## 7. Directors' remuneration

	1 June 2017 to 30 June 2018 £'000
Directors' fees	142
Employer's National Insurance Contribution	18
<b>Total Directors' remuneration</b>	<b>160</b>

The highest paid director received £60,000 for services during the period.

## 8. Finance expense

	1 June 2017 to 30 June 2018 £'000
Interest payable on bank borrowings and hedging arrangements	1,495
Commitment fees payable	99
Amortisation of loan arrangement fees	284
Amortisation of interest rate derivative premium (Note 16)	39
<b>Total finance expense</b>	<b>1,917</b>

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

	1 June 2017 to 30 June 2018 £'000
Effect on profit for the period	70
Effect on other comprehensive income and equity	7

The Group receives interest on its cash and cash equivalents so an increase in interest rates would also increase finance income.

## 9. Taxation

### A) Tax charge in profit or loss

1 June 2017 to  
30 June 2018  
£'000

The Company and its subsidiaries operate as a UK Group REIT. Subject to continuing compliance with certain rules, the UK REIT regime exempts the profits of the Group's property rental business from UK corporation tax. To operate as a UK Group REIT a number of conditions had to be satisfied in respect of the Company, the Group's qualifying activity and the Group's balance of business. Since the 21 December 2017 the Group has met all such applicable conditions. In the intervening period from incorporation of the Company on 1 June 2017 to 21 December 2017 the Group was subject to UK corporation tax on its property rental business at an effective rate of 19%, resulting in the above tax liability.

The reconciliation of the profit before tax multiplied by the standard rate of corporation tax for the period of 19% to the total tax charge is as follows:

<b>B) Reconciliation of the tax charge for the period</b>	<b>1 June 2017 to 30 June 2018 £'000</b>
Profit on ordinary activities before taxation	847
Theoretical tax at UK standard corporation tax rate of 19%	160
Effects of:	
Investment property revaluation not taxable	776
REIT exempt income	(709)
<b>Tax charge for the period</b>	<b>227</b>

### 10. Earnings per share

Earnings per share (EPS) amounts are calculated by dividing the profit or loss for the period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the period. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

The European Public Real Estate Association ("EPRA") publishes guidelines for calculating adjusted earnings on a comparable basis. EPRA EPS is a measure of EPS designed by EPRA to enable entities to present underlying earnings from core operating activities, which excludes fair value movements on investment properties.

The calculation of basic, diluted and EPRA EPS is as follows:

	<b>Net profit attributable to ordinary shareholders</b>	<b>Weighted average number of ordinary shares'</b>	<b>Earnings/ per share Pence</b>
<b>For the period from 1 June 2017 to 30 June 2018</b>	<b>£' 000</b>	<b>Number</b>	
Basic and diluted EPS	620	124,235,902	0.5p

Adjustments to remove:			
Changes in fair value of investment properties	4,081	-	3.3p
<b>EPRA EPS</b>	<b>4,701</b>	<b>124,235,902</b>	<b>3.8p</b>

<sup>1</sup> Based on the weighted average number of ordinary shares in issue from the date of the initial public offering to 30 June 2018. This excludes the period from 1 June 2017 to 20 July 2017 when the Group was effectively dormant.

## 11. Dividends

**1 June 2017 to  
30 June 2018  
£' 000**

*Amounts recognised as a distribution to ordinary shareholders in the period:*

Dividends paid	4,675
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On 28 September 2017, the Board declared its first interim dividend of 1.375 pence per share which was paid on 27 October 2017 to shareholders on the register on 5 October 2017.

On 5 February 2018 the Board declared a second interim dividend of 1.375 pence per share which was paid on 3 March 2018 to shareholders on the register on 15 February 2018.

On 16 April 2018 the Board declared a third interim dividend of 1.375 pence per share which was paid on 22 May 2018 to shareholders on the register on 26 April 2018.

On 17 July 2018, the Board declared a fourth interim dividend of 1.375 pence per share, which was paid on 23 August 2018 to shareholders on the register on 26 July 2018. This has not been included as a liability as at 30 June 2018.

## 12. Investment properties

In accordance with IAS 40 "Investment Property", the Group's investment properties have been independently valued at fair value by Cushman & Wakefield, an accredited independent valuer with a recognised and relevant professional qualification and with recent experience in the locations and categories of the investment properties being valued. The valuations have been prepared in accordance with the RICS Valuation - Global Standards (the "Red Book") and incorporate the recommendations of the International Valuation Standards Committee which are consistent with the principles set out in IFRS 13.

The independent valuer in forming its opinion on valuation makes a series of assumptions. As explained in note 2, all the valuations of the Group's investment property at 30 June 2018 are classified as 'level 3' in the fair value hierarchy defined in IFRS 13.

The valuations are ultimately the responsibility of the Directors. Accordingly, the critical assumptions used in establishing the independent valuation are reviewed by the Board.

	Long	Total
	Leasehold	
	£'000	£'000

At 1 June 2017	-	-	-
Property additions	79,885	174,655	254,540
Capitalised acquisition costs	4,462	9,651	14,113
Revaluation movement	(997)	(2,756)	(3,753)
<b>Valuation at 30 June 2018</b>	<b>83,350</b>	<b>181,550</b>	<b>264,900</b>

All property acquisitions in the period were direct asset acquisitions.

Of the four properties held under long leaseholds, one has 160 years unexpired on the headlease with the option to extend and option to acquire, and the other three have 987 years unexpired. The Group has no material liabilities in respect of these headleases.

Included within the carrying value of investment properties at 30 June 2018 is £328,000 in respect of the smoothing of fixed contractual rent uplifts as described in note 4. The difference between rents on a straight-line basis and rents actually receivable is included within the carrying value of the investment properties but does not increase that carrying value over fair value. The effect of this adjustment on the revaluation movement for the period is as follows:

	<b>1 June 2017 to 30 June 2018</b>
	<b>£' 000</b>
Revaluation movement per above	(3,753)
Rent smoothing adjustment (note 4)	(328)
<b>Change in fair value recognised in profit or loss</b>	<b>(4,081)</b>

#### ***Valuation techniques and key unobservable inputs***

##### *Valuation techniques used to derive fair values*

The valuations have been prepared on the basis of market value which is defined in the RICS Valuation Standards as 'the estimated amount for which an asset or liability should exchange on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion'. Market value as defined in the RICS Valuation Standards is the equivalent of fair value under IFRS.

##### *Unobservable inputs*

These include but are not limited to: the estimated rental value ("ERV") based on market conditions prevailing at the valuation date; the future rental growth - the estimated average increase in rent based on both market estimations and contractual situations; the equivalent yield (defined as the weighted average of the net initial yield and reversionary yield); and the physical condition of the individual properties determined by inspection.

A decrease in ERV would decrease the fair value. A decrease in the equivalent yield would increase the fair value.

#### ***Sensitivity of measurement of significant unobservable inputs***

As described in note 2 to the financial information the determination of the valuation of the Group's investment property portfolio is open to judgements and is inherently subjective by nature.

##### *Sensitivity analysis - impact of changes in initial yields and passing rent*

Initial yields of the Group's investment properties at 30 June 2018 range from 4.29% to 5.47%. A 0.25% shift of the initial yield on all the Group's investment properties would have an approximate £13.1 million impact on the total valuation of the properties. A 1% movement in the passing rents across all the Group's investment properties would have approximately a £2.6 million impact on the total valuation of the properties.

### 13. Subsidiaries

The companies listed in the following table were the subsidiary undertakings of the Company at 30 June 2018, all of which are wholly owned. All subsidiary undertakings are incorporated in England with their registered office at 7th floor, 9 Berkeley Street, London, W1J 8DW.

Company name	Type of holding	Nature of business
Supermarket Income Investments UK Limited	Direct	Intermediate parent company
Supermarket Income Investments (Midco2) UK Limited	Direct	Intermediate parent company
Supermarket Income Investments UK (NO1) Limited	Indirect	Property investment
Supermarket Income Investments UK (NO2) Limited	Indirect	Property investment
Supermarket Income Investments UK (NO3) Limited	Indirect	Property investment
Supermarket Income Investments UK (NO4) Limited	Indirect	Property investment
Supermarket Income Investments UK (NO5) Limited	Indirect	Property investment
Supermarket Income Investments UK (NO6) Limited	Indirect	Property investment

### 14. Trade and other receivables

	As at 30 June 2018 £'000
Other receivables	29
Prepayments and accrued income	1,006
<b>Total trade and other receivables</b>	<b>1,035</b>

All trade receivables relate to amounts that are less than 30 days overdue as at the period end date.

### 15. Trade and other payables

	As at 30 June 2018 £'000
Corporate accruals	1,132
VAT payable	341
<b>Total trade and other payables</b>	<b>1,473</b>

All trade and other payables relate to amounts that are less than 30 days overdue at the period end date.

### 16. Interest rate derivatives

As at

30 June 2018

£' 000

Non-current asset: Interest rate cap	37
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The interest rate cap is remeasured to fair value by the counterparty bank on a quarterly basis.

<b>The fair value at the end of the period comprises:</b>	<b>£' 000</b>
Interest rate cap premium paid on inception	158
Amortisation in the period (Note 8)	(39)
Change in fair value in the period	(82)
<b>Fair value as at 30 June 2018</b>	<b>37</b>

To partially mitigate the interest rate risk that arises as a result of entering into the variable rate credit facility referred to in note 17, the Group entered into a derivative interest rate cap ("the cap") during the period. The total notional value of the cap was £63.5 million with its term coinciding with the expiry of the initial term of the credit facility. The strike rate of the cap as at 30 June 2018 was 1.75% which caps the Group's cost of borrowing at 3.35% on the hedged notional amount.

It is the Group's target to hedge at least 60% of the Group's total debt at any time using interest rate derivatives.

In accordance with the Group's treasury risk policy, the Group applies cash flow hedge accounting in partially hedging the interest rate risks arising on its variable rate linked loans. Changes in the fair values of derivatives that are designated as cash flow hedges and are effective are recognised directly in the cash flow hedge reserve and included in other comprehensive income.

Any ineffectiveness that may arise in this hedge relationship will be included in profit or loss.

The interest rate derivative valuation is classified as "level 2" in the fair value hierarchy as defined in IFRS 13.

## 17. Bank borrowings

	<b>As at 30 June 2018 £'000</b>
Amounts falling due after more than one year:	
Secured debt	88,844
Less: Unamortised finance costs	(745)
<b>Bank borrowings per the consolidated statement of financial position</b>	<b>88,099</b>

On 30 August 2017 the Group secured a revolving credit facility (the 'credit facility') of £100 million with HSBC Bank Plc.

The credit facility has a maturity of three years and contains options for extension of two years (split into two, one-year extensions). The extension options require the agreement of both the Group and counterparty bank in order to exercise.

All the advances drawn under the credit facility have an interest charge which is payable quarterly based on a margin above three-month LIBOR. The margin

payable by the Group on its bank borrowings as at 30 June 2018 was 165 basis points above three-month LIBOR.

Any associated fees in arranging the bank borrowings that are unamortised as at the end of the period are offset against amounts drawn under the facility as shown in the table above.

The Group has been in compliance with all of the financial covenants under the credit facility throughout the period.

The bank borrowings are secured by way of charges over the individual investment properties held by certain asset-holding subsidiaries. The lending bank also holds charges over the shares of these subsidiaries and any intermediary holding companies of those subsidiaries. At year end, no charge was in place over the Scunthorpe property acquired in May 2018. The Group does not provide any cross-group guarantees nor does the Company act as a guarantor to the lending bank.

At 30 June 2018, £88.8 million had been drawn down in total under the credit facility. Leaving £11.2 million undrawn.

A new £52.1 million loan facility was subsequently entered into with Bayerische Landesbank in July 2018. Full details are set out in note 25.

## 18. Categories of financial instruments

	As at 30 June 2018 £'000
<b>Financial assets</b>	
<i>Loans and receivables:</i>	
Cash and cash equivalents	2,239
Trade and other receivables	1,035
<i>Fair value through profit and loss:</i>	
Interest rate derivative	37
<b>Total Financial Assets</b>	<b>3,311</b>
<b>Financial liabilities</b>	
<i>Financial liabilities at amortised cost:</i>	
Secured debt	88,099
Corporation tax liability	227
Trade and other payables	1,473
Deferred rental income	1,666
<b>Total Financial Liabilities</b>	<b>91,465</b>

At the balance sheet date, all financial assets and liabilities were measured at amortised cost except for the interest rate derivative which is measured at fair value. The interest rate derivative valuation is classified as 'level 2' in the fair value hierarchy as defined in IFRS 13 and its fair value was calculated using the present values of future cash flows, based on market forecasts of interest rates and adjusted for the credit risk of the counterparties.

### **Financial risk management**

Through the Group's operations and use of debt financing it is exposed to certain risks. The Group's financial risk management objective is to minimise the effect of

these risks, for example by using an interest rate cap to partially mitigate exposure to fluctuations in interest rates, as described in note 16.

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

**Market risk**

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

The Group's interest bearing financial instruments comprise cash and cash equivalents and bank borrowings. Changes in market interest rates therefore affect the Group's finance income and costs, although the Group has purchased an interest rate cap as described in note 16 in order to partially mitigate the risk in respect of finance costs. The Group's sensitivity to changes in interest rates, calculated on the basis of a ten-basis point increase or decrease in closing three-month LIBOR, was as follows:

	<b>1 June 2017 to 30 June 2018 £' 000</b>
Effect on profit for the current period	70
Effect on other comprehensive income and equity	7

Trade and other receivables and payables are interest free as long as they are paid in accordance with their terms, and have payment terms of less than one year, so it is assumed that there is no material interest rate risk associated with these financial instruments.

The Group prepares its financial information in Sterling and all of its current operations are Sterling denominated. It therefore has no exposure to foreign currency and does not have any direct sensitivity to changes in foreign currency exchange rates.

**Credit risk**

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

The credit risk of trade receivables is considered low because the counterparties to the operating leases are considered by the Board to be high quality tenants and any lease guarantors are of appropriate financial strength. Rent collection dates and statistics are monitored to identify any problems at any early stage, and if necessary rigorous credit control procedures will be applied to facilitate the recovery of trade receivables. The Group does not hold any financial assets which are either past due or impaired. The credit risk on cash deposits is limited because the counterparties are banks with credit ratings which are acceptable to the Board and are kept under review each quarter.

**Liquidity risk**

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

The Group seeks to manage its liquidity risk by ensuring that sufficient cash is available to meet its foreseeable needs. These liquidity needs are relatively modest and are capable of being satisfied by the surplus available after rental receipts have been applied in payment of interest as required by the credit agreement relating to the Group's secured debt.

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

Inflation risk arises from the impact of inflation on the Group's income and expenditure. All of the Group's passing rent at 30 June 2018 is subject to inflation linked annual rent reviews. Consequently, the Group is exposed to movements in the Retail Prices Index ("RPI"), which is the relevant inflation benchmark. However, all RPI-linked rent review provisions provide that rents will only be subject to upwards review and never downwards. As a result, the Group is not exposed to a fall in rent in deflationary conditions.

The following table shows the maturity analysis for financial assets and liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities, including future interest payments, based on the earliest date on which the Group can be required to pay and assuming that three-month LIBOR remains at the 30 June 2018 rate.

<b>As at 30 June 2018</b>	<b>Less than one year £'000</b>	<b>One to two years £' 000</b>	<b>Two to five years £' 000</b>	<b>More than five years £' 000</b>	<b>Total £' 000</b>
<b>Financial assets:</b>					
Cash and cash equivalents	2,239	-	-	-	2,239
Trade and other receivables	1,016	-	-	-	1,016
Fair value through profit and loss	-	-	37	-	37
<b>Total Financial assets</b>	<b>3,274</b>	<b>-</b>	<b>37</b>	<b>-</b>	<b>3,292</b>
<b>Financial liabilities:</b>					
Bank borrowings	2,200	4,400	90,283	-	96,883
Trade payables and other payables	1,132	-	-	-	1,132
<b>Total Financial liabilities</b>	<b>3,332</b>	<b>4,400</b>	<b>90,283</b>	<b>-</b>	<b>98,015</b>

#### ***Capital risk management***

The Board's primary objective when monitoring capital is to preserve the Group's ability to continue as a going concern, while ensuring it remains within its debt covenants so as to safeguard secured assets and avoid financial penalties. Bank borrowings are secured on the Group's property portfolio by way of fixed charges

over property assets and over the shares in the property-owning subsidiaries and any intermediary holding companies of those subsidiaries. The Group does not provide any cross-group guarantees nor does the Company act as a guarantor to the lending bank.

At 30 June 2018, the capital structure of the Group consisted of bank borrowings (note 17), cash and cash equivalents, and equity attributable to the shareholders of the Company (comprising share capital, retained earnings and the other reserves referred to in notes 19 and 20).

In managing the Group's capital structure, the Board considers the Group's cost of capital. In order to maintain or adjust the capital structure, the Group keeps under review the amount of any dividends or other returns to shareholders and monitors the extent to which the issue of new shares or the realisation of assets may be required.

*Reconciliation of financial liabilities relating to financing activities*

	<b>Bank borrowings due in more than 1 year £'000</b>	<b>Interest and commitment fees payable £'000</b>	<b>Interest rate derivatives £,000</b>	<b>Total £'000</b>
<b>At 1 June 2017</b>				
Cashflows:				
Debt drawdowns in the period	98,430	-	-	98,430
Debt repayments in the period	(9,586)	-	-	(9,586)
Interest and commitment fees paid	-	(1,147)	-	(1,147)
Loan arrangement fees paid	(1,029)	-	-	(1,029)
Interest rate cap premium paid	-	-	(158)	(158)
Non-cash movements:				
Finance costs in the statement of comprehensive income	284	-1,594	39	1,197
Fair value changes	-	-	82	1,594
<b>At 30 June 2018</b>	<b>88,099</b>	<b>447</b>	<b>(37)</b>	<b>88,509</b>

Movements in respect to share capital are disclosed in note 19 below.

The interest and commitment fees payable are included within the corporate accruals balance in note 15. Cash flow movements are included in the consolidated statement of cash flows and the non-cash movements are included in note 8. The movements in the interest rate derivative financial asset can be found in note 16.

**19. Share capital**

	<b>Ordinary shares of 1 pence Number</b>	<b>Share capital £'000</b>	<b>Share premium reserve £'000</b>	<b>Capital reduction reserve £'000</b>	<b>Total £'000</b>
<b>As at 1 June 2017</b>	-	-	-	-	-
Issue of 1 ordinary share	1	-	-	-	-
	-	12	-	-	12

Issue of 50,000 redeemable preference shares - one quarter paid up						
Redemption and cancellation of 50,000 redeemable preference shares	-	(12)	-	-	(12)	
Ordinary shares issued and fully paid - 18 July 2017	100,000,000	1,000	99,000	-	100,000	
Ordinary shares issued and fully paid - 15 November 2017	19,999,999	200	19,800	-	20,000	
Ordinary shares issued and fully paid - 25 May 2018	64,356,435	644	64,356		65,000	
Cancellation of 1 ordinary share	(1)	-	-	-	-	
		<b>Ordinary shares of 1 pence Number</b>	<b>Share capital £'000</b>	<b>Share premium reserve £'000</b>	<b>Capital reduction reserve £'000</b>	<b>Total £'000</b>
<b>As at 1 June 2017</b>						
Share issue costs	-	-	(4,117)	-	(4,117)	
	184,356,434	1,844	179,039	-	180,883	
Transfer to capital reduction reserve	-	-	(30,000)	30,000	-	
Dividend paid in the period (note 11)	-	-	-	(4,675)	(4,675)	
<b>As at 30 June 2018</b>	<b>184,356,434</b>	<b>1,844</b>	<b>149,039</b>	<b>25,325</b>	<b>176,208</b>	

*Share allotments and other movements in relation to the capital of the Company in the period:*

On incorporation the Company issued 1 ordinary share of one pence which was fully paid up and 50,000 redeemable preference shares of £1 each which were paid up to one quarter of their nominal value. Both of these share classes were issued to Atrato Capital Limited (see note 24). On 18 July 2017 the Directors resolved to redeem the 50,000 redeemable preference shares.

On 16 June 2017, the Board approved a proposed placing and offer for subscription (together the "Placing"). It was intended that the ordinary shares of the Company to be issued as a result of the Placing would be admitted to trading on the Specialist Fund Segment of the Main Market of the London Stock Exchange ("Admission").

On 18 July 2017, the Company issued 100 million ordinary shares of one pence each at a price of £1 per share, raising gross proceeds from the Placing of £100 million. Admission subsequently took place on 21 July 2017. The consideration received in excess of the par value of the ordinary shares issued, net of total capitalised issue costs, of £96.9 million was credited to the share premium reserve.

Following a successful application to the High Court and lodgement of the Company's statement of capital with the Registrar of Companies, the Company was permitted to reduce the capital of the Company by an amount of £30 million. This was effected on 7 September 2017 by a transfer of that amount from the share premium reserve to the capital reduction reserve. The capital reduction reserve is classed as a distributable reserve and dividends paid by the Company are currently being offset against this reserve.

On 15 November 2017 the Company completed a second equity fundraising and issued an additional 19,999,999 ordinary shares of one pence each at a price of £1 per share. The consideration received in excess of the par value of the ordinary shares issued, net of total capitalised issue costs, of £19.5 million was credited to the share premium reserve.

On 25 May 2018 the Company completed a further equity fundraising and issued an additional 64,356,435 ordinary shares of one pence each at a price of £1.01 per share. The consideration received in excess of the par value of the ordinary shares issued, net of total capitalised issue costs, of £64.4 million was credited to the share premium reserve.

Ordinary shareholders are entitled to all dividends declared by the Company and to all of the Company's assets after repayment of its borrowings and ordinary creditors. Ordinary shareholders have the right to vote at meetings of the Company. All ordinary shares carry equal voting rights.

## **20. Reserves**

The nature and purpose of each of the reserves included within equity at 30 June 2018 are as follows:

- Share premium reserve: represents the surplus of the gross proceeds of share issues over the nominal value of the shares, net of the direct costs of equity issues
- Cash flow hedge reserve: represents cumulative gains or losses, net of tax, on effective cash flow hedging instruments
- Capital reduction reserve: represents a distributable reserve created following a Court approved reduction in capital less dividends paid
- Retained earnings represent cumulative net gains and losses recognized in the statement of comprehensive income.

The only movements in these reserves during the period are disclosed in the consolidated statement of changes in equity.

## **21. Capital commitments**

The Group had no capital commitments outstanding as at 30 June 2018.

## **22. Operating leases**

The Group's principal assets are investment properties which are leased to third parties under non-cancellable operating leases. The weighted average remaining lease term at 30 June 2018 is 18.6 years and there are no break options. The leases contain either fixed or RPI-linked uplifts.

The future minimum lease payments receivable under the Group's leases, are as follows:

	<b>As at 30 June 2018 £'000</b>
Within one year	13,758
Between one year and five years	55,422

More than five years	194,032
	<b>263,212</b>

### 23. Net asset value per share

Basic NAV per share is calculated by dividing the Group's net assets as shown in the consolidated statement of financial position that are attributable to the ordinary equity holders of the Company by the number of ordinary shares outstanding at the end of the period. As there are no dilutive instruments outstanding, basic and diluted NAV per share are identical.

EPRA has issued guidelines aimed at enabling entities to provide a comparable measure of NAV on the basis of long term fair values. The EPRA measure excludes items that are considered to have no impact in the long term. For the current period EPRA NAV is calculated as net assets per the consolidated statement of financial position excluding the fair value of interest rate derivatives.

NAV and EPRA NAV per share calculation are as follows:

	<b>As at 30 June 2018</b>
	<b>£' 000</b>
Net assets per the consolidated statement of financial position	176,746
Fair value of interest rate derivatives	(37)
<b>EPRA NAV</b>	<b>176,709</b>

  

	<b>Number</b>
Ordinary shares in issue at 30 June 2018	184,356,434
NAV per share - Basic and diluted (pence)	96p
EPRA NAV per share (pence)	96p

### 24. Transactions with related parties

Details of the related parties to the Group in the period and the transactions with these related parties were as follows:

#### a. Directors

##### *Directors' fees*

Andrew Nicholas Hewson, Chairman of the Board of Directors of the Company, is paid fees of £55,000 per annum, with the other two Directors each being paid fees of £35,000 per annum. Jonathan Austen is paid an additional £5,000 per annum for his role as chair of the Company's Audit Committee and Vincent Prior is paid an additional £3,500 per annum for his role as Senior Independent Director.

The total remuneration payable to the Directors in respect of the period to 30 June 2018 was £142,000. There were no amounts outstanding at the end of the period.

##### *Directors' interests*

Details of the direct and indirect interests of the Directors and their close families in the ordinary shares of one pence each in the Company at 30 June 2018 were as follows:

- Andrew Nicholas Hewson: 360,000 shares (0.20% of issued share capital)

- Jonathan Austen: 99,000 shares (0.05% of issued share capital)
- Vincent John Prior: 35,431 shares (0.02% of issued share capital)

## **b. Investment Adviser**

### *Advisory fees*

The investment adviser to the Group, Atrato Capital Limited (the 'Investment Adviser'), is entitled to certain advisory fees under the terms of the Investment Advisory Agreement (the 'Agreement') dated 20 June 2017.

The entitlement of the Investment Adviser to advisory fees is by way of what are termed 'Monthly Management Fees' and 'Semi-Annual Management Fees' both of which are calculated by reference to the net asset value of the Group at particular dates, as adjusted for the financial impact of certain investment events and after deducting any un-invested proceeds from share issues up to the date of the calculation of the relevant fee (these adjusted amounts are referred to as 'Adjusted Net Asset Value' for the purpose of calculation of the fees in accordance with the Agreement).

Until the Adjusted Net Value of the Group exceeds £500 million, which it has not as at 30 June 2018, the entitlements to advisory fees can be summarised as follows:

- Monthly Management Fee payable monthly in arrears:  $1/12^{\text{th}}$  of 0.7125% per calendar month of Adjusted Net Asset Value up to or equal to £500 million;
- Semi-Annual Management Fee payable semi-annually in arrears: 0.11875% of Adjusted Net Asset Value up to or equal to £500 million.

For the period to 30 June 2018 the total advisory fees payable to the Investment Adviser were £1,079,000, of which £304,000 is included in trade and other payables in the consolidated statement of financial position.

### *Interest in shares of the Company*

Details of the direct and indirect interests of the Directors of the Investment Adviser and their close families in the ordinary shares of one pence each in the Company at 30 June 2018 were as follows:

- Ben Green: 1,009,014 shares (0.55% of issued share capital)
- Steve Peter Windsor: 1,585,000 shares (0.86% of issued share capital)

## **c. Transactions with other related parties**

Morgan Williams acts as the Senior Adviser to the Company, with their appointment being to provide their supermarket expertise to assist in sourcing suitable assets for investment. Any fees payable to the Senior Adviser form part of the acquisition costs in relation to the acquisition of the relevant property.

Mark Morgan is a partner in Morgan Williams and sits on the Investment Committee of the Investment Adviser.

In the period to 30 June 2018 the amount payable to Morgan Williams for these services was £1,273,000 all of which has been capitalised as additions to investment properties. No amounts payable were outstanding at the end of the period.

### *Other transactions:*

Other than those related party transactions disclosed in this or other notes to the financial statements the Directors are not aware of any transactions with related

parties requiring disclosure. The Company does not have an ultimate controlling party.

### **25. Post balance sheet events**

On 19 July 2018, the Group acquired a Morrisons Supermarket in north-west Sheffield, South Yorkshire for £51.7 million (excluding acquisition costs). The Company has also arranged a new five-year, interest-only loan facility with Bayerische Landesbank. The £52.1 million facility has a margin of 125 basis points above three-month LIBOR and is secured against the new Morrisons supermarket in Sheffield and the Sainsbury's supermarket in Ashford.

Details of the acquisitions and financing are available in an announcement dated 19 July 2018 which can be found on the Investor Centre of the Company's website at [www.supermarketincomereit.co.uk](http://www.supermarketincomereit.co.uk).

On 17 July 2018 the Board declared a fourth interim dividend. The dividend of 1.375 pence per ordinary share was paid on 23 August 2018 to shareholders on the register on 26 July 2018.

## **SUPPLEMENTARY INFORMATION**

### **Key performance indicators**

Our objective is to deliver attractive, low-risk returns to Shareholders, by executing the Investment Policy. Set out below are the key performance indicators we use to track our progress.

<b>KPI and definition</b>	<b>Performance</b>
<b>Total Shareholder Return for the Period 1 June 2017 to 30 June 2018</b> Total Shareholder Return is measured by reference to the growth in the Company's share price over a period, plus dividends declared over the same period.	<b>8%</b>
<b>Weighted average unexpired lease term as at 30 June 2018</b> The average unexpired lease term of the property portfolio, weighted by valuation.	<b>19 years</b>
<b>EPRA NAV per share as at 30 June 2018</b> The value of our assets (based on an independent valuation) less	<b>96 pence</b>

the book value of our liabilities, attributable to Shareholders and calculated in accordance with EPRA guidelines.

**Net Loan to value ratio** **32%**

Balance sheet loan amount less cash balances divided by total investment properties valuation.

**Adjusted EPRA Cost Ratio** **20%**

Administrative and operating costs (excluding non-recurring costs) divided by gross rental income.

**Earnings per share (EPS)** **3.8 pence**

Earnings attributable to Shareholders adjusted for other earnings not supported by cash flows and calculated in accordance with EPRA guidelines.

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### Total Shareholder Return

Shareholder return is one of the Group's principal measure of performance. Total Shareholder Return ("TSR") is measured by reference to the growth in the Company's share price over a period, plus dividends. The tables below show the calculation of TSR for the Period.

<b>Total Shareholder Return</b>	<b>As at 30 June 2018 Pence per share</b>
Share price at IPO	100.0p
Share price at the end of the year	102.5p
Increase in share price since IPO	2.5p
Dividends declared for the Period ending 30 June 2018	5.5p
<b>Increase in share price plus dividends</b>	<b>8.0p</b>
<b>Total Shareholder Return</b>	<b>8.0%</b>

### Net loan to value ratio

The proportion of our gross asset value that is funded by borrowings calculated as balance sheet borrowings less cash balances divided by total investment properties valuation.

<b>Net Loan to value</b>	<b>As at 30 June 2018 £'000</b>
Bank borrowings	88,099
Less cash and cash equivalents	(2,239)
Net borrowings	85,860
Investment properties valuation	264,900
<b>Net Loan to value ratio</b>	<b>32%</b>

**EPRA measures** **As at  
30 June 2018  
Pence per share**

EPRA NAV Per Share	96p
EPRA Triple Net Asset Value (NNNAV) Per Share	95p

	<b>1 June 2017 to 30 June 2018</b>
EPRA EPS	3.8 pence
EPRA Net Initial Yield	4.9%
EPRA Topped Up Net Initial Yield	4.9%
EPRA Vacancy Rate	0%
EPRA Cost Ratio	23.4%
Adjusted EPRA Cost Ratio	20.5%

Further information on these EPRA measures is included below.

<b>EPRA NAV per share</b>	<b>£'000</b>	<b>Pence per share</b>	<b>As at 30 June 2018</b>
EPRA NAV (note 10)	176,746		96p
Fair value of interest rate derivatives	(37)		-
<b>EPRA NAV</b>	<b>176,709</b>		<b>96p</b>

<b>EPRA Triple Net Asset Value Per Share</b>	<b>£'000</b>	<b>Pence per share</b>	<b>As at 30 June 2018</b>
EPRA NAV (note 10)	176,709		96p
Fair value of interest rate derivatives	(37)		-
Adjustments to reflect fair value of bank borrowings	(745)		(1)p
<b>EPRA Triple Net Asset Value Per Share</b>	<b>175,927</b>		<b>95p</b>

The EPRA triple NAV is adjusted to reflect the fair values of any debt and hedging instruments, and any inherent tax liabilities not provided for in the financial statements. EPRA NAV Per Share and EPRA Triple Net Asset Value Per Share are calculated on the number of shares in issue at each balance sheet of 184,356,434.

<b>EPRA EPS</b>	<b>Net profit attributable to ordinary shareholders</b>	<b>Weighted average number of ordinary shares<sup>1</sup></b>	<b>Earnings/ per share Pence</b>
<b>For the period from 1 June 2017 to 30 June 2018</b>	<b>£' 000</b>	<b>Number</b>	
Basic and diluted EPS (note 10)	620	124,235,902	0.5p
<i>Adjustments to remove:</i>			
Changes in fair value of investment properties	4,081	-	3.3p
<b>EPRA EPS</b>	<b>4,701</b>	<b>124,235,902</b>	<b>3.8p</b>

<sup>1</sup> Based on the weighted average number of ordinary shares in issue from the date of the initial public offering to 30 June 2018. This excludes the period from 1 June 2017 to 20 July 2017 when the Group was effectively dormant.

	<b>As at 30 June 2018 £'000</b>
<b>EPRA Net Initial Yield</b>	
Wholly owned investment property at external valuation (note 12)	264,900
Allowance for estimated purchasers' costs at 6.8%	18,013
<b>Grossed up completed property portfolio valuation</b>	<b>282,913</b>

	<b>As at 30 June 2018 £'000</b>
Annualised net rents	13,727
<b>EPRA Net Initial Yield</b>	<b>4.9%</b>

	<b>As at 30 June 2018</b>
<b>EPRA Topped Up Net Initial Yield</b>	<b>4.9%</b>

There are no unexpired tenant incentives therefore EPRA topped up net initial yield is the same as EPRA net initial yield in each year.

	<b>As at 30 June 2018</b>
<b>EPRA Vacancy Rate</b>	<b>0%</b>

The Group had no vacant property in the Period.

	<b>1 June 2017 to 30 June 2018 £'000</b>
<b>EPRA Cost Ratio</b>	
<b>EPRA Gross Rental Income</b>	<b>8,942</b>
Administrative and other expenses (note 5)	2,097
<b>EPRA Costs</b>	<b>2,097</b>
<b>EPRA Cost Ratio inclusive and exclusive of vacant property costs</b>	<b>23.4%</b>

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

The Group has no capitalized overheads or operating expenses.

#### **Adjusted EPRA Cost Ratio**

The Group also calculates an Adjusted EPRA Cost Ratio excluding from administrative and other expenses £260,000 of non-recurring costs relating to the

establishment of the Group to give what the Board considers to be a measure of cost efficiency more directly relevant to its ongoing cost performance.

	<b>1 June 2017 to 30 June 2018</b>
	<b>£'000</b>
<b>EPRA gross rental income</b>	<b>8,942</b>
Administrative and other expenses (note 5)	2,097
non-recurring costs relating to the establishment of the Group	(260)
<b>Adjusted EPRA Cost</b>	<b>1,837</b>
<b>Adjusted EPRA Cost Ratio excluding non</b>	<b>20.5%</b>

## GLOSSARY

<b>AGM</b>	Annual General Meeting
<b>AIFMD</b>	Alternative Investment Fund Managers Directive
<b>EPRA</b>	European Public Real Estate Association
<b>EPRA EPS</b>	A measure of EPS designed by EPRA to present underlying earning from core operating activities
<b>EPRA Guidance</b>	The EPRA Best Practices Recommendations Guidelines November 2016
<b>EPRA NAV</b>	A measure of NAV designed by EPRA to present the fair value of a company on a long term basis, by excluding items such as interest rate derivatives that are held for long term benefit, net of deferred tax
<b>EPS</b>	

	Earnings per share, calculated as the profit for the period after tax attributable to members of the parent company divided by the weighted average number of shares in issue in the period
<b>IFRS</b>	International Financial Reporting Standards adopted for use in the European Union
<b>Investment Advisory Agreement</b>	The agreement between the Company and the Investment Adviser, key terms of which are set out on page 101-102 of the IPO Prospectus
<b>LTV</b>	Loan to Value: the outstanding amount of a loan as a percentage of property value
<b>NAV</b>	Net Asset Value
<b>Net Initial Yield</b>	Annualised net rents on investment properties as a percentage of the investment property valuation, less assumed purchaser's costs of 6.8%
<b>Net Loan to Value or Net LTV</b>	LTV calculated on the gross loan amount less cash balances
<b>Omnichannel</b>	Stores offering both instore picking and online fulfilment
<b>REIT</b>	Real Estate Investment Trust
<b>Running yield</b>	The anticipated Net Initial Yield at a future date, taking account of any rent reviews in the intervening period
<b>Total Shareholder Return</b>	The movement in share price over a period plus dividends declared for the same period expressed as a percentage of the share price at IPO being the share price of the Company at the start of the Period

## **CONTACTS AND COMPANY DETAILS**

<b>Directors</b>	Nicholas Hewson (Chairman)
	Vincent Prior (Senior Independent Director)

	Jonathan Austen (Chair of Audit Committee)
<b>Company Secretary</b>	JTC 7th Floor 9 Berkeley Street London W1J 8DW
<b>AIFM</b>	JTC AIFM Services Ground floor Dorey Court Admiral Park St Peter Port Guernsey Channel Islands GY1 2HT
<b>Investment Adviser</b>	Atrato Capital Limited 8 Greencoat Place London SW1P 1PL
<b>Financial adviser, Broker and Placing Agent</b>	Stifel Nicolaus Europe Limited 150 Cheapside London EC2V 6ET
<b>Auditors</b>	BDO LLP 55 Baker Street London W1U 7ET
<b>Property Valuers</b>	Cushman & Wakefield 125 Old Broad Street London EC2N 1AR
<b>Financial PR Advisers</b>	Tavistock 1 Cornhill London EC3V 3ND
<b>Registrar</b>	Link Asset Service The Registry 34 Beckenham Road Beckenham Kent BR3 4TU Registrar's email address: <a href="mailto:enquiries@linkgroup.co.uk">enquiries@linkgroup.co.uk</a>
<b>Website</b>	<a href="http://www.supermarketincomereit.com">www.supermarketincomereit.com</a>

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**Stock exchange ticker**

SUPR

**ISIN**

GB00BF345X11