



**Supermarket Income REIT PLC** - SUPR Half-year Report  
Released 07:05 06-Feb-2020

RNS Number : 1263C  
Supermarket Income REIT PLC  
06 February 2020

**SUPERMARKET INCOME REIT PLC**  
(the "Group" or the "Company")  
LEI: 2138007FOINJKAM7L537

**INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2019**

Supermarket Income REIT plc (LSE: SUPR), the real estate investment trust dedicated to investing in property which enables the future model of UK grocery, is today reporting its interim results for the Group for the six months ended 31 December 2019 (the "Period").

**FINANCIAL HIGHLIGHTS**

	Six months to 31-Dec-19	Six months to 31-Dec-18	Change in Period
Annualised passing rent	£26.1m	£16.5m	+ 59%
EPRA Earnings	£7.2m	£4.7m	+ 53%
Total Shareholder Return	7.0%	(4.0)%	+ 11% <sup>[1]</sup>
Quarterly dividend per share	1.46 pence	1.42 pence	+ 2.9%
EPRA EPS	2.5 pence	2.5 pence	-

	31-Dec-19	30-June-19	Change in Period
Total net assets	£328.0m	£230.5m	+ 42%
Loan to value	32.4%	43.0%	- 11% <sup>1</sup>
EPRA NAV per share	97 pence	97 pence	-
Portfolio net initial yield	5.0%	4.9%	+0.1% <sup>1</sup>

- 7% Total Shareholder Return for the Period and 24% since the initial listing in July 2017
- Two quarterly dividends declared for the Period totalling 2.9 pence per ordinary share (six months to 31 December 2018: 2.8 pence per ordinary share)
  - Quarterly dividends up 2.9% since September 2019, in line with UK RPI inflation
  - On track to deliver full-year target dividend of 5.8 pence per share
- Investment properties independently valued at £490.4 million (30 June 2019: £368.2 million)
  - Growth of 1.6% on a like-for-like basis for the six-month period
  - Portfolio net initial yield of 5.0% reflects yield accretive acquisitions

**BUSINESS HIGHLIGHTS**

- £100 million in equity raised via an upsized and over-subscribed Placing and Offer for Subscription in October 2019

- Acquisition of two complementary omnichannel supermarket assets at an aggregate purchase price of £114.8 million
  - New assets average acquisition net initial yield ("NIY") of 5.2% versus Portfolio average of 4.9%
  - No change to Portfolio weighted unexpired lease term ("WAULT") of 18 years
  - Both leases have RPI linked rent reviews
- The Investment Advisor entered into a strategic partnership with EVO Energy to evaluate and execute projects to reduce the environmental impact of the Company's store portfolio
- Agreed heads of terms with Tesco PLC for the installation of a rooftop solar array at the Company's Thetford store
- Agreed a new £76.6 million debt facility provided by Deka Bank, with a fixed interest rate of 1.9% for the five-year term of the facility
- Net loan to value ("LTV") ratio of 32.4% as at 31 December 2019, with a weighted current cost of debt of 2.2%
- Net Asset Value ("NAV") per ordinary share of 97 pence as at 31 December 2019

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

"I am delighted to report another period of solid performance by the Group during which we have generated a 7% total return for our shareholders.

The contracted RPI rental uplifts in all our leases continues to provide inflation-protected income and allows us to deliver on our inflation-linked dividend growth targets. I am pleased that we have once again increased our quarterly dividend by 2.9% in line with RPI. We remain on track to deliver an annualised dividend of 5.8 pence per ordinary share for the financial year.

Since our IPO in July 2017, we have delivered a Total Shareholder Return of 24% for our shareholders. We continue to offer investors stable, long-term, inflation-protected income, supported by a compelling real estate opportunity."

**Presentation for analysts**

A presentation to analysts (with dial-in facilities) will take place today at 09:30am at Tavistock, 1 Cornhill, London EC3V 3ND.

Dial in details are as follows:

- UK Toll-Free: 0800 3589473
- UK Toll: +44 3333 000804
- Participant PIN: 58764165#

The results presentation is available in the Investor Centre section of the Company's website <https://www.supermarketincomereit.com/>

For further details, please email James Whitmore at [james.whitmore@tavistock.co.uk](mailto:james.whitmore@tavistock.co.uk) or Isabel Wallis at [isabel.wallis@tavistock.co.uk](mailto:isabel.wallis@tavistock.co.uk)

**FOR FURTHER INFORMATION, PLEASE CONTACT:**

**Atrato Capital Limited +44 (0)20 3790 8087**

Ben Green

Steve Windsor

Steve Noble

**Stifel Nicolaus Europe Limited +44 (0)20 7710 7600**

Mark Young

Matt Blawat

**Tavistock Communications (PR Adviser) +44 (0)20 7920 3150**

James Whitmore

Jeremy Carey

#### **NOTES TO EDITORS:**

Supermarket Income REIT plc (LSE: SUPR) is a real estate investment trust dedicated to investing in supermarket properties that form a key part of the future omnichannel model of grocery and let to leading UK supermarket operators. The Company provides investors with attractive, long-dated, secure, inflation-linked, growing income with the potential for capital appreciation over the longer term and targeting a 7% to 10% p.a total shareholder return over the medium term. The Company has increased its dividend target for the year ending 30 September 2020 in line with UK RPI inflation to 5.80 pence per share, payable in quarterly instalments. Atrato Capital is the Company's Investment Adviser. The Company's ordinary shares were admitted to trading on the Main Market of the London Stock Exchange, Specialist Fund Segment, on 21 July 2017.

Further information is available on the Company's website [www.supermarketincomereit.com](http://www.supermarketincomereit.com)

#### **CHAIRMAN'S STATEMENT**

I am pleased to present the interim unaudited consolidated results for the Group for the six months ended 31 December 2019 (the "Period").

##### **Overview**

We invest in omnichannel stores which we believe are the future model of grocery in the UK. Omnichannel supermarkets operate both as physical supermarkets and as online fulfilment centres. We target stores which perform a critical role in the business strategies of our tenants.

This was another busy period for the Group. In October the Company closed a significantly over-subscribed equity raise, with the level of demand allowing the Board to increase the issue beyond the targeted £50 million, raising a total of £100 million at a 5% premium to prevailing NAV. The level of demand from investors reflects the attraction of our inflation-protected long income secured against a high-quality portfolio of assets.

We also acquired two additional omnichannel supermarkets for £114.8 million (excluding acquisition costs). The acquisitions had a blended unexpired lease term of 17 years and an accretive blended net initial yield of 5.2%. Our Portfolio now consists of nine supermarkets, let on fully repairing and insuring lease terms ("FRI"), with upward-only, RPI-linked rent reviews. Our annualised passing rent roll has grown to £26.1 million (31 December 2018: £16.5 million) with a long weighted average unexpired lease term of 18 years.

The big four grocers continue leveraging their existing store networks to support last mile logistics for online grocery. As a result, growth in e-commerce sales is driving value creation in these locations that is not yet fully reflected by the investment market. Our Portfolio yield increased to 5.0% from 4.9% reflecting our recent yield accretive acquisitions and I am pleased to report further growth in our like-for-like portfolio value, of 1.6% in the Period or 5.2% above the aggregate portfolio acquisition price (excluding acquisition costs).

This stable, inflation-linked income stream enabled us to increase our quarterly dividend in line with RPI for the second year in a row. We have declared dividends totalling 2.9 pence per share for the Period (six months to 30 June 2019: 2.8 pence), increasing the quarterly dividend by 2.9%. We remain on track to deliver an annualised dividend of 5.8 pence per ordinary share for the financial year and 5.84 pence per share for the twelve months ending 31 December 2020.

Over the Period, the Group delivered a Total Shareholder Return of 7.0% (six months to 31 December 2018: (4.0%)).

I am also particularly pleased to report continued progress in activity relating to implementing our environmental, social and corporate governance ("ESG") policy. During the Period our Investment Advisor entered into a strategic partnership with EVO Energy, the UK's leading commercial renewable energy company to evaluate and execute projects which will reduce the environmental impact of our Portfolio. The Investment Advisor has agreed terms with Tesco for the installation of our first rooftop photovoltaic scheme, which will supply decarbonised power direct to the store, significantly enhancing the environmental sustainability of the site and generating additional incremental income for the Group.

In addition, I'm also delighted to be able to announce the appointment of Cathryn Vanderspar as a Non-Executive Director of the Group. Cathryn has over 20 years of experience in real estate investment advisory and will further strengthen our Board. We look forward to working with Cathryn.

The Group has maintained its strong performance since inception in July 2017, benefitting from the advantages of increased scale and further diversification to our Portfolio. In the two and a half years since our IPO we have achieved a Total Shareholder Return of 24% and we remain confident of delivering strong, stable and growing returns for shareholders.

## Financial Results

The Portfolio was independently valued at £490.4 million as at 31 December 2019 (30 June 2019: £368.2 million), representing a like-for-like increase of approximately £5.8 million for the six-month period and £24.4 million above the aggregate acquisition price (excluding acquisition costs).

Changes in the fair value of investment properties in the Period was £0.6 million (six months to 31 December 2018: £0.8 million), which comprises a £7.4 million increase in valuation partially offset through £6.5 million of acquisition costs (primarily stamp duty land tax) and a £(0.3) million rent smoothing adjustment. The Group's EPRA Net Asset Value at 31 December 2019 remains unchanged at 97 pence per ordinary share (30 June 2019: 97 pence per share).

All our properties have contractual, upward-only, inflation-linked rental uplifts and average rental increases were 2.7% in the Period (six months to 31 December 2018: 3.2%). The high degree of certainty of income inherent in the Group's long, inflation-linked 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 has a highly transparent and low-cost base. Our adjusted EPRA cost ratio for the Period was 17.7% (six months to 31 December 2018: 17.0%)<sup>[2]</sup>. We expect this ratio to fall as the Company continues to deploy further capital and thus increase portfolio value. This compares favourably with our peer group average of 18.2%.

IFRS earnings for the Period were £7.8 million (six months to 31 December 2018: £5.5 million). Our EPRA earnings for the Period were £7.2 million (six months to 31 December 2018: £4.7 million), generating EPRA earnings per share for the Period of 2.5 pence (six months to 31 December 2018: 2.5 pence) which remains consistent despite the additional equity issued following our £100 million equity raise in the Period.

## Dividends

One of our core objectives is to deliver a high quality, low risk income stream to our shareholders. The Company has declared two interim dividends for the Period, on 8 October 2019, an interim dividend of 1.42 pence per share and on 8 January 2020, a second interim dividend of 1.46 pence per share.

We are therefore on track to pay a dividend of 5.8 pence per share for the financial year. The Group's EPRA dividend cover ratio was 89% for the Period (six months to 31 December 2018: 91%).

## Financing

As of 31 December 2019, we had drawn down debt facilities totalling £168.2 million, with a further £60.5 million of undrawn headroom at the half year end to support future acquisition opportunities.

We broadened our banking arrangements during the Period, adding Deka Bank to our banking group. This £76.6 million fully drawn term loan facility has a fixed coupon of 1.9% and is secured against the Sainsbury's superstore in Preston, the Tesco Extra supermarket in Mansfield, and the Sainsbury's superstore in Cheltenham.

As at 31 December 2019, the Group's net loan-to-value (LTV) ratio was 32.4% (30 June 2019: 36.3%). The average unexpired term of our borrowing is 3.1 years (30 June 2019: 3.5 years) and our weighted average cost of debt is 2.2% (30 June 2019: 2.5%).

During the period we have been in active discussion with several lenders on the refinancing and upsizing of our current £100 million HSBC loan facility on substantially the same terms but increasing the duration to between five and seven years. Upon completion, this will increase our weighted average debt terms to between four to six years and will provide the Group with significant financial flexibility to support future operations.

Our highly attractive debt facilities reflect the quality of the underlying Portfolio and strength of the tenant covenants.

Our hedging strategy for the Group's variable rate debt is primarily to use interest rate derivatives. The Group has hedged all of its committed debt facilities. Further details of our debt and hedging can be found later

in these accounts.

## Outlook

The Company has performed well over the Period, delivering on its stated objectives and we remain confident of delivering attractive returns for our shareholders through a stable and growing income stream with the potential for capital appreciation.

**Nick Hewson**  
**Chairman**  
**6 February 2020**

## 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 Group's investment policy is to invest in stores which deliver the future model of grocery in the UK. As grocery retailers transition further to 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 targets stores that operate both as physical supermarkets and online fulfilment centres, via home delivery and/or click and collect.

Characteristics of our supermarket investments:
✓ Omnichannel stores
✓ Long [average] unexpired lease terms with inflation-linked rental uplifts
✓ Large catchment populations
✓ Excellent transportation links
✓ Strong underlying trading performance
✓ Opportunities for active asset management and sustainability investment
✓ Low site cover

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

Covenant strength is a particular feature of the supermarket investment sector that continues to attract investors, both domestically and overseas. Since the Company's IPO in July 2017, the covenant strength of the grocery sector has continued to improve, as evidenced by the credit rating upgrade of Tesco <sup>[3]</sup>. Rating agency Standard and Poor's cited improvements in cash generation, sustained debt reduction and anticipated growth in profits as the principal reasons behind the upgrade in credit rating.

An increased level of investor demand has continued to support supermarket property yields in contrast to other retail property sectors.

To date, the Group has concentrated on investing in a portfolio of principally freehold and long leasehold properties let to Tesco, Sainsbury's and Morrisons in optimal locations for both catchment and last-mile delivery and with low site cover.

### The Portfolio

The portfolio comprises nine high-quality supermarket properties benefiting from highly attractive leases to strong tenant covenants (Tesco, Sainsbury's and Morrisons), with upward-only, RPI-linked rent reviews and a long 18-year WAULT.

These omnichannel supermarket properties 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 properties in the table below are listed chronologically in order of acquisition

Tenant	Sainsbury's	Tesco	Tesco	Tesco	Tesco	Morrisons	Tesco	Sainsbury's	Sainsbury's
Location	Ashford Kent	Thetford Norwich	Bristol Avon	Cumbernauld Lanarkshire	Scunthorpe Lincolnshire	Hillsborough Sheffield	Mansfield Notts	Preston Lancashire	Cheltenham Gloucestershire
Acquisition date	Aug 2017	Aug 2017	Aug 2017	Dec 2017	May 2018	Jul 2018	Apr 2019	Aug 2019	Oct 2019
Purchase price (ex acquisition costs)	£79.8m	£43.2m	£28.5m	£50.0m	£53.0m	£51.7m	£45.0m	£54.4m	£60.4m

<b>Valuation (31 Dec 2019)</b>	£86.5m	£42.8m	£28.8m	£57.9m	£57.2m	£53.5m	£47.6m	£56.0m	£60.4m
<b>Passing annual rent</b>	£4.04m	£2.72m	£1.58m	£3.03m	£2.98m	£2.87m <sup>(1)</sup>	£2.51m	£2.96m	£3.39m
<b>Size (sq. ft.)</b>	125,000	78,000	55,000	117,000	98,000	113,000	90,000	106,000	99,000
<b>Net sales area (sq. ft.)</b>	71,732	47,800	30,699	69,923	64,678	58,108	64,000	78,000	62,000
<b>Rent review basis</b>	Annual RPI	5-Yearly RPI	Annual RPI	Annual RPI	5-Yearly RPI				
<b>Next rent review</b>	Sep 2020	Dec 2020	Mar 2020	Mar 2020	Mar 2020	Oct 2024	Mar 2020	Feb 2020	Dec 2023
<b>Rent review collar</b>	3% cap, 1% floor	4% cap, 0% floor	4% cap, 0% floor	5% cap, 0% floor	5% cap, 0% floor	4% cap, 0% floor	4% cap, 0% floor	4% cap, 1% floor	4% cap, 1% floor
<b>Lease expiry</b>	Sep 2038	Dec 2029	Mar 2031	Aug 2040	Aug 2040	Oct 2039	Mar 2039	Feb 2042	Jun 2032

(1) Contracted RPI increase publicly available but not formally agreed with tenant

### Investment activity

During the Period, the Group strengthened its portfolio with the addition of two accretive omnichannel supermarket assets for £114.8 million. The Sainsbury's store in Preston, Lancashire was acquired with an unexpired lease term of 22.5 years with annual, upward-only, RPI-linked rent reviews, and the Sainsbury's store in Cheltenham, Gloucestershire, was acquired with an unexpired lease term of 13 years with five-yearly, upward-only, RPI-linked rent reviews.

The acquisitions had a blended unexpired lease term of 17 years and a blended net initial yield of 5.2%, which is accretive to the portfolio net initial yield of 5.0%, supporting the Company's ability to grow its dividend whilst also enhancing the quality and diversification of the Portfolio.

The acquisitions were financed from the over-subscribed £100 million Placing and Offer for Subscription in October 2019 and drawings from our new banking facility (see financing below).

The Company has an extensive acquisition pipeline of potential longer-term opportunities which continues to be closely tracked.

### Valuation

The Portfolio has been independently valued by Cushman & Wakefield in accordance with the RICS Valuation - Professional Standards 2017 (the "Red Book"). As at 31 December 2019, the Portfolio had a market value of £490.4 million, representing a like-for-like increase of approximately 1.6% for the six-month period and 5.2% above the aggregate acquisition price (excluding acquisition costs).

This valuation growth reflects the contracted increases in rent, the continued strengthening of the covenants of our tenants and favourable supply and demand characteristics in the investment market.

With contracted rents increasing on average by 2.7% 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

IFRS net rental income for the Period was £11.9 million (six months to 30 December 2018: £8.3 million). Compared with the same period last year, contracted RPI rent reviews in the Period resulted in rental increases of 2.8% with £3.2 million of rental growth contribution from new acquisitions. The strong rental growth reflects the contracted upward-only, RPI-linked rent reviews present in all of the Group's leases. As at 31 December 2019 the Group's annualised rental income is £26.1 million (31 December 2018: £16.5 million).

Administrative and other expenses, which include management and advisory fees and other costs of running the Group, were £2.3 million (six months to 31 December 2018: £1.5 million) generating an adjusted EPRA cost ratio of 17.7%<sup>[4]</sup> (six months to 31 December 2018: 17.0%). Our EPRA cost ratio compares favourably with our peer group average of 18.2%.

Financing costs for the Period were £2.5 million (six months to 31 December 2018: £2.1 million) reflecting a weighted average finance cost of 2.2% (six months to 31 December 2018: 2.5%). The reduction in weighted average finance cost reflects the attractiveness of the Portfolio and the growing strength of the tenant covenants. The Group's conservative leverage policy continues to maintain a healthy level of interest cover at over 600% compared to the covenant at a minimum of 200%. Further information on financing and hedging is provided below.

As a result of the above, operating profit, before changes in the fair value of investment properties, as reported under IFRS, increased by 41% to £9.6 million (six months to 31 December 2018: £6.8 million).

Change in fair value of investment properties in the Period was £0.6 million (six months to 31 December 2018: £0.8 million), which comprises a £7.4 million (six months to 31 December 2018: £4.1 million) increase in valuation, offset by acquisition costs of £6.5 million (six months to 31 December 2018: £3.1 million) and a rent smoothing adjustment totalling £0.3 million (six months to 31 December 2018: £0.2 million).

The Group's EPRA NAV as at 31 December 2019 equates to 97 pence per ordinary share (30 June 2019: 97 pence) and earnings measured on an EPRA basis was 2.5 pence per ordinary share for the six-month period to 31 December 2019 (31 December 2018: 2.5 pence).

### Financing

In October 2019 the Company successfully completed an oversubscribed £100 million Placing and Offer for Subscription under which 98,039,215 New Ordinary Shares were issued at 102.0 pence per New Ordinary Share

representing a 5% premium to prevailing NAV.

The Group has broadened its banking relationships, adding Deka Bank in August 2019 as lenders to the Group in addition to the Group's £100 million revolving credit facility from HSBC and the £52 million term loan facility from Bayerische Landesbank. A summary of the Group's credit facilities is provided below:

Lender	Facility	Maturity	Credit margin	Loan commitment (£m's)	Amount drawn at 31 December 2019 (£m's)
HSBC	Revolving Credit Facility	Aug 2021	1.60%	100.0	39.5
Bayerische Landesbank	Term Loan	Jul 2023	1.25%	52.1	52.1
Deka Bank	Term loan	Aug 2024	1.35%	76.6	76.6

The new Deka Bank £76.6 million facility has a fixed rate of 1.9% and is secured against the Sainsbury's superstore in Preston, Lancashire, the Tesco Extra supermarket in Mansfield, Nottinghamshire and the Sainsbury's superstore in Cheltenham, Gloucestershire.

Total net debt as at 31 December 2019 is £158.8 million (30 June 2019: £133.8 million), reflecting a net loan-to-value ("LTV") ratio of 32.4% (30 June 2019: 36.3%), with a further £60.5 million of undrawn headroom at the year end. The Group's medium-term target is a LTV ratio of 30%-40% once the portfolio growth phase is complete.

Each loan drawn under the credit facilities 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 maximum 60% LTV threshold and a minimum 200% interest cover ratio for each asset in the Portfolio. Net LTV and interest cover for the period was 32.4% and 615% respectively.

During the period we have been in active discussion with several lenders on the refinancing and upsizing of our current £100 million HSBC loan facility on substantially the same terms but increasing the duration to between five and seven years. Upon completion, this will increase our weighted average debt terms to between four to six years and will provide the Group with significant financial flexibility to support future operations.

#### **Asset management**

During the Period we entered into a strategic partnership with EVO Energy, the UK's leading commercial renewable energy company. The goal of the strategic partnership is to evaluate and execute projects which will reduce the carbon emissions of Group's Portfolio.

In a key milestone for the partnership we have reached agreement with Tesco on the commercial terms for the installation of a 370 kilowatt rooftop solar array, which will provide circa 310,000 kilowatt per hour of decarbonised electricity our Thetford store. This investment will improve the environmental sustainability of the site whilst also generating an additional incremental income stream for the Group, enhancing the long-term capital value of the site. We are passionate about improving the environmental impact of our properties and our medium-term ambition is to install on-site decarbonised energy producing plant across our estate.

As at the date of this report, the Group has completed four rent reviews. The combination of these inflation-linked rent reviews resulted in an annualised increase in rental income of £0.2 million to £26.1 million, equivalent to a 2.4% average annualised increase in the rents for these reviewed properties. All rent reviews on the Portfolio are upward- only and linked to the UK Retail Price Index with a weighted average Portfolio cap of 4%.

**Atrato Capital Limited**  
**Investment Adviser**  
**6 February 2020**

#### **PRINCIPAL RISKS AND UNCERTAINTIES**

The principal risks of the business are set out on pages 20 to 25 of the Annual Report 2019 and include commentary on their potential impact, links to the Group's strategic priorities and the relevant mitigation factors. Since the publication of the Annual Report 2019, the Board believes that there has been no material change to the principal risks and the reported mitigation actions remain appropriate to manage the risks.

#### **ALTERNATIVE INVESTMENT FUND MANAGER (the "AIFM")**

The AIFM was appointed with effect from 15 June 2017 as the Company's alternative investment fund manager under the terms of a Management Agreement between the Company and the AIFM, in accordance with the Alternative Investment Fund Manager's Directive and the Alternative Investment Fund Managers Regulations 2013.

The AIFM is licensed and regulated by the Guernsey Financial Services Commission.

The AIFM is responsible for the day-to-day management of the Company's investments, subject to the investment objective and investment policy and the overall supervision of the Directors. The AIFM is also

required to comply with on-going capital, reporting and transparency obligations and a range of organisational requirements and conduct of business rules. The AIFM must also, as the AIFM for the Company, adopt a range of policies and procedures addressing areas such as risk management, liquidity management, conflicts of interest, valuations, compliance, internal audit and remuneration.

#### **DIRECTORS' RESPONSIBILITY STATEMENT**

The Directors confirm that, to the best of their knowledge, this condensed set of consolidated financial statements has been prepared in accordance with IAS 34 as adopted by the European Union and that the operating and financial review included herein provides a fair review of the information required by DTR 4.2.7 and DTR 4.2.8 of the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority, namely:

- an indication of important events that have occurred during the Period and their impact on the condensed financial statements and a description of the principal risks and uncertainties for the remaining months of the Group's financial year; and
- disclosures of any material related party transactions in the Period. These are included in note 20.

A full list of Directors of the Company can be found at the end of this interim report.

Shareholder information is as disclosed on the Supermarket Income REIT plc website.

For and on behalf of the Board

**Nick Hewson**  
**Chairman**  
**6 February 2020**

#### **INDEPENDENT REVIEW REPORT TO SUPERMARKET INCOME REIT PLC**

##### **Introduction**

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2019 which comprises the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Cash Flow Statement and the related notes.

We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

##### **Directors' responsibilities**

The half-yearly financial report is the responsibility of and has been approved by the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

##### **Our responsibility**

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Our report has been prepared in accordance with the terms of our engagement to assist the Company in meeting its responsibilities in respect of half-yearly financial reporting in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

##### **Scope of review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity', issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

##### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34, as adopted by the European Union, and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

**BDO LLP**

Chartered Accountants  
London  
United Kingdom

6 February 2020

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

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

*For the six month period ended 31 December 2019*

		<b>Unaudited Six months to 31 December 2019</b>	Unaudited Six months to 31 December 2018	Audited Year to 30 June 2019
<b>Profit or loss</b>	<b>Note</b>	<b>£' 000</b>	£' 000	£' 000
Rental income	4	<b>11,901</b>	8,293	17,231
Administrative and other expenses	5	<b>(2,254)</b>	(1,517)	(3,088)
<b>Operating profit before changes in fair value of investment properties</b>		<b>9,647</b>	6,776	14,143
Changes in fair value of investment properties	11	<b>557</b>	792	647
<b>Operating profit</b>		<b>10,204</b>	7,568	14,790
Finance expense	7	<b>(2,450)</b>	(2,057)	(4,180)
<b>Profit before taxation</b>		<b>7,754</b>	5,510	10,610
Tax charge for the period	8	-	-	(18)
<b>Profit for the period</b>		<b>7,754</b>	5,510	10,593
<i>Items to be classified to profit or loss in subsequent periods</i>				
Changes in the fair value of interest rate derivatives	18	<b>175</b>	(237)	(1,121)
<b>Total comprehensive income for the period</b>		<b>7,929</b>	5,273	9,471
<b>Total comprehensive income for the period (attributable to ordinary shareholders)</b>		<b>7,929</b>	5,273	9,471
<b>Earnings per share - basic and diluted (pence)</b>	9	<b>2.7p</b>	3.0p	5.3p

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

*As at 31 December 2019*

		<b>Unaudited 31 December 2019 £' 000</b>	Audited 30 June 2019 £' 000	Unaudited 31 December 2018 £' 000
<b>Non-current assets</b>				
Investment properties	11	490,410	368,230	320,650
Other financial assets	12	172	-	-
Interest rate derivatives	15	-	-	60
<b>Total non-current assets</b>		<b>490,582</b>	<b>368,230</b>	<b>320,710</b>
<b>Current assets</b>				
Trade and other receivables	13	5,981	3,521	98
Cash and cash equivalents		7,654	9,898	5,895
<b>Total current assets</b>		<b>13,635</b>	<b>13,419</b>	<b>5,992</b>
<b>Total assets</b>		<b>504,217</b>	<b>381,649</b>	<b>326,702</b>
<b>Non-current liabilities</b>				
Bank borrowings	16	166,367	143,708	143,710
Interest rate derivatives	15	972	1,113	289
<b>Total non-current liabilities</b>		<b>167,339</b>	<b>144,821</b>	<b>143,999</b>
<b>Current liabilities</b>				
Deferred rental income		5,314	3,543	3,221
Current tax liabilities		-	245	227
Trade and other payables	14	3,574	2,570	2,307
<b>Total current liabilities</b>		<b>8,888</b>	<b>6,358</b>	<b>5,754</b>
<b>Total liabilities</b>		<b>176,227</b>	<b>151,179</b>	<b>149,753</b>
<b>Total net assets</b>		<b>327,990</b>	<b>230,470</b>	<b>176,949</b>
<b>Equity</b>				
Share capital	17	3,379	2,398	1,844
Share premium reserve	17	300,481	203,672	149,039
Cash flow hedge reserve	18	(1,029)	(1,203)	(319)
Capital reduction reserve	17	6,193	14,391	20,255
Retained earnings		18,966	11,212	6,130
<b>Total equity</b>		<b>327,990</b>	<b>230,470</b>	<b>176,949</b>
<b>Net asset value per share - basic and diluted</b>	21	<b>97p</b>	96p	96p
<b>EPRA NAV per share</b>	21	<b>97p</b>	97p	96p

These unaudited condensed consolidated financial statements were approved and authorised for issue by the Board of Directors on 6 February 2020 and were signed on its behalf by:

**Nick Hewson**

**Chairman**

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

*For the six month period ended 31 December 2019 (unaudited)*

	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 July 2019</b>	<b>2,398</b>	<b>203,672</b>	<b>(1,203)</b>	<b>14,391</b>	<b>11,212</b>	<b>230,470</b>
<i>Comprehensive income for the period</i>	-	-	-	-	-	-
Profit for the period	-	-	-	-	7,754	7,754
Other comprehensive income	-	-	175	-	-	175
<b>Total comprehensive Income for the period</b>	<b>-</b>	<b>-</b>	<b>(175)</b>	<b>-</b>	<b>7,754</b>	<b>7,929</b>

*Transactions with owners*

Ordinary shares issued at a premium during the period	981	99,020	-	-	-	100,000
Share issue costs		(2,211)	-	-	-	(2,211)
Interim dividend paid			-	(8,198)	-	(8,198)
<b>As at 31 December 2019</b>	<b>3,379</b>	<b>300,481</b>	<b>(1,029)</b>	<b>6,193</b>	<b>18,966</b>	<b>327,990</b>

*For the period from 1 July 2018 to 30 June 2019 (audited)*

	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 July 2018</b>	<b>1,844</b>	<b>149,039</b>	<b>(82)</b>	<b>25,325</b>	<b>620</b>	<b>176,746</b>
<i>Comprehensive income for the year</i>	-	-	-	-	-	-
Profit for the year	-	-	-	-	10,593	10,593
Other comprehensive income	-	-	(1,121)	-	-	(1,122)
Total comprehensive income for the year	-	-	(1,121)	-	10,593	9,471

*Transactions with owners*

Ordinary shares issued at a premium during the year	554	55,695	-	-	-	56,249
Share issue costs	-	(1,062)	-	-	-	(1,062)
Interim dividend paid	-	-	-	(10,934)	-	(10,934)
<b>As at 30 June 2019</b>	<b>2,398</b>	<b>203,672</b>	<b>(1,203)</b>	<b>14,391</b>	<b>11,212</b>	<b>230,470</b>

*For the six month period ended 31 December 2018 (unaudited)*

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

	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 July 2018</b>	<b>1,844</b>	<b>149,039</b>	<b>(82)</b>	<b>25,325</b>	<b>620</b>	<b>176,746</b>
<i>Comprehensive income for the period</i>						
Profit for the period	-	-	-	-	5,510	5,510
Other comprehensive income	-	-	(237)	-	-	(237)
Total comprehensive income for the period	-	-	(237)	-	5,510	5,273
<i>Transactions with owners</i>						
Interim dividend paid	-	-	-	(5,070)	-	(5,070)
<b>As at 31 December 2018</b>	<b>1,844</b>	<b>149,039</b>	<b>(319)</b>	<b>20,255</b>	<b>6,130</b>	<b>176,949</b>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT***For the six month period ending 31 December 2019*

		Unaudited Six months to 31 December 2019 £'000	Unaudited Six months to 31 December 2018 £'000	Audited Year to 30 June 2019 £'000
<b>Operating activities</b>				
Profit for the period (attributable to ordinary shareholders)		7,754	5,510	10,593
<i>Adjustments for:</i>				
Changes in fair value of Investment properties	11	(557)	(792)	(647)
Movement in rent smoothing adjustments	4	(313)	(187)	(366)
Finance expense	7	2,450	2,057	4,180
Tax expense	8	-	-	18
<b>Cash flows from operating activities before changes in working capital</b>		<b>9,334</b>	<b>6,588</b>	<b>13,777</b>
Increase in trade and other receivables		(2,460)	938	(2,486)
Increase in deferred rental income		1,771	1,555	1,877
Corporation tax paid		(245)	-	-
Increase in trade and other payables		536	552	745
<b>Cash flows from operating activities</b>		<b>8,936</b>	<b>9,634</b>	<b>13,913</b>
<b>Investing activities</b>				
Acquisition of investment properties	11	(114,800)	(51,700)	(85,450)
Capitalised acquisition costs		(6,510)	(3,071)	(5,617)
<b>Net cash flows used in investing activities</b>		<b>(121,310)</b>	<b>(54,771)</b>	<b>(91,067)</b>
<b>Financing activities</b>				
Proceeds from issue of ordinary share capital	17	100,000	-	45,000
Costs of share issues	17	(2,211)	-	(1,062)
Bank borrowings drawn		81,075	56,050	128,341
Bank borrowings repaid		(57,744)	-	(72,291)
Loan arrangement fees paid		(922)	(683)	(933)
Bank interest paid		(2,089)	(1,504)	(3,323)
Bank commitment fees paid		(21)	-	(42)
Interest rate cap premium paid		-	-	(27)
Dividends paid to equity holders	10	(7,958)	(5,070)	(10,850)
<b>Net cash flows from financing activities</b>		<b>110,130</b>	<b>48,793</b>	<b>84,813</b>
<b>Net (decrease) / increase in cash and cash equivalents for the period</b>		<b>(2,244)</b>	<b>3,655</b>	<b>7,659</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>9,898</b>	<b>2,239</b>	<b>2,239</b>
<b>Cash and cash equivalents at the end of the period</b>		<b>7,654</b>	<b>5,895</b>	<b>9,898</b>

**NOTES TO THE FINANCIAL STATEMENTS****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 The Scalpel 18<sup>th</sup> Floor, 52 Lime Street, London, United Kingdom EC3M 7AF. 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.

The financial information set out in this report covers the six months to 31 December 2019, with comparative numbers amounts shown for the year to 30 June 2019 and the six months to 31 December 2018. These condensed financial statements are unaudited and the financial information for the year ended 2019 contained herein does not constitute statutory accounts for as defined in section 434 of the Companies Act 2006. The statutory accounts for the year ended 30 June 2019 have been delivered to the Registrar of Companies. The independent auditors' report on those accounts was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under sections 498(2) or 498(3) of the Companies Act 2006.

At 31 December 2019 the Group comprised the Company and its wholly-owned subsidiaries. Each of these subsidiaries is incorporated in England and Wales and has the same registered office as the Company.

The condensed consolidated financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union. The accounting policies adopted in this report are consistent with those applied in the Group's audited financial statements for the year ended 30 June 2019 apart from the adoption of IFRS 16 "Leases". IFRS 16 specifies how leases are recognised, measured, presented and disclosed. This has not had a material impact on the group as a lessor and accordingly there have been no restatements to the Group's previously reported financial information as a result of adopting IFRS 16. The accounting policies applied in the preparation of this financial information are expected to be consistently applied in the financial statements for the year to 30 June 2020.

Based on the current operations of the Group, no other new or revised accounting standards have been issued that are expected to have a material effect on the Group's financial statements in the future.

#### Accounting convention and currency

The condensed 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.

The Group generated net cash flow from operating activities in the period of £8.9 million, with cash balances at 31 December 2019 totaling £7.7 million and the Group had £60.5 million available for drawdown under the loan facility with HSBC. It had no capital commitments or contingent liabilities as at that date. There has been no significant deterioration in this position since the balance sheet 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.

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

There have been no new or material revisions to the nature and amount of judgements and estimates reported in the Annual Report 2019, other than changes to certain assumptions applied in the valuation of properties. Details of the key assumptions applied at 31 December 2019 are set out in note 11.

#### 3. Summary of significant accounting policies

The principal accounting policies adopted in this report are consistent with those applied in the Group's audited financial statements for the year ended 30 June 2019 and are expected to be consistently applied during the year ending 30 June 2020.

During the period, the Group has adopted IFRS 16 "Leases". IFRS 16 specifies how leases are recognised, measured, presented and disclosed. This has not had a material impact on the Group as a lessor and accordingly there have been no restatements to the Group's previously reported financial information as a result of adopting IFRS 16.

#### 4. Rental Income

	<b>Unaudited Six months to 31 December 2019 £' 000</b>	Unaudited Six months to 31 December 2018 £' 000	Audited Year to 30 June 2019 £' 000
Rental income - freehold property	<b>4,140</b>	2,136	4,280
Rental income - long leasehold property	<b>7,761</b>	6,157	12,951
<b>Gross rental income</b>	<b>11,901</b>	8,293	17,231
Insurance/service charge income	<b>125</b>	90	163
Insurance/service charge expense	<b>(125)</b>	(90)	(163)
<b>Net rental income</b>	<b>11,901</b>	8,293	17,231

Included within rental income is a £313,000 (six months to 31 December 2018: £187,000; year to 30 June 2019: £366,000) rent smoothing adjustment that arises as a result of IFRS 16 '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.

## 5. Administrative and other expenses

	<b>Unaudited Six months to 31 December 2019 £' 000</b>	Unaudited Six months to 31 December 2018 £' 000	Audited Year to 30 June 2019 £' 000
Investment Adviser fees (note 20)	1,370	838	1,814
Directors' remuneration (note 6)	74	74	145
Corporate administration fees	191	154	372
Legal and professional fees	155	118	396
Other administrative expenses	464	333	361
<b>Total administrative and other expenses</b>	<b>2,254</b>	<b>1,517</b>	<b>3,088</b>

## 6. Directors' remuneration

The Group has no employees. 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

	<b>Unaudited Six months to 31 December 2019 £' 000</b>	Unaudited Six months to 31 December 2018 £' 000	Audited Year to 30 June 2019 £' 000
Directors' fees	71	71	133
Employer's National Insurance Contribution	3	3	12
<b>Total Directors' remuneration</b>	<b>74</b>	<b>74</b>	<b>145</b>

## 7. Finance Expense

	<b>Unaudited Six months to 31 December 2019 £' 000</b>	Unaudited Six months to 31 December 2018 £' 000	Audited Year to 30 June 2019 £' 000
Interest payable on bank borrowings and hedging arrangements	1,921	1,765	3,334
Fair value adjustment of interest rate derivatives (note 15)	135	-	252
Commitment fees payable on bank borrowings	89	18	47
Amortisation of loan arrangement fees	271	245	492
Amortisation of interest rate cap premium (note 15)	34	29	55
<b>Total finance expense</b>	<b>2,450</b>	<b>2,057</b>	<b>4,180</b>

The above finance expense includes the following in respect of liabilities not classified as fair value through profit or loss:

	<b>Unaudited Six months to 31 December 2019 £' 000</b>	Unaudited Six months to 31 December 2018 £' 000	Audited Year to 30 June 2019 £' 000
Total interest expense on financial liabilities held at amortised cost	2,277	1,884	3,827
Fee expense not part of effective interest rate for financial liabilities held at amortised costs	89	18	47
<b>Total finance expense</b>	<b>2,366</b>	<b>1,902</b>	<b>3,873</b>

## 8. Taxation

### a) Tax change in profit or loss

<b>Unaudited Six months to 31 December</b>	Unaudited Six months to 31 December	Audited Year to 30 June
--	--	----------------------------------

	2019 £' 000	2018 £' 000	2019 £' 000
<b>UK corporation tax</b>	-	-	18

The Company and its subsidiaries operate as a UK Group REIT. Subject to continuing compliance with certain rules, the UK REIT rules exempt the profits of the Group's 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 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 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) Reconciliation of the tax charge for the period

	Unaudited Six months to 31 December 2019 £' 000	Unaudited Six months to 31 December 2018 £' 000	Audited Year to 30 June 2019 £' 000
Profit on ordinary activities before taxation	7,669	5,510	10,610
Theoretical tax at UK standard corporation tax rate of 19%	1,457	1,047	2,016
Effects of:			
Investment property revaluation not subject to taxation	(106)	(158)	(123)
REIT exempt income	(1,351)	(889)	(1,893)
Adjustment in respect of prior period	-	-	18
<b>Tax charge in the period</b>	-	-	18

#### 9. 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:

	Unaudited Six months to 31 December 2019 £' 000	Unaudited Six months to 31 December 2018 £' 000	Audited Year to 30 June 2019 £' 000
Net profit attributable to ordinary shareholders	7,754	5,510	10,593
EPRA adjustments:			
Changes in fair value of investment properties	(557)	(792)	(647)
EPRA earnings	7,197	4,718	9,946
	Number <sup>1</sup>	Number <sup>1</sup>	Number <sup>1</sup>
Weighted average number of ordinary shares	285,370,561	184,356,434	198,087,482

1. Based on the weighted average number of ordinary shares in issue

	Unaudited Six months to 31 December 2019 Pence per share	Unaudited Six months to 31 December 2018 Pence per share	Audited Year to 30 June 2019 Pence per share
Basic and Diluted EPS	2.7p	3.0p	5.3p
EPRA adjustments:			
Changes in fair value of investment properties	(0.2)p	(0.5)p	(0.3)p
EPRA EPS	2.5p	2.5p	5.0p

## 10. Dividends

	<b>Unaudited Six months to 31 December 2019 Pence per share</b>	Unaudited Six months to 31 December 2018 Pence per share	Audited Year to 30 June 2019 Pence per share
<i>Distributions to ordinary shareholders in the period:</i>			
Dividends paid	<b>8,198</b>	5,070	10,934

On 8 July 2019, the Board declared a fourth interim dividend for the year ended 30 June 2019 of 1.419 pence per share, which was paid on 7 August 2019 to shareholders on the register on 19 July 2019.

On 8 October 2019 the Board declared a first interim dividend for the year ending 30 June 2020 of 1.419 pence per share, which was paid on 7 November 2019 to shareholders on the register on 17 October 2018.

On 8 January 2020 the Board declared a second interim dividend for the year ending 30 June 2020 of 1.460 pence per share, which will be paid on or around 7 February 2020 to shareholders on the register on 16 January 2020. This has not been included as a liability as at 31 December 2019.

## 11. 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. All the valuations of the Group's investment property at 31 December 2019 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.

	<b>Unaudited Six months to 31 December 2019 £' 000</b>	Audited Year to 30 June 2019 £' 000	Unaudited Six months to 31 December 2018 £' 000
<b>Long Leasehold properties</b>			
<b>At start of the period</b>	<b>283,780</b>	181,550	181,550
Property additions	-	96,700	51,700
Capitalised acquisition costs	-	5,617	3,071
Revaluation movement	<b>3,819</b>	(87)	9
<b>At the end of the period</b>	<b>287,599</b>	283,780	236,330

	<b>Unaudited Six months to 31 December 2019 £' 000</b>	Audited Year to 30 June 2019 £' 000	Unaudited Six months to 31 December 2018 £' 000
<b>Freehold properties</b>			
<b>At start of the period</b>	<b>84,450</b>	83,350	83,350
Property additions	<b>114,800</b>	-	-
Capitalised acquisition costs	<b>6,510</b>	-	-
Revaluation movement	<b>(2,949)</b>	1,100	970
<b>At the end of the period</b>	<b>202,811</b>	84,450	84,320

	<b>Unaudited Six months to 31 December 2019 £' 000</b>	Audited Year to 30 June 2019 £' 000	Unaudited Six months to 31 December 2018 £' 000
<b>Total investment properties</b>			
<b>At start of the period</b>	<b>368,230</b>	264,900	264,900

Property additions	<b>114,800</b>	96,700	51,700
Capitalised acquisition costs	<b>6,510</b>	5,617	3,071
Revaluation movement	<b>870</b>	1,013	979
<b>At the end of the period</b>	<b>490,410</b>	368,230	320,650

Included within the carrying values of investment properties at 31 December 2019 is £1,007,000 (30 June 2019: £694,000; 31 December 2018: £515,000) 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>Unaudited Six months to 31 December 2019 £' 000</b>	Audited Year to 30 June 2019 £' 000	Unaudited Six months to 31 December 2018 £' 000
Revaluation movement per above	<b>870</b>	1,013	979
Rent smoothing adjustment (note 4)	<b>(313)</b>	(366)	(187)
<b>Change in fair value recognised in profit or loss</b>	<b>557</b>	647	792

### 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 investment properties determined by inspection.

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

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

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 31 December 2019 range from 4.4% to 6.0% (year ended 30 June 2019: 4.3% to 5.5%; six months ended December 2018: 4.4% - 5.6%). A 0.25% shift of the initial yield on all the Group's investment properties would have approximately a £23.6 million (30 June 2019: £18.1 million; 31 December 2018: £15.8 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 £4.9 million (30 June 2019: £3.7m; December 2018: £3.2 million) impact on the total valuation of the properties.

### **12. Other financial assets**

Other financial assets comprise costs incurred at the balance sheet date in relation to a prospective acquisition which is expected to complete during the quarter ended 31 March 2020.

### **13. Trade and other receivables**

	<b>Unaudited 31 December 2019 £' 000</b>	Audited 30 June 2019 £' 000	Unaudited 31 December 2018 £' 000
Trade and other receivables	<b>5,904</b>	3,503	-
Prepayments	<b>77</b>	17	98
<b>Total trade and other receivables</b>	<b>5,981</b>	3,521	98

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

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

Group's historical credit losses experienced over the period from incorporation to 31 December 2019. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Group's customers.

Both the expected credit loss provision and the incurred loss provision in the current and prior year are immaterial. No reasonably possible changes in the assumptions underpinning the expected credit loss provision would give rise to a material expected credit loss.

Included within other receivables is £3,656,000 (30 June 2019: £3,315,000; 31 December 2018: 0) of rental receipts held by the group's managing agents as at 31 December 2019. These amounts are held within ring-fenced client trust accounts by the managing agent before being transferred to the group and therefore there is not deemed to be any material credit risk in relation to these receivables.

#### 14. Trade and other payables

	Unaudited 31 December 2019 £' 000	Audited 30 June 2019 £' 000	Unaudited 31 December 2018 £' 000
Corporate accruals	2,790	1,828	1,367
Trade payables	-	-	22
VAT payable	784	742	918
<b>Total trade and other payables</b>	<b>3,574</b>	<b>2,570</b>	<b>2,307</b>

#### 15. Interest rate derivatives

	Unaudited 31 December 2019 £' 000	Audited 30 June 2019 £' 000	Unaudited 31 December 2018 £' 000
Non-current asset: Interest rate cap	-	-	60
Non-current liability: Interest rate cap	(1)	(18)	-
Non-current liability: Interest rate swap	(971)	(1,095)	(289)

<b>The fair value at comprises:</b>	£'000	£'000	£' 000
At start of the period	(1,113)	37	37
Interest rate cap premium paid on inception	-	26	-
Amortisation of cap premium in the period (note 7)	(34)	(55)	(29)
Changes in fair value of interest rate derivative in the period	40	(1,374)	(237)
Charge to the income statement	135	253	-
<b>As at the end of the period</b>	<b>(972)</b>	<b>(1,113)</b>	<b>(229)</b>

To partially mitigate the interest rate risk that arises as a result of entering into the floating rate debt facilities referred to in note 16, the Group has entered into a derivative interest rate cap ('the cap') and a derivative interest rate swap ('the swap').

The total notional value of the cap was £63.5 million with its term coinciding with the expiry of the initial term of the HSBC credit facility. The strike rate of the cap as at 31 December 2019 was 1.75%, which caps the Group's cost of borrowing at 3.35% on the hedged notional amount.

The total notional value of the swap was £52.1 million with its term coinciding with the maturity of the Bayerische Landesbank loan facility. The fixed interest rate of the swap as at 31 December 2019 was 1.305%.

All of the Group's variable rate debt was hedged as at 31 December 2019 (30 June 2019: 80%; 31 December 2018: 80%) with £24.0 million of the cap not currently being utilised in a hedging relationship. 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 derivatives are remeasured to fair value by the counterparty bank on a quarterly basis. The interest rate derivative valuation is classified as level 2 in the fair value hierarchy as defined in IFRS 13.

## 16. Bank borrowings

	Unaudited 31 December 2019 £' 000	Audited 30 June 2019 £' 000	Unaudited 31 December 2018 £' 000
Amounts falling due after more than one year			
Secured debt	168,204	144,894	144,893
Less: Unamortised finance costs	(1,837)	(1,186)	(1,183)
<b>Bank borrowing per consolidated statement of financial position</b>	<b>166,367</b>	<b>143,708</b>	<b>143,710</b>

Secured debt comprises a revolving credit facility (the 'credit facility') of £100 million with HSBC Bank Plc, a five year interest-only loan facility ('the BLB loan facility') of £52.1 million with Bayerische Landesbank and a five year fixed rate loan facility ('the Deka loan facility') of £76.6 million with Deka Bank.

The credit facility had an original maturity of three years commencing on 30 August 2017. The Group exercised a one year extension with the credit facility no maturing on 30 August 2021.

At 31 December 2019, £39.5 million has been drawn down under the credit facility. 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 the credit facility as at 31 December 2019 was 160 basis points above three-month LIBOR.

At 31 December 2019, the full amount of the BLB loan facility had been drawn down. Interest is payable quarterly on the BLB loan facility based on a margin of 125 basis points above three-month LIBOR. The fixed interest rate on the Deka loan facility resulting from the interest rate swap was 2.55%.

At 31 December 2019, the full £76.6 million of the Deka loan facility had been drawn down. The Deka loan facility has been entered into as a fixed rate agreement, fixing the interest rate at 1.9% over the term of the facility.

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 facilities as shown in the table above.

The debt is secured by charges over the Group's investment properties and by charges over the shares of certain group companies, not including the Company itself. There have been no defaults of breaches of any loan covenants during the current or any prior period.

## 17. Share capital

	Ordinary shares of 1 pence Number	Share capital £'000	Share premium reserve £'000	Capital reduction reserve £'000	Total £'000
<b>Six months to 31 December 2019 (unaudited)</b>					
<b>As at 1 July 2019</b>	<b>239,833,219</b>	<b>2,398</b>	<b>203,672</b>	<b>14,391</b>	<b>220,461</b>
Ordinary shares issued and fully paid - 7 October 2019	98,039,215	981	99,019	-	100,000
Share issue costs	-	-	(2,211)	-	(2,211)
	337,872,434	3,379	300,481	14,391	318,251
Dividend paid in the period (note 10)	-	-	-	(8,198)	(8,198)
<b>As at 31 December 2019</b>	<b>337,872,434</b>	<b>3,379</b>	<b>300,481</b>	<b>6,193</b>	<b>310,053</b>

	Ordinary shares of 1 pence Number	Share capital £'000	Share premium reserve £'000	Capital reduction reserve £'000	Total £'000
<b>Year to 30 June 2019 (audited)</b>					
<b>As at 1 July 2018</b>	<b>184,356,434</b>	<b>1,844</b>	<b>149,039</b>	<b>25,325</b>	<b>176,208</b>
Ordinary shares issued and fully paid - 26 March 2019	44,554,455	446	44,554	-	45,000

Ordinary shares issued and fully paid - 24 April 2019	10,922,330	109	11,141	-	11,250
Share issue costs	-	-	(1,062)	-	(1,062)
	239,833,219	2,398	203,672	25,352	180,883
Dividend paid in the period (note 10)	-	-	-	(10,934)	(10,934)
<b>As at 30 June 2019</b>	<b>239,833,219</b>	<b>2,398</b>	<b>203,672</b>	<b>14,391</b>	<b>220,461</b>

	Ordinary shares of 1 pence Number	Share capital £'000	Share premium reserve £'000	Capital reduction reserve £'000	Total £'000
<b>Six months to 31 December 2018 (unaudited)</b>					
<b>As at 1 July 2018</b>	<b>184,356,434</b>	<b>1,844</b>	<b>149,039</b>	<b>25,325</b>	<b>176,208</b>
Dividend paid in the period (note 10)	-	-	-	(5,070)	(5,070)
<b>As at 31 December 2018</b>	<b>184,356,434</b>	<b>1,844</b>	<b>149,039</b>	<b>20,255</b>	<b>171,138</b>

On 7 October 2019 the Company completed a equity fundraising and issued an additional 99,039,215 ordinary shares of one pence each at a price of £1.02 per share. The consideration received in excess of the par value of the ordinary shares issues, net of total capitalised issue costs, of £99.0 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.

The capital reduction reserve is classed as a distributable reserve and dividends paid by the Company are currently being offset against this reserve.

#### 18. Cash flow hedge reserve

	Unaudited Six months to 31 December 2019 £' 000	Audited Year to 30 June 2019 £' 000	Unaudited Six months to 31 December 2018 £' 000
<b>At start of the period</b>	<b>(1,203)</b>	<b>(82)</b>	<b>(82)</b>
Fair value movement of interest rate derivatives in effective hedges	<b>175</b>	<b>(1,121)</b>	<b>(237)</b>
<b>At the end of the period</b>	<b>(1,029)</b>	<b>(1,203)</b>	<b>(319)</b>

#### 19. Capital commitments

The Group had no capital commitments outstanding as at 31 December 2019 (30 June 2019: none; 31 December 2018: none).

#### 20. 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*

Nick Hewson, Chairman of the Board of Directors of the Company, is paid fees of £55,000 per annum, with the other Directors each being paid fees of £35,000 per annum. Jon Austen is paid an additional £5,000 per annum for his role as chair of the Company's Audit Committee and Vince 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 31 December 2019 was £71,000 (six months to 31 December 2018: £71,000; year to 30 June 2019: £145,000). There were no amounts outstanding at the end of the current or comparative periods.

###### *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 31 December 2019 were as follows:

- Nick Hewson: 399,600 shares
- Jon Austen: 120,000 shares
- Vince Prior: 76,019 shares

#### **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 31 December 2019, the entitlements to advisory fees can be summarised as follows:

- Monthly Management Fee payable monthly in arrears: 1/12th 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 31 December 2019 the total advisory fees payable to the Investment Adviser were £1,370,000 (six months to December 2018: £838,000; year to 30 June 2019: £1,814,000) of which £572,000 (30 June 2019: £379,000; 31 December 2018: £308,000) 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 31 December 2019 were as follows:

- Ben Green: 1,137,101 shares
- Steve Windsor: 1,251,935 shares

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

Morgan Williams act 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 31 December 2019 the amount payable to Morgan Williams for these services was £626,000 (six months ended December 2018: £258,500; year to June 2019: £483,000). All of which has been capitalised as additions to investment properties. None of the amounts payable were outstanding at the end of the current or comparative periods.

##### *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.

## **21. Net asset value (NAV) 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 calculations are as follows:**

	<b>Unaudited</b>	Audited	Unaudited
	<b>31 December</b>	30 June	31 December
	<b>2019</b>	2019	2018
	<b>£' 000</b>	£' 000	£' 000
Net assets	<b>327,990</b>	230,470	176,949

Fair value of interest rate derivatives	<b>972</b>	1,113	229
EPRA NAV	<b>328,962</b>	231,583	177,178
	<b>Number</b>	Number	Number
Ordinary shares in issue	<b>337,872,434</b>	239,833,219	184,356,434
NAV per share - Basic and diluted (pence)	<b>97p</b>	96p	96p
EPRA NAV per share (pence)	<b>97p</b>	97p	96p

## 22. Subsequent events

On 8 January 2020 the Board declared a second interim dividend for the year ending 30 June 2010 of 1.460 pence per share, which will be paid on or around 7 February 2020 to shareholders on the register on 17 January 2020. This has not been included as a liability as at 31 December 2019.

### COMPANY INFORMATION

#### **Directors**

Nick Hewson (Non-Executive Chairman)  
Vince Prior (Non-Executive Director)  
Jon Austen (Non-Executive Director)  
Cathryn Vanderspar (Non-Executive Director)

#### **Company Secretary**

JTC (UK) Limited  
The Scalpel  
52 Lime Street  
18<sup>th</sup> Floor  
London  
EC3M 7AF

#### **Registrar**

Link Asset Services  
The Registry  
34 Beckenham Road  
Beckenham  
Kent  
BR3 4TU

#### **AIFM**

JTC AIFM Services  
Ground floor  
Dorey Court  
Admiral Park  
St Peter Port  
Guernsey  
Channel Islands  
GY1 2HT

#### **Investment Adviser**

Atrato Capital Limited  
123 Victoria Street  
London  
SW1E 6DE

#### **Financial adviser, Broker and Placing Agent**

Stifel Nicolaus Europe Limited  
150 Cheapside  
London  
EC2V 6ET

#### **Auditors**

BDO LLP  
55 Baker Street  
London  
W1U 7ET

#### **Property Valuers**

Cushman & Wakefield  
125 Old Broad Street  
London  
EC2N 1AR

#### **Financial PR Advisers**

Tavistock  
1 Cornhill  
London  
EC3V 3ND

This report will be available on the Company's website.