

# SUPR ○○○

SUPERMARKET INCOME REIT



TRADITIONAL  
IN-STORE



CLICK & COLLECT  
AT STORE



HOME DELIVERY  
FROM STORE



INVESTING IN THE FUTURE MODEL OF UK GROCERY

## STRATEGIC REPORT | WHO WE ARE

**Supermarket Income REIT plc (LSE: SUPR)** is a real estate investment trust dedicated to investing in supermarket property forming a key part of the future model of UK grocery. We provide investors with long dated, secure, inflation-linked income with capital appreciation potential over the longer term.

We invest in the future model of UK grocery – omnichannel supermarkets:



TRADITIONAL  
IN-STORE



CLICK & COLLECT  
AT STORE



HOME DELIVERY  
FROM STORE

With highly attractive lease terms:



19 YEARS AVERAGE  
UNEXPIRED LEASE TERM



UPWARD-ONLY RPI-  
LINKED RENT REVIEWS



MORRISONS, TESCO AND  
SAINSBURY'S

Providing regular, sustainable, inflation-linked income and targeting strong total shareholder returns:



TOTAL DIVIDEND  
DECLARED



TOTAL PORTFOLIO  
VALUE GROWTH<sup>1</sup>

<sup>1</sup> Excluding acquisition costs



TOTAL SHAREHOLDER  
RETURN

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## STRATEGIC REPORT | HIGHLIGHTS

- 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 fundraisings, the Company was able to fully deploy the proceeds including leverage within six weeks.
- During the Period, the Company acquired five supermarket assets in the UK that operate as both 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 period
  - average rental increases of 3.6% for the Period since acquisition
  - 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%.
- £52 million debt facility provided by Bayerische Landesbank, fixed at 2.55% for the five-year term of the facility.
- Increased dividend target for the FY 2018/19 to 5.63 pence per share.
- For the period September to December 2018 and thereafter, an increase in the quarterly dividend of 3.2% to 1.419 pence per share.



NICK HEWSON  
Chairman

“We have rapidly built our portfolio of supermarket property assets, precisely in line with the business plan outlined at IPO.”

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 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.

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.

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 four weeks.

#### 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. 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 banking relationship alongside 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 partially hedge our interest rate exposure on the debt facilities we had drawn by the Period end.

### 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.

**Nick Hewson**  
Chairman

4 September 2018

Since our IPO in July 2017, we have 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.

**2017**

**JULY**

- The Company's IPO raises £100 million gross proceeds

**AUGUST**

- Acquisition of a Tesco superstore in Thetford, Norfolk, for £43.2 million
- Acquisition of a Tesco superstore, in Lime Trees Road, Bristol, for £28.5 million
- Secured a Revolving Credit Facility of £100 million from HSBC

**SEPTEMBER**

- Acquisition of a Sainsbury's superstore in Ashford, Kent, for £79.8 million

- Declared first interim dividend of 1.375 pence per Ordinary Share

**NOVEMBER**

- Oversubscribed placing of 20 million new Ordinary Shares at an issue price of 100 pence per share

**DECEMBER**

- Acquisition of a Tesco Extra in Cumbernauld, North Lanarkshire, for £50.0 million

**2018**

**FEBRUARY**

- Declared second interim dividend of 1.375 pence per Ordinary Share

**APRIL**

- Declared third interim dividend of 1.375 pence per Ordinary Share

**MAY**

- Oversubscribed placing of 65 million new Ordinary Shares at an issue price of 101 pence per share

- Acquisition of a Tesco Extra in Scunthorpe, North Lincolnshire, for £53.0 million

**JULY\***

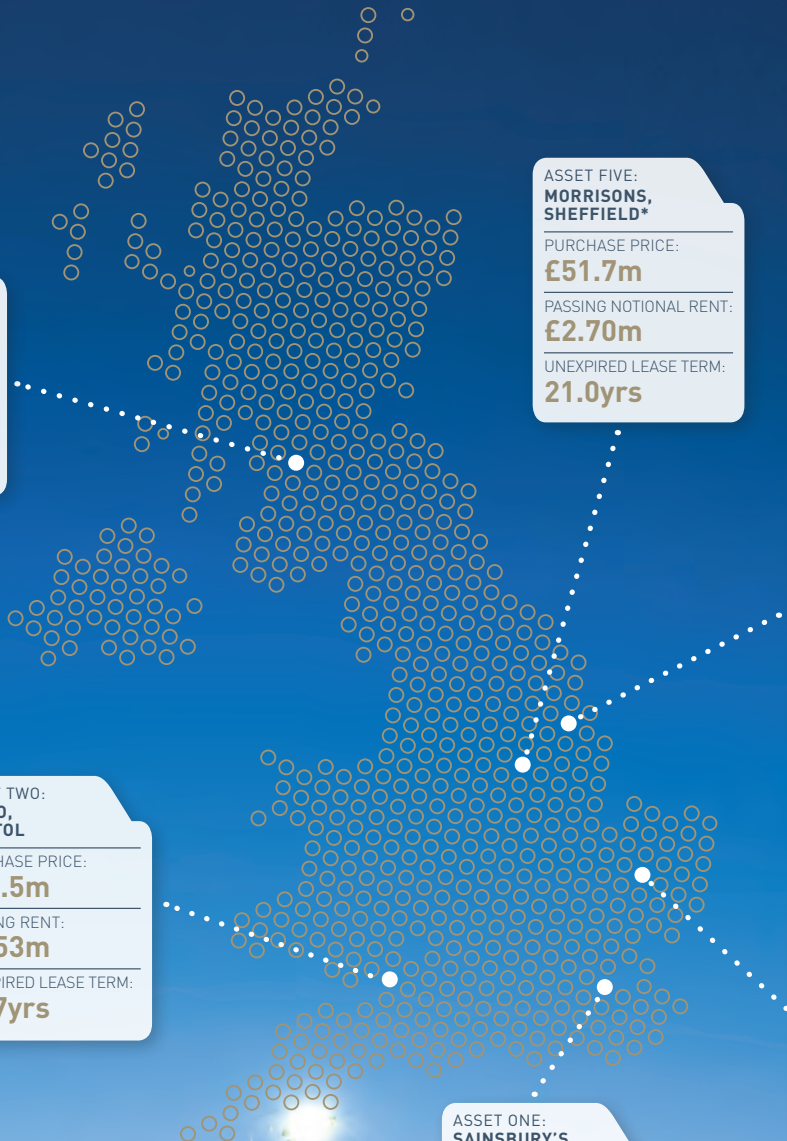
- Declared fourth interim dividend of 1.375 pence per Ordinary Share

- Secured a 5-year term Credit Facility of £52.1 million from Bayerische Landesbank

- Acquisition of a Morrisons supermarket in Hillsborough, Sheffield for £51.7 million

\*Post balance sheet events





**ASSET THREE:  
TESCO,  
CUMBERNAULD**

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PURCHASE PRICE:  
**£50.0m**

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PASSING RENT:  
**£2.94m**

---

UNEXPIRED LEASE TERM:  
**22.2yrs**

**ASSET FIVE:  
MORRISONS,  
SHEFFIELD\***

---

PURCHASE PRICE:  
**£51.7m**

---

PASSING NOTIONAL RENT:  
**£2.70m**

---

UNEXPIRED LEASE TERM:  
**21.0yrs**

**ASSET FOUR:  
TESCO,  
SCUNTHORPE**

---

PURCHASE PRICE:  
**£53.0m**

---

PASSING RENT:  
**£2.88m**

---

UNEXPIRED LEASE TERM:  
**22.2yrs**

**ASSET TWO:  
TESCO,  
BRISTOL**

---

PURCHASE PRICE:  
**£28.5m**

---

PASSING RENT:  
**£1.53m**

---

UNEXPIRED LEASE TERM:  
**12.7yrs**

**ASSET SIX:  
TESCO,  
THETFORD**

---

PURCHASE PRICE:  
**£43.2m**

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PASSING RENT:  
**£2.56m**

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UNEXPIRED LEASE TERM:  
**11.5yrs**

**ASSET ONE:  
SAINSBURY'S,  
ASHFORD**

---

PURCHASE PRICE:  
**£79.8m**

---

PASSING RENT:  
**£3.82m**

---

UNEXPIRED LEASE TERM:  
**20.2yrs**

\*Asset acquired post balance sheet

**bury's**

armacy



ASSET ONE:

**SAINSBURY'S, ASHFORD**

This 17 acre site 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. The store has benefited from significant capital investment with Sainsbury's undertaking

a major extension and refurbishment of the entire site in 2011.

PURCHASE PRICE:  
**£79.8m**

PASSING RENT:  
**£3.82m**

RENT REVIEW BASIS:  
**Annual RPI uplift**

NEXT RENT REVIEW:  
**September 2018**

ACQUISITION DATE:  
**August 2017**

RENT REVIEW COLLAR:  
**3% cap, 1% floor**

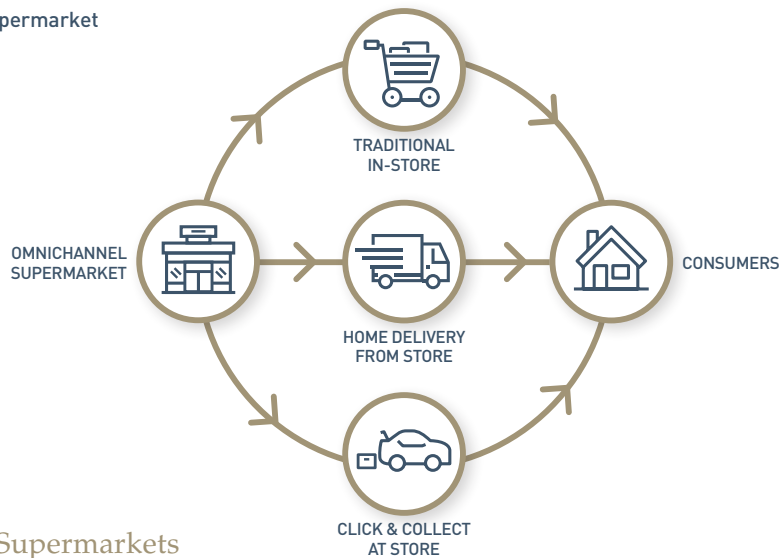
LEASE EXPIRY:  
**September 2038**

SIZE:  
**125,000 sq ft**





The omnichannel supermarket



### Omnichannel Supermarkets

**We invest in the future model of UK grocery**  
 We target future-proofed supermarkets known as omnichannel supermarkets. These supermarkets operate as both physical stores and online fulfilment centres and represent one of the most attractive asset classes within the real estate sector.

Consumer preference for convenience, fresh produce and product assortment, together with operator need to optimise online delivery logistics, has resulted in large omnichannel supermarket properties being highly favoured by the operators.

In the 18 years since Tesco introduced the UK’s first nationwide online grocery platform in 2000, UK grocers have pioneered the development of this omnichannel business model which seamlessly integrates both in-store and online demand across the UK creating world-leading last-mile grocery fulfilment platform.

This omnichannel model has also created an appealing new class of investment property. This new type of property has become the nucleus for last-mile grocery fulfilment, integrating online with traditional in-store sales.

These omnichannel supermarkets have characteristics not evident in other forms of real estate, namely:

- modern flexible buildings adapted to operate both in-store and online operations, accommodating multiple loading bays, refrigeration units and home delivery vehicles
- strategically located close to major road networks, allowing efficient goods inward stocking and distribution of home deliveries
- situated in population centres close to consumers, simplifying downstream, last-mile, online delivery logistics
- large floor areas, capable of housing a full range of fresh groceries and providing scale economies for the operator

The UK online grocery market is growing strongly. In 2017, online grocery sales accounted for 6% of the £185 billion UK grocery market, resulting in the UK becoming the world’s most advanced online grocery market. IGD forecasts online to become the fastest-growing segment of all UK grocery channels, with latest figures predicting growth of more than 70% between 2017 and 2023, to £17 billion. By 2023 online grocery sales are forecast to account for 8% of total grocery sales.

Consumer trends for ultra-convenience shopping also favour omnichannel supermarkets. In July 2017, Tesco launched same-day delivery across 99% of the UK. In August 2017, Sainsbury’s announced a 30-minute click-and-collect service.

The success of the omnichannel grocery model has resulted in pure-play online retailers following the UK grocers’ model and adopting the omnichannel format. Examples of this trend are Amazon’s purchase of Whole Foods in the US and Alibaba’s Hema store network in China, which it plans to expand by 2,000 sites over the next five years.

Although large online-only grocery warehouses (known as “dark stores” or “Customer Fulfilment Centres”) will continue to play an important role in optimising online fulfilment in high population density cities, such as London, their prohibitive capital cost, combined with the need for a distribution network closer to the consumer, means that operators are increasingly focused on omnichannel stores.

As a result, both pure-play online and traditional bricks-and-mortar retailers are increasingly relying on supermarket real estate, generating significant scope for rental and valuation growth in the longer term.

ASSET TWO:  
**TESCO, BRISTOL**

The property is situated within the Henleaze suburb of Bristol and has a long history of strong

trading performance. This suburban store is located in close proximity to central

Bristol and facilitates online fulfilment via click and collect. This sizable suburban

site has significant potential for future asset management.

PURCHASE PRICE:  
**£28.5m**

PASSING RENT:  
**£1.53m**

RENT REVIEW BASIS:  
**Annual RPI uplift**

NEXT RENT REVIEW:  
**March 2019**

ACQUISITION DATE:  
**August 2017**

RENT REVIEW COLLAR:  
**4% cap, 0% floor**

LEASE EXPIRY:  
**March 2031**

SIZE:  
**55,000 sq ft**



## 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 major operators now utilising well-located stores as last-mile fulfilment centres, the Group predominantly 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 long leasehold 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.

### Portfolio Summary

Tenant	Tesco	Tesco	Sainsbury's	Tesco	Tesco
Location	Thetford, Norwich	Lime Trees, Bristol	Ashford, Kent	Cumbernauld, N Lanarkshire	Gallagher Retail Park, Scunthorpe
Acquisition date	August 2017	August 2017	August 2017	December 2017	May 2018
Purchase price	£43.2m	£28.5m	£79.8m	£50.0m	£53.0m
Valuation at 30 June 2018	£43.8m	£29.1m	£83.4m	£54.5m	£54.1m
Passing annual rent	£2.56m	£1.53m	£3.82m	£2.94m	£2.88m
Size (sq ft)	78,000	55,000	125,000	117,000	98,000
Rent review basis	Annual RPI	Annual RPI	Annual RPI	Annual RPI	Annual RPI
Lease expiry	Dec '29	Mar '31	Sep '38	Aug '40	Aug '40
Tenure	Virtual freehold	Virtual freehold	Freehold	Virtual freehold	Virtual freehold

### 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, 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

ASSET THREE:

### TESCO, CUMBERNAULD

The store has an impressive trading record on site and plays an important role in

Tesco's Scottish online fulfilment network. It occupies a town centre location equidistant

from Glasgow and Sterling, which benefits from a low site cover ratio of 25%. This store

fulfils both online home delivery and click and collect.

PURCHASE PRICE:

**£50.0m**

PASSING RENT:

**£2.94m**

RENT REVIEW BASIS:

**Annual RPI uplift**

NEXT RENT REVIEW:

**March 2019**

ACQUISITION DATE:

**December 2017**

RENT REVIEW COLLAR:

**5% cap, 0% floor**

LEASE EXPIRY:

**August 2040**

SIZE:

**117,000 sq ft**



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 were £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.

ASSET FOUR:

**TESCO, SCUNTHORPE**

The store is strategically located to support online fulfilment given the excellent motorway and road connections with

multiple dedicated online fulfilment distribution docks the store plays an important role in Tesco's online fulfilment network.

The store has a strong trading record on site and is situated adjacent to the Lincolnshire Lakes development, which will

consist of more than 6,000 new homes. This store fulfils both online home delivery and click and collect.

PURCHASE PRICE:  
**£53.0m**

PASSING RENT:  
**£2.88m**

RENT REVIEW BASIS:  
**Annual RPI uplift**

NEXT RENT REVIEW:  
**March 2019**

ACQUISITION DATE:  
**May 2018**

RENT REVIEW COLLAR:  
**5% cap, 0% floor**

LEASE EXPIRY:  
**August 2040**

SIZE:  
**98,000 sq ft**



### 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 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

ASSET FIVE:

**MORRISONS, SHEFFIELD**

The Morrisons store occupies a town centre location situated in the

historic and prominent Hillsborough Barracks site. The store has

benefited from significant capital investment, has a history of strong trading

performance and is ideally placed to serve the wider Hillsborough area.

PURCHASE PRICE:  
**£51.7m**

PASSING NOTIONAL RENT:  
**£2.70m**

RENT REVIEW BASIS:  
**5 years RPI uplift**

NEXT RENT REVIEW:  
**October 2019**

ACQUISITION DATE:  
**July 2018**

RENT REVIEW COLLAR:  
**4% cap, 0% floor**

LEASE EXPIRY:  
**October 2039**

SIZE:  
**113,000 sq ft**





## 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% over 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 operators' business models. According to IGD Retail Analysis research, hypermarket and supermarket stores 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 usually 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.

ASSET SIX:

### **TESCO, THETFORD**

The property has a long history of strong trading and is situated directly adjacent to a major residential development.

The Crown Estate has final planning consent to build 5,000 homes and associated infrastructure right

next to this store, which will 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.

PURCHASE PRICE:  
**£43.8m**

PASSING RENT:  
**£2.56m**

RENT REVIEW BASIS:  
**Annual RPI uplift**

NEXT RENT REVIEW:  
**December 2018**

ACQUISITION DATE:  
**August 2017**

RENT REVIEW COLLAR:  
**4% cap, 0% floor**

LEASE EXPIRY:  
**December 2029**

SIZE:  
**78,000 sq ft**



### 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 also has 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 panelling, 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, 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% 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:

Risk	Assumption
<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 page 9. 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 page 15. 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 page 70.

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

**Nick Hewson**  
Chairman

4 September 2018

DIRECTORS



**NICK HEWSON**

**Chairman**

Nick Hewson was co-founder, CEO and chairman of Grantchester Holdings plc, where he worked from 1990 until 2012. Nick currently serves as a non-executive director and chair of the audit committee at Redrow plc, a FTSE 250 company and one of the UK's leading housebuilders. Prior to this, Nick was chair of the executive committee of Pradera AM plc, a European retail property fund management business. Nick was also a founding partner of City Centre Partners LP.



**VINCE PRIOR**

**Senior Independent Director**

Vince Prior joined Sainsbury's Property Investment team in 2008 and was subsequently appointed as Head of Property Investment. Over a five-year period to 2014, the value of Sainsbury's property portfolio grew from £7.5 billion to £12 billion. Before joining Sainsbury's Vince was the head of Retail Advisory Services at Jones Lang LaSalle ("JLL") and provided strategic advice to a range of high-profile supermarket and retail operators. Vince started his career working for Tesco where he helped to set up their store location team.



**JON AUSTEN**

**Chair of Audit Committee**

Jon Austen is chief financial officer at Audley Court Limited, which develops retirement villages in the UK. Jon is also a non-executive director of McKay Securities plc, which specialises in office and industrial property. Prior to Audley Court, Jon was group finance director at Urban&Civic Plc. Jon has also held senior finance roles at London and Edinburgh Trust plc, Pricoa Property plc and Goodman Limited. Jon is a fellow of the Institute of Chartered Accountants of England and Wales.



## INVESTMENT ADVISER



### BEN GREEN

Ben has over 20 years of experience structuring and executing real estate transactions and has completed £4 billion of supermarket sale and leasebacks over the course of his career. Ben qualified as a lawyer in 1997 and worked at Wilde Sapte and Linklaters LLP. He left law in 2000 and has since spent his career at Barclays, Lloyds and Goldman Sachs where he was a Managing Director and European Head of Structured Finance.



### STEVE WINDSOR

Steve spent 16 years at Goldman Sachs specialising in finance and risk management. Steve became a partner at Goldman Sachs in 2008 and headed Goldman Sachs' European, Middle East and African Debt Capital Markets and Risk Management businesses from 2010 until 2016. Steve has helped and advised a number of FTSE 100 companies on how to finance their business and manage risk. Steve was a member of the Goldman Sachs Investment Banking Risk Committee.



### STEVEN NOBLE

Steven spent nine years at Lloyds in origination and risk management with focus on commercial real estate. Steven has negotiated and executed over £350 million of supermarket property transactions. Prior to Lloyds, Steven was at KPMG where he qualified as a chartered accountant. Steven is a fellow of the Institute of Chartered Accountants Ireland and holds the Chartered Financial Analyst designation.



### NATALIE MARKHAM

Natalie was previously chief financial officer at Macquarie Global Property Advisors Europe. Natalie was also a member of the MGPA European management team and a director of the MGPA European advisory business. Natalie was involved in the development of business strategy, financial planning and responsible for all aspects of the financial management of the business. Natalie qualified as a chartered accountant in 2000 and is a fellow of the Institute of Chartered Accountants of England and Wales.



### CHRISTOPHER FEARON

Christopher provides research analysis on potential acquisitions and asset management initiatives. Christopher has several years' experience working for multi-sector asset managers and holds an MSc in Real Estate from CASS Business School.

## Corporate Governance Statement

### Governance Codes

The Board has considered the principles and recommendations of the AIC code of Corporate Governance (“AIC Code”) by reference to the AIC Corporate Governance Guide (“AIC Guide”). The AIC Code as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company and Group.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Corporate Governance Code), will provide better information to shareholders.

Throughout the period, the Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Corporate Governance Code as set out below.

The UK Corporate Governance Code includes provisions relating to:

- the role of the Chief Executive
- Executive Directors’ remuneration
- the need for an internal audit function.

For the reasons set out in the AIC Guide, and as explained in the UK Corporate Governance Code, the Board considers these provisions are not relevant to Supermarket Income REIT plc, being an externally managed investment company. In particular, all of the Company’s day-to-day management and administrative functions are outsourced to third parties. As a result, the Company has no executive Directors, employees or internal operations. The Company has therefore not reported further in respect of these provisions.

AIC Code	Principle	Evidence of compliance/explanation of departure from the AIC Code
1	The Chairman should be independent.	The Chairman, Nick Hewson, was independent on appointment.
2	A majority of the Board should be independent of the Investment Manager and of the Investment Adviser.	During the period under review the Board consisted solely of Non-Executive Directors with Nick Hewson as Chairman. All of the Directors are considered by the Board to be independent of the Alternative Investment Fund Manager (“AIFM” or “Investment Manager”) and of Atrato Capital Limited (“Investment Adviser”). As such they are considered to be free from any business or other relationships that could interfere with the exercise of their judgements.
3	Directors should be submitted for re-election at regular intervals. Nomination for re-election should not be assumed but be based on disclosed procedures and continued satisfactory performance.	The Directors are required to submit themselves for re-election at least every three years. In addition, the Board has agreed that any Director with more than nine years’ service will be required to stand for re-election at each Annual General Meeting.
4	The Board should have a policy on tenure, which is disclosed in the annual report.	The Board’s policy on tenure is that continuity and experience are considered to add significantly to the strength of the Board and, as such, there is no limit on the overall length of service of any of the Directors. The Board does not believe that length of service on a wholly non-executive Board has a bearing on independence. An individual Director’s experience and continuity of Board membership can significantly enhance the effectiveness of the Board as a whole.
5	There should be full disclosure of information about the Board.	Full information about the Board is set out in the Directors’ biographies on page 22 and on the Company website at <a href="http://supermarketincomereit.com">http://supermarketincomereit.com</a> and through announcements, as appropriate.

AIC Code	Principle	Evidence of compliance/explanation of departure from the AIC Code
6	The Board should aim to have a balance of skills, experience, length of service and knowledge of the company.	All new appointments by the Board are subject to election by shareholders at the AGM following their appointment. The Group's Articles of Association require all Directors to retire at least every three years. The Board believes in the benefits of having a diverse range of skills and backgrounds, and the need to have a balance of experience, independence, diversity, including gender, and knowledge on its Board of Directors. All appointments will continue to be based on merit and therefore the Board is unwilling to commit to numerical diversity targets.
7	The Board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual Directors.	The Board has a formal policy to evaluate its own performance annually. The Chairman leads the assessment which covers: <ul style="list-style-type: none"> <li>• The performance of the Board and its committees, including how the Directors work together as a whole;</li> <li>• The balance of skills, experience, independence and knowledge of the Directors; and</li> <li>• Individual performance, particularly considering whether each Director continues to make an effective contribution.</li> </ul> The assessment involves the completion of anonymous questionnaires followed by a discussion with all Directors, as a group and individually. As the Company had not completed a full year of activity, a Board evaluation has yet to be conducted.
8	Director remuneration should reflect their duties, responsibilities and the value of their time spent.	The Company does not have a separate remuneration committee as the Board as a whole fulfils the function of a remuneration committee. Directors' remuneration levels are set by the Board by reference to market rates for equivalent positions in companies of similar size and operations. The remuneration of the Directors is determined within the limits set out in the remuneration policy and the total aggregate annual fees payable to the Directors in respect of any financial period shall not exceed £500,000. Any fees in excess of this amount must be approved by shareholders by way of an ordinary resolution.
9	The independent directors should take the lead in the appointment of new Directors and the process should be disclosed in the annual report.	The Board which consists solely of independent non-executive Directors, is responsible for identifying and recommending the appointment of new directors. The Board does not use a separate nomination committee given the size and nature of the Board. Following the annual evaluation process during which the Board considers its own performance and that of any committees and individual Directors, the Board led by the Chairman assesses whether any skill gaps exist which would require the appointment of a new Board member. The Board also considers: <ul style="list-style-type: none"> <li>• the time spent by each Director, during the period, on matters relating to the Company, having due regard to the other commitments each Director has outside his or her involvement with the Company;</li> <li>• whether each Director has demonstrated sufficient commitment to discharging his or her duties as a Director for the Company and has committed sufficient time to Company matters;</li> <li>• whether the performance of each Director submitting themselves for re-election continues to be effective, and</li> <li>• that each Director has demonstrated commitment to the role.</li> </ul>
10	Directors should be offered relevant training and induction.	New Directors will receive an induction from the Investment Manager and the Administrator on joining the Board. Directors receive market updates and regulatory developments and are provided training as identified through the Board evaluation, as required.
11	The Chairman (and the Board) should be brought into the process of structuring a new launch at an early stage.	This principle applies to the launch of new investment companies and is therefore not applicable to the Company. Whenever the Company is planning an equity fundraising, the Chairman and the Board will be involved and are integral to the process from an early stage.

AIC Code	Principle	Evidence of compliance/explanation of departure from the AIC Code
12	Boards and managers should operate in a supportive, co-operative and open environment.	Formal Board meetings provide a forum for the Directors to receive reports and interact with key members of the Investment Manager's and Investment Adviser's teams. However, there is ongoing informal interaction between the Directors, Investment Manager and Investment Adviser through the provision of investment updates and other queries that the Board may have.
13	The primary focus at regular Board meetings should be a review of investment performance and associated matters such as gearing, asset allocation, marketing/investor relations, peer group information and industry issues.	The Board meets regularly and receives full information on the Group's investment performance, assets, liabilities, proposed investments and other relevant information in advance of Board meetings.
14	The Board should give sufficient attention to overall strategy.	Strategic issues and operational matters of a material nature are determined and monitored on any on-going basis by the Board. Where required Board meetings are convened to discuss strategy.
15	The Board should regularly review both the performance of, and contractual arrangements with, the manager (or executives of a self-managed company).	<p>JTC Global AIFM Solutions Limited has been appointed by the Company, pursuant to the AIFM Agreement, to be the Group's Alternative Investment Fund Manager ("AIFM" or "Investment Manager"), under which it is responsible for overall portfolio management and compliance with the Group's investment policy, ensuring compliance with the requirements of the Alternative Investment Fund Manager Directive ("AIFMD") that apply to the Group, and undertaking risk management. The AIFM has delegated certain services in relation to the Group and its Portfolio, which include advising in relation to financing and asset management opportunities. Atrato Capital Limited ("Atrato" or the "Investment Adviser") advises the Group on the acquisition of its investment portfolio and on the development, management and disposal of UK commercial assets in its portfolio pursuant to the Investment Advisory Agreement.</p> <p>The Board keeps the appropriateness of the Investment Adviser's and the Investment Manager's appointment under review. In doing so the Board considers the past investment performance of the Group and the capability and resources of the Investment Adviser to deliver satisfactory investment performance in the future. It also reviews the fees payable to the Investment Adviser and Investment Manager, together with the standard of the other services provided.</p>
16	The Board should agree policies with the manager covering key operational issues.	The management agreement between the Group and the Investment Manager sets out the matters over which the Manager has authority and the limits beyond which Board approval must be sought. All other matters, including investment and dividend policies, corporate strategy, gearing, corporate governance procedures and risk management, are reserved for the approval of the Board.
17	The Board should monitor the level of the share price discount or premium (if any) and, if desirable, take action to reduce it.	The Board monitors the share price on an ongoing basis. The Board has not attempted to manage any discount through a repurchase of shares as Directors believe that the discount is minimised through consistently good long-term returns, transparent reporting, rigorous valuation, avoidance of risk at the Company level and the maintenance of an active programme of market engagement.
18	The Board should monitor and evaluate other service providers.	All third party service providers are monitored on an ongoing basis by reference to the quality of work produced. A rolling programme has been set up to review and monitor compliance of third party providers against the terms of their agreements. The nature and depth of each review is based upon the risk and materiality of each provider. The performance of the other service providers is assessed on a regular basis by the Board. As the Company has not completed a full year of activity, a formal evaluation of the other service providers has yet to be conducted, including that of the independent auditor by the Audit Committee.

AIC Code	Principle	Evidence of compliance/explanation of departure from the AIC Code
19	The Board should regularly monitor the shareholder profile of the Group and put in place a system for canvassing shareholder views and for communicating the Board's views to shareholders.	The Board seeks the views of its shareholders and places great importance on communication with them. The Board receives regular reports, from the Investment Adviser and from the Company's Broker, on the views of shareholders, and the Chairman and other Directors make themselves available to meet shareholders, when required, to discuss any significant issues that have arisen and address shareholder concerns and queries. The AGM, in particular, provides the Board with an important opportunity to make contact with shareholders, who are invited to meet the Board following the formal business of the meeting.
20	The Board should normally take responsibility for, and have a direct involvement in, the content of communications regarding major corporate issues even if the manager is asked to act as spokesman.	The Board has responsibility for approving the content and timing of communications regarding major corporate issues and events. Communications normally take the form of stock exchange announcements, press releases and direct correspondence with shareholders.
21	The Board should ensure that shareholders are provided with sufficient information for them to understand the risk:reward balance to which they are exposed by holding the shares.	The Board places great importance on communication with shareholders. It aims to provide shareholders with a full understanding of the Company's activities and performance and reports formally to shareholders twice a year by way of the Interim Report and Annual Report and Accounts, particularly the Strategic Report therein. The Board considers that the Company's Strategic Report provides information about the performance of the Company, the investment policy, strategy and the risks and uncertainties relating to the Company's future prospects so that shareholders have sufficient information to understand the nature of their investment in the Company. This is supplemented by frequent notifications via a regulatory information service on developments such as asset acquisitions, and fundraising activities, and the Company's website at <a href="http://supermarketincomereit.com">http://supermarketincomereit.com</a> is regularly updated.

## Audit Committee Report

The Audit Committee comprises Jon Austen and Vince Prior and is chaired by Jon Austen. Jon Austen has sufficient recent and relevant financial experience to act as chair of the Audit Committee. The Audit Committee has responsibility for, amongst other things, the planning and review of the Group's annual report and accounts, half-yearly reports and the involvement of the Group's auditors in the process. The Committee focuses in particular on compliance with legal requirements, accounting standards and on ensuring that an effective system of internal financial control is maintained. The Audit Committee also reviews the objectivity of the Group's auditors and the terms under which the Group's auditors are appointed to perform non-audit services.

The terms of reference of the Audit Committee cover such issues as committee membership, frequency of meetings, quorum requirements and the right to attend meetings. The responsibilities of the Audit Committee covered in the terms of reference relate to the following: external audit, financial reporting, internal controls and risk management. The terms of reference also set out reporting responsibilities and the authority of the Committee to carry out its responsibilities.

The Audit Committee will meet not less than twice a year and at the appropriate times in the reporting and audit cycle and at such other times as the Committee Chairman shall require.

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

- the consistency of, and any changes to, accounting policies both from year-to-year and across the Company or Group;
- the methods used to account for significant or unusual transactions where different approaches are possible;
- whether the Group and Company have followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditors;
- the clarity and completeness of disclosure in the Group's and Company's financial reports and the context in which statements are made; and

- all material information presented with the financial statements, such as the business review and the corporate governance statements relating to the audit and to risk management.

Where requested by the Board the Audit Committee also reviews the content of the annual report and financial statements to advise the Board whether, taken as a whole, they are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

The other key responsibilities of the Audit Committee are:

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

In overseeing the relationship with the auditors, the Committee considers and makes recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, reappointment or removal of the auditors. If an auditor resigns, the Committee is required to investigate the issues leading to this and to decide whether any action is required. The Committee also makes recommendations on the remuneration of the auditors, including fees for both audit and any non-audit services, ensuring that the level of fees is appropriate to enable an effective and high-quality audit to be conducted while remaining reasonably consistent with other similar real estate companies. Where the auditors undertake non-audit work, the Committee considers whether that work could be detrimental to the independence of the auditors. The Committee also approves the auditors' terms of engagement, including the scope of the audit, and on an annual basis assesses their independence and objectivity,

taking into account relevant UK professional and regulatory requirements and the relationship with the auditors as a whole, including the provision of any non-audit services to the Group and the provision of any services to the Investment Adviser and Investment Manager.

#### **Composition of the Audit Committee**

The Audit Committee currently comprises Jon Austen and Vince Prior, and is chaired by Jon Austen. The Committee has assessed whether its members have the requisite skills to carry out their role and believes that the composition of the Committee remains appropriate.

#### **Meetings of the Audit Committee**

The Audit Committee met twice during the Period. Meetings were held on 18 October 2017 and 2 February 2018, the latter being just prior to the 2017 interim results announcement. Both meetings were attended by both members of the Committee.

#### **External audit**

BDO LLP were appointed auditors of the Company on June 2017. The audit partner is Russell Field.

The Committee met formally with the auditors at each Committee meeting during the Period. Part of each meeting took place without the Investment Adviser being present to discuss any issues arising relating to them. The Committee's review of the findings of the work of the auditors covered:

- a discussion of any major issues which arose during the audit of the Company's initial accounts to 18 September 2017 and the review of the Group's Interim Report to 31 December 2017;
- a review of the key accounting matters and judgements relating to those engagements;
- confirmation of the levels of potential adjustments, if any, identified during the engagements;
- an assessment of the overall control environment; and
- an assessment of the effectiveness of the audit and review processes.

The Committee has considered the performance, effectiveness and objectivity of the auditors through its regular meetings and communications with them. The Committee's assessment is that the auditors have the necessary experience, independence and qualifications to deliver an effective audit, and that their ability to challenge and review the Investment Adviser and Board is sufficient and appropriate.

There are therefore currently no plans for re-tendering the audit. The Committee recommends that shareholders vote in favour of the reappointment of the auditors, which is proposed as an ordinary resolution at the Company's forthcoming AGM.

The total fees charged by the auditors to the Group during the Period were £380,000, as disclosed in note 6 to the Group financial statements and including fees accrued for the audit of these financial statements. This total includes £225,000 of non-audit work during the Period largely relating to their work as Reporting Accountants in connection with the Company's share placings in July 2017 and March 2018. Such work is, in the Committee's view, most effectively and cost-efficiently carried out by the auditors and is not considered a threat to their independence.

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

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

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

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

#### **Significant matters relating to the financial statements**

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

Matter	Description
<b>Investment property valuations</b>	<p>Investment properties make up the majority of the Group's assets. Investment property valuations are inherently subjective, but the Group operates in a mature and liquid property market in the UK, which is a jurisdiction with well-developed valuation processes and methodologies. The opinion of external valuers is obtained at each reporting date, using recognised valuation techniques and the principles of IFRS 13 "Fair Value Measurement". The valuations at the balance sheet date were performed by Cushman and Wakefield ("C&amp;W"), who the Audit Committee believes to be suitably independent, competent and experienced to carry out the work. The Committee Chairman attended a meeting between the auditors and C&amp;W which included detailed discussions of material fair value changes and a comparison of changes to external sources. The meetings also included a review of current conditions and recent, relevant transactions to provide a context for the valuations and to allow an assessment of the assumptions and judgements made by C&amp;W. The Committee's intention is to continue to meet with the valuer in future to discuss their valuations. The Committee considered that the inputs provided by the Group to C&amp;W for the valuations adopted in the financial statements were accurately extracted from the Group's accounting records. The Committee also reviewed the level of disclosure in note 12 to the financial statements and believes that it meets the requirements of IFRS 13.</p>
<b>Revenue recognition</b>	<p>In accordance with applicable accounting standards, the Group recognises rental income on an accruals basis. Contingent income such as RPI uplifts are recorded in the income statement in the periods in which they are earned.</p> <p>The Committee has reviewed recognised rent receivable from each property in the Period based on expectations from a review of each lease agreement and having regard to any contractual rent uplifts which took effect in the post-acquisition period and published RPI data. Under IAS 17 "Leases", the Group is required to recognise rent receivable under operating leases on a straightline basis over the expected term of the lease. This has resulted in the Group accruing £328,000 of un invoiced rental income in the period to 30 June 2018 in respect of the 1% guaranteed annual uplifts provided within the Sainsbury's Ashford lease.</p> <p>Following this review the Committee is not aware of any issues that suggest Group revenue has not been recognised in accordance with the requirements of IAS 17.</p>
<b>Management overriding controls</b>	<p>The management of an entity are in a unique position to perpetrate fraud because they have the ability directly or indirectly to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. The Committee considered that due to the unpredictable way in which such override could occur, there exists a significant risk of material misstatement due to fraud.</p> <p>In relation to the financial statements for the Group, the Committee would have expected that management override of controls would manifest through bias in the key accounting estimates. The Committee considers the key accounting estimate to be the valuation of investment property. This estimate was considered as a separate risk item above. The Committee also considered other accounting estimates which could be subject to bias within the financial statements but did not identify any material issues. The Committee also considered the transactions that occurred between the Group and the Investment Adviser to confirm that they were in accordance with expectations and the terms of the Investment Advisory Agreement. No issues were identified in relation to these transactions.</p> <p>The Committee did not identify any instances where management have overridden controls to give rise to a material misstatement within the financial records of the Group.</p>



Matter	Description
<b>REIT status</b>	<p>The Company and its subsidiaries gave notice to HMRC on 20 December 2017 that they would be operating as a UK REIT, effective from 21 December 2017. Any failure to comply with the various conditions that are required to be satisfied on an on-going basis to operate as a UK REIT could have a material impact on the tax balances that need to be reflected in the financial records of the Group.</p> <p>The Committee reviewed a copy of the notice submitted by the Company to HMRC on 20 December 2017. Following successful entry into the UK REIT regime the Group's exposure to UK taxation is minimal. The Committee reviewed the Group's compliance with the various requirements of the UK REIT regime having regard to the work undertaken by the auditors and their tax specialists. The tax calculations and reconciliations prepared by the Investment Adviser for the purposes of inclusion in the Group's financial statements were considered to ensure that the provisions appropriately reflect the tax payable by the Group at the reporting date in respect of its profits that are excluded from inclusion in the UK REIT regime.</p> <p>The Committee has not identified any issues to suggest that the tax provisions and disclosures contained within the Group's financial statements are materially inappropriate.</p>
<b>Going concern and viability statement</b>	<p>The Board is required to consider whether the Group has adequate resources to continue in operational existence for the foreseeable future, which is considered to be at least 12 months from the date of approval of the annual report.</p> <p>The Audit Committee has reviewed the work of the Investment Adviser on going concern, which included a report on the Group's liquidity position, compliance with loan covenants and the financial strength of its tenants, together with forecasts of the Group's cash flow over the period to at least July 2019. As a result, the Committee has concluded that the going concern basis remains appropriate.</p> <p>The Committee has also reviewed the work of the Investment Adviser to support the viability statement included in the Strategic Report, which included forecasts of the Group's results over the period to June 2023. In carrying out this review, the Committee also considered the risks and assumptions relevant to those forecasts, together with the various sensitivity scenarios modelled in them. As a result, the Committee has concluded that there is a reasonable expectation that the Group will be able to continue in business over the five year period of the assessment.</p>

Signed on behalf of the Audit Committee  
on 4 September 2018.

**Jon Austen**  
Audit Committee 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 Corporate Governance Statement on page 24 forms part of their report. The Group's Strategic Report can be found on pages 1 to 21.

### 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 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 1 to 21.

### 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 1 to 21.

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:

Director	Audit Committee	Quarterly Board
Nick Hewson	N/A	3/3
Vince 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

All Directors are non-executive Directors and their biographies are set out on page 22.

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.

Details of the fees paid to Directors in the period are set out in the Directors’ Remuneration Report on page 35.

#### 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:

	Number of shares	Percentage of issued share capital
Nick Hewson	360,000	0.20
Jon Austen	99,000	0.05
Vince 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:

	Number of shares	Percentage of issued share capital
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 18 to the financial statements. Details of future developments are included in the Strategic Report on pages 1 to 21.

### 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.

**Nick Hewson**

Chairman

4 September 2018

## Directors' Remuneration Report

### Annual statement

The Board comprises only non-executive Directors. The Group has no executive Directors or employees. For these reasons, it is not considered necessary to have a separate Remuneration Committee. The full Board determines the level of Directors' fees. The Remuneration Report and the Remuneration Policy will be presented at the AGM for shareholder consideration and approval.

Full details of the Group's remuneration policy with regards to Directors' fees and details of fees paid during the period ended 30 June 2018 are shown below.

### Directors' remuneration policy

The Board considers the level of Directors' fees at least annually. Reviews of Director's fees take place each financial year with any changes being applicable from the start of the next financial year.

The remuneration of the Directors for their services are determined within the limit set out in the Company's Articles of Association. The present limit states that fees in aggregate shall not exceed £500,000 per annum

but this may be changed by way of ordinary resolution. Directors can also be paid additional remuneration if approved at a General Meeting. Director's fees are fixed and payable in cash, monthly in arrears. Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

The Company may repay to any Director all such reasonable expenses incurred in undertaking their duties.

It is the Board's policy that Directors do not have service contracts, but each new Director is provided with a letter of appointment. The terms of Directors' appointments which are terminable by either party on one month's written notice, provide that Directors should retire and be subject to re-election at the first AGM after their appointment and in accordance with the recommendations of the UK Corporate Governance Code, the Board has agreed that all Directors will seek re-election at least every three years. If a Director has been in office for a continuous period of nine years or more he or she must retire and seek re-election at every AGM.

The Company's Articles specify that one-third of the Board will retire and seek re-election at each AGM.

Director	Date of original appointment	Most recent date of election	Latest due date of re-election
Nick Hewson	20 June 2017	20 June 2017	6 November 2018
Jon Austen	20 June 2017	20 June 2017	6 November 2018
Vince Prior	20 June 2017	20 June 2017	6 November 2018

### Directors' emoluments for the Period

The Directors who served during the Period received the following emoluments in the form of fees:

	Annual fee £000	Received in Period ended 30 June 2018 £000
Nick Hewson	55	60
Jon Austen	40	42
Vince Prior	38	39

### Relative importance of spend on pay

The table below sets out, in respect of the Period ended 30 June 2018:

- The remuneration paid to the Directors;
- The management fee and expenses which have been included to give shareholders a greater understanding of the relative importance of spend on pay; and
- Distributions to shareholders by way of dividend.

	Period ended 30 June 2018 £000
Directors' fees	160
Management fee and expenses	1,079
Dividends paid	4,675

Directors' fees as a percentage of:

	Period ended 30 June 2018 %
Management fee and expenses	14.08
Dividends paid	3.33

### Directors' shareholdings

The Directors, including connected parties, who held office at the 30 June 2018 and their interests (all beneficial) in the Ordinary shares of the Company as at that date are set out in the Directors report on page 32.

### Group performance (subject to audit)

The Board is responsible for the Group's investment strategy and performance, whilst the management of the investment portfolio is delegated to the Investment Manager. The Investment Manager has in turn delegated certain services, including but not limited to advice on acquisitions and financing, to the Investment Adviser. The graph below compares, for the period from launch to 30 June 2018, the total return (assuming all dividends are reinvested) to shareholders compared to the FTSE All-Share Index. This index was chosen as it is considered an indicative measure of the expected return from an equity stock. An explanation of the performance of the

Group for the Period ended 30 June 2018 is given in the Strategic Report.

It is a company law requirement to compare the performance of the Group's share price to a single broad equity market index on a total return basis. However, it should be noted that constituents of the comparative index used above are larger in size than the Group. The Group does not have a benchmark index.

### Voting at Annual General Meeting

Ordinary resolutions for the approval of this Directors' Remuneration Report and of the Directors' Remuneration Policy will be put to shareholders at the AGM.

On behalf of the Board

**Nick Hewson**  
Chairman

4 September 2018

### FTSE 100 vs SUPR (Indexed)



## Directors' Responsibilities Statement

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:

**Nick Hewson**  
Chairman

4 September 2018

### AIFM Report

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.

#### 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.

### 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.

#### 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.

#### 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.

#### 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



## Independent Auditors' Report

### Opinion

We have audited the financial statements of Supermarket Income REIT Plc (the "Parent Company") and its subsidiaries (the "Group") for the period from 1 June 2017 to 30 June 2018 which comprise the consolidated statement of comprehensive income, the consolidated and company statements of changes in equity, the consolidated and company statements of financial position, the consolidated statement of cash flows and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard in the United Kingdom and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 30 June 2018 and of the Group's profit for the period then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report and Accounts set out on pages 18 to 21 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 32 in the Annual Report and Accounts that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 21 in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group and the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the Directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 21 in the annual report and accounts as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How we addressed the key audit matter in the audit
<p><b>Valuation of investment properties</b></p> <p>As detailed in note 12, the Group owns a portfolio of investment properties which are held at fair value in the Group financial statements.</p> <p>As described in the Group's accounting policies in note 3.8, determination of the fair value of investment properties is a key area of estimation and we therefore considered this to be an area of significant audit risk and focus.</p> <p>The Group engages an independent expert valuer to help mitigate this risk. Each valuation requires consideration of the individual nature of the property, its location, its cash flows and comparable market transactions. The valuation of the Group's investment properties requires significant judgements to be made by the external valuer in relation to the appropriate market capitalisation yields and estimated rental values and appropriate input information to be provided by management in relation to the passing rents and lease particulars. Any input inaccuracies or unreasonable valuation judgements could result in a material misstatement of the income statement and balance sheet.</p> <p>There is also a risk that management may influence the significant judgements and estimates in respect of property valuations in order to achieve performance targets to meet market expectations.</p>	<p>Our audit work included, but was not restricted to, the following:</p> <ul style="list-style-type: none"> <li>• We reviewed the design, implementation and appropriateness of the Group's controls relating to the valuation of investment properties. The key controls were identified as being the processes by which the Group ensures that accurate data is provided to the external expert valuer engaged to value the Group's entire property portfolio.</li> <li>• We assessed the competency, qualifications, independence and objectivity of the valuer to confirm that they were appropriately qualified to undertake the valuations and reviewed the terms of their engagement to confirm that there were not any unusual arrangements.</li> <li>• We obtained and read the valuer's report and confirmed that all valuations had been prepared on a basis that was in accordance with the Group's accounting policy and appropriate for determining the carrying value in the Group's financial statements.</li> <li>• The senior members of our team met with the valuer to discuss and challenge the valuation methodology, key assumptions and to consider if there were any indicators of undue management influence on the valuations.</li> <li>• We tested the accuracy of the key observable valuation inputs supplied to and used by the valuer. This primarily involved agreeing the passing rental income and lease terms to underlying supporting documentation.</li> <li>• We compared the key valuation assumptions against our independently formed market expectations and challenged the valuer where significant variances from these expectations were identified. We then corroborated their responses against supporting documentation where appropriate. The key valuation assumptions were the market capitalisation yields, which we reviewed by reference to market data based on the location and specifics of each property.</li> <li>• We reviewed the appropriateness of the Group's disclosures within the financial statements in relation to valuation methodology, key valuation inputs and valuation uncertainty.</li> </ul>

**Key observations**

Based on our work, we are satisfied that the valuation of the Group's investment properties is appropriate and in line with the Group's accounting policies.

### **Our application of materiality**

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

The materiality for the Group financial statements as a whole was set at £2.6 million. This was determined with reference to a benchmark of Group property assets (of which it represents 1.0%) which we consider to be one of the principal considerations for members of the Company in assessing the financial performance of this asset based group. The materiality for the Company financial statements was set at £1.7 million, determined with reference to a benchmark of the Company's total assets (of which it represents 1.0%).

ISAs (UK) also allow the auditor to set a lower materiality for particular classes of transactions, balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. In this context, we set a lower level of materiality of £220,000 to apply to those classes of transactions and balances which impact on the Group's EPRA earnings.

We set performance materiality at 75% of the respective materiality level, having considered a number of factors including the expected total value of known and likely misstatements based on previous assurance engagements and other factors.

We agreed with the Audit Committee that we would report to the Committee all individual audit differences in excess of £130,000. We also agreed to report differences in excess of £11,000 that impacted upon EPRA earnings and others that, in our view, warranted reporting on qualitative grounds.

### **An overview of the scope of our audit**

Our Group audit was scoped by obtaining an understanding of the group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement at the Group level. Audit work to respond to the assessed risks was performed directly by the group audit engagement team who performed full scope audit procedures on the parent company and its subsidiary undertakings.

### **Other information**

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report and Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

### **We have nothing to report in this regard.**

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable set out on page 32 – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit Committee reporting set out on page 28 – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- Directors' statement of compliance with the UK Corporate Governance Code set out on page 37 – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

### **Matters on which we are required to report by exception**

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

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

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

### **Responsibilities of Directors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 37, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Other matters which we are required to address**

Following the recommendation of the Audit Committee, we were appointed by the Directors in June 2017 to audit the financial statements for the period ending 30 June 2018 and subsequent financial periods. The period of total uninterrupted engagement is therefore one year.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company and we remain independent of the Group and the parent company in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit Committee.

### **Use of our report**

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

### **Russell Field (Senior Statutory Auditor)**

For and on behalf of BDO LLP, Statutory Auditor  
London, United Kingdom

4 September 2018

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

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD FROM 1 JUNE 2017 TO 30 JUNE 2018

	Notes	1 June 2017 to 30 June 2018 £000
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 other 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	0.5p

No operations were discontinued in the financial period.  
The notes on pages 48 to 65 form part of these financial statements.

# 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	96p
EPRA NAV per share	23	96p

The notes on pages 48 to 65 form part of these financial statements.

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:

Nick Hewson  
Chairman

# 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)
<b>Total comprehensive income for the period</b>	-	-	(82)	-	620	538
<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>

The notes on pages 48 to 65 form part of these financial statements.



# CONSOLIDATED CASH FLOW

FOR THE PERIOD FROM 1 JUNE 2017 TO 30 JUNE 2018

	Notes	1 June 2017 to 30 June 2018 £000
<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>
Cash and cash equivalents at the beginning of the period		-
<b>Cash and cash equivalents at the end of the period</b>		<b>2,239</b>

The notes on pages 48 to 65 form part of these 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 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.

These consolidated financial statements for the period, from the Company’s incorporation on 1 June 2017 to 30 June 2017, 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 information is 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.

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

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 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 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 the 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 ongoing 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. Summary of significant accounting policies** continued**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

	1 June 2017 to 30 June 2018 £000
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.



## 7. Directors' remuneration

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:

	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>

Further details of Directors' remuneration is set out in the Remuneration Report. 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
<b>UK corporation tax</b>	<b>227</b>

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 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:

**9. Taxation** continued**B) Reconciliation of the tax charge for the period**

	1 June 2017 to 30 June 2018 £000
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:

For the period from 1 June 2017 to 30 June 2018	Net profit attributable to ordinary shareholders £000	Weighted average number of ordinary shares <sup>1</sup> Number	Earnings per share Pence
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

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.

	Freehold £000	Long Leasehold £000	Total £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:

	1 June 2017 to 30 June 2018 £000
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.

**12. Investment properties** continued*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	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 (N01) Limited	Indirect	Property investment
Supermarket Income Investments UK (N02) Limited	Indirect	Property investment
Supermarket Income Investments UK (N03) Limited	Indirect	Property investment
Supermarket Income Investments UK (N04) Limited	Indirect	Property investment
Supermarket Income Investments UK (N05) Limited	Indirect	Property investment
Supermarket Income Investments UK (N06) 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
The interest rate cap is remeasured to fair value by the counterparty bank on a quarterly basis.	
	£000
<b>The fair value at the end of the period comprises:</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

	As at 30 June 2018 £000
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	1,036
<i>Fair value through profit and loss:</i>	
Interest rate derivative	37
<b>Total financial assets</b>	<b>3,292</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:

	1 June 2017 to 30 June 2018 £000
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.

As at 30 June 2018	Less than one year £000	One to two years £000	Two to five years £000	More than five years £000	Total £000
<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.

**18. Categories of financial instruments** continued

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*

	Bank borrowings due in more than one year £000	Interest and commitment fees payable £000	Interest rate derivatives £000	Total £000
<b>At 1 June 2017</b>				
Cash flows:				
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**

	Ordinary shares of 1 pence Number	Share capital £000	Share premium reserve £000	Capital reduction reserve £000	Total £000
<b>As at 1 June 2017</b>	–	–	–	–	–
Issue of 1 ordinary share	1	–	–	–	–
Issue of 50,000 redeemable preference shares – one-quarter paid up	–	12	–	–	12
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)	–	–	–	–
Share issue costs	–	–	(4,117)	–	(4,117)
	<b>184,356,434</b>	<b>1,844</b>	<b>179,039</b>	<b>–</b>	<b>180,883</b>
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 recognised 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:

	As at 30 June 2018 £000
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:

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

Nick 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. 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 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:

- Nick Hewson: 360,000 shares (0.20% of issued share capital)
- Jon Austen: 99,000 shares (0.05% of issued share capital)
- Vince 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: 1/12th 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 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 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.

# COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

	Notes	As at 30 June 2018 £000
<b>Non-current assets</b>		
Investments in subsidiaries	C	172,466
<b>Total non-current assets</b>		<b>172,466</b>
<b>Current assets</b>		
Trade and other receivables	D	3,780
Cash and cash equivalents		225
<b>Total current assets</b>		<b>4,005</b>
<b>Total assets</b>		<b>176,471</b>
<b>Current liabilities</b>		
Trade and other payables	E	609
<b>Total current liabilities</b>		<b>609</b>
<b>Total liabilities</b>		<b>609</b>
<b>Total net assets</b>		<b>175,862</b>
<b>Equity</b>		
Share capital	F	1,844
Share premium reserve		149,039
Capital reduction reserve		25,325
Accumulated loss		(346)
<b>Total equity</b>		<b>175,862</b>

The notes on pages 68 to 69 form part of these financial statements.

The Company has taken advantage of the exemption within section 408 of the Companies Act 2006 not to present its own profit and loss account. The accumulated loss for the year dealt with the financial statements of the Company was £346,000. As at 30 June 2018 the Company has distributable reserves of £25.4 million.

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:

Nick Hewson  
Chairman  
4 September 2018

# COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD FROM 1 JUNE 2017 TO 30 JUNE 2018

	Share capital £000	Share premium reserve £000	Capital reduction reserve £000	Accumulated Loss £000	Total £000
<b>As at 1 June 2017</b>					
Loss for the period	-	-	-	(346)	(346)
<b>Total comprehensive loss for the period</b>	-	-	-	(346)	(346)
Transactions with owners					
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>25,325</b>	<b>(346)</b>	<b>175,862</b>

The notes on pages 68 to 69 form part of these financial statements.

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

## A. Basis of preparation

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

The principal accounting policies relevant to the Company are as follows:

- Investments in subsidiaries are recognised at cost less provision for any impairment;
- Loans and receivables are recognised initially at fair value plus transaction costs less provision for impairment;
- Trade payables are recognised initially at fair value and subsequently at amortised cost;
- Equity instruments are recognised as the value of proceeds received net of direct issue costs; and
- Dividends are recognised as a financial liability and deduction from equity in the period in which they are declared.

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

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

In the year to 30 June 2019, the Company intends to continue to use these disclosure exemptions unless objections are received from shareholders.

## B. Auditors' remuneration

The remuneration of the auditors in respect of the audit of the Company's Consolidated and Individual Financial Statements for the period was £60,000. Fees payable for non-audit services provided to the Company and the rest of the Group are disclosed in note 6 to the consolidated financial statements.

## C. Investment in subsidiary undertakings

The Company's wholly owned direct subsidiaries are Supermarket Income Investments UK Limited and Supermarket Income Investments (Midco2) UK Limited, both of which are incorporated and operating in England with a registered address of 7th Floor 9 Berkeley Street, London, England, W1J 8DW. The full list of subsidiary entities directly and indirectly owned by the Company is disclosed in note 13 to the Consolidated Financial Statements.

The movement in the period was as follows:

	As at 30 June 2018 £000
As at 1 June 2017	–
Additions	172,466
As at 30 June 2018	172,466

## D. Trade and other receivables

	As at 30 June 2018 £000
Intercompany receivables	3,293
Prepayments and accrued income	19
Corporation tax receivable	310
VAT receivable	129
Other receivables	29
<b>Total trade and other receivables</b>	<b>3,780</b>

## **E. Trade and other payables**

	As at 30 June 2018 £000
Corporate accruals	609
<b>Total trade and other payables</b>	<b>609</b>

## **F. Share capital**

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

## **G. Related party transactions**

Details of related party transactions are disclosed in note 24 to the Group financial statements.

## UNAUDITED 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.

KPI and definition	Performance
<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.	8%
<b>Weighted average unexpired lease term as at 30 June 2018</b> The average unexpired lease term of the property portfolio, weighted by valuation.	19 years
<b>EPRA NAV per share as at 30 June 2018</b> The value of our assets (based on an independent valuation) less the book value of our liabilities, attributable to Shareholders and calculated in accordance with EPRA guidelines.	96p
<b>Net loan to value ratio</b> Balance sheet loan amount less cash balances divided by total investment properties valuation.	32%
<b>Adjusted EPRA cost ratio</b> Administrative and operating costs (excluding non-recurring costs) divided by gross rental income.	20%
<b>Earnings per share (EPS)</b> Earnings attributable to shareholders adjusted for other earnings not supported by cash flows and calculated in accordance with EPRA guidelines.	3.8p

Further information on the calculation of our KPIs can be found in pages 68 to 73.

### 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.

### Total Shareholder Return

	As at 30 June 2018 Pence per share
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.

### Net loan to value

	As at 30 June 2018 £000
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 (NNAV) per share	95p

	1 June 2017 to 30 June 2018
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.

### EPRA NAV per share

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

### EPRA Triple Net Asset Value Per Share

	As at 30 June 2018	
	£000	Pence per share
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
EPRA Triple Net Asset Value Per Share	175,927	95p

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.

**EPRA EPS**

For the period from 1 June 2017 to 30 June 2018	Net profit attributable to ordinary shareholders €000	Weighted average number of ordinary shares <sup>1</sup> Number	Earnings per share Pence
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.

**EPRA Net Initial Yield**

	As at 30 June 2018 €000
Wholly owned investment property at external valuation (note 12)	264,900
Allowance for estimated purchasers' costs at 6.8%	18,013
Grossed-up completed property portfolio valuation	282,913

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

**EPRA Topped Up Net Initial Yield**

	As at 30 June 2018 €000
<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.

**EPRA Vacancy Rate**

	As at 30 June 2018 €000
<b>EPRA Vacancy Rate</b>	<b>0%</b>

The Group had no vacant property in the Period.

## EPRA Cost Ratio

1 June 2017 to  
30 June 2018  
£000

<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 capitalised 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.

1 June 2017 to  
30 June 2018  
£000

<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 recurring costs)</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>	<b>Nick Hewson</b> (Chairman) <b>Vince Prior</b> (Senior Independent Director) <b>Jon Austen</b> (Chair of Audit Committee)
<b>Company Secretary</b>	<b>JTC</b> 7th Floor, 9 Berkeley Street London W1J 8DW
<b>AIFM</b>	<b>JTC AIFM Services</b> Ground Floor, Dorney Court, Admiral Park St Peter Port Guernsey, Channel Islands GY1 1PL
<b>Investment Adviser</b>	<b>Atrato Capital Limited</b> 8 Greencoat Place London SW1P 1PL
<b>Financial adviser, Broker and Placing Agent</b>	<b>Stifel Nicolaus Europe Limited</b> 150 Cheapside London EC2V 6ET
<b>Auditors</b>	<b>BDO LLP</b> 55 Baker Street London W1U 7ET
<b>Property Valuers</b>	<b>Cushman &amp; Wakefield</b> 125 Old Broad Street London EC2N 1AR
<b>Financial PR Advisers</b>	<b>Tavistock</b> 1 Cornhill London EC3V 3ND
<b>Registrar</b>	<b>Link Asset Service</b> 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>
<b>Registered office</b>	7th Floor, 9 Berkeley Street London W1J 8DW
<b>Stock exchange ticker ISIN</b>	<b>SUPR</b> GB00BF345X11





