

SUPR

SUPERMARKET INCOME REIT

INVESTING IN THE FUTURE MODEL OF UK GROCERY



TRADITIONAL
IN-STORE



CLICK & COLLECT
AT STORE



HOME DELIVERY
FROM STORE

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

INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

Supermarket Income REIT plc (LSE: SUPR), the only real estate investment company dedicated to investing in supermarket property in the UK, is today reporting its interim results for the Group for the six months ended 31 December 2018 (the "Period").

Highlights for the Period:

- Acquired sixth supermarket, a Morrisons store in Sheffield, for £51.7 million (net of acquisition costs), reflecting a net initial yield of 4.9%
- Portfolio of six investment properties benefiting from highly attractive leases:
 - Strong tenant covenants (Tesco, Sainsbury's and Morrisons)
 - Current weighted average unexpired lease terms of 19 years (no break options)
 - Contracted rental growth through upward only RPI-linked rent reviews
 - Annualised passing rent roll of £16.5 million
 - Two rent reviews completed in the Period with an average increase of 3.2% achieved
- Portfolio independently valued at £320.6 million as at 31 December 2018, representing a like-for-like increase of 1.3%¹ for the six-month period and reflecting an aggregated net initial yield of 4.9%
- IFRS Earnings per share of 3.0 pence, EPRA Earnings per share of 2.5 pence
- Quarterly dividend increased by 3.2% from 1.375 pence per share to 1.419 pence per share in line with RPI inflation
- Dividends declared in the Period of 2.8 pence per share, on track to deliver full-year target of 5.63 pence per share and 5.68 pence per share for the next twelve months²
- Agreed a new £52 million debt facility with Bayerische Landesbank, with a fixed all in interest cost of 2.6% for the five-year term of the facility
- Net loan to value ("LTV") ratio of 43.0% as at 31 December 2018, with a current cost of debt of 2.5%
- Net Asset Value ("NAV") per ordinary share of 96 pence as at 31 December 2018

¹ Like for like sales excludes new acquisitions in the Period. ² The target dividend is a target only and not a profit forecast. There can be no assurance that the target will be achieved, and it should not be taken as an indication of the Company's expected or actual future results.

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

"We have continued to build our portfolio of supermarket property, with the acquisition of the Morrisons store further increasing the diversification of the portfolio by store location and operator covenant.

Our inflation linked rents have allowed us to increase the quarterly dividend from 1.375 pence per share to 1.419 pence per share, in line with RPI inflation, with the Company being on track to deliver an annualised dividend of 5.63 pence per ordinary share for the 2018/19 financial year and 5.68 pence per share for the twelve months ending 31st December 2019.

The Company continues to offer robust and growing returns through its investment in long-let food stores which have proved to be operationally and financially resilient despite the uncertainty caused by the ongoing Brexit process and the structural headwinds facing non-food and high street retailers. Using our specialist knowledge of the sector our Portfolio continues to provide attractive inflation linked income for shareholders."

Conference call for analysts:

There will be a briefing call for analysts at 09:30am today, hosted by Atrato Capital, the Company's Investment Adviser.

Dial-in details are as follows:

UK: 0808 109 5763

International: +44 (0)20 8323 0322

PIN: 153396#

Presentation slides will be available prior to the conference call at:

<https://www.supermarketincomereit.com/financial-publications>

FOR FURTHER INFORMATION, PLEASE CONTACT:

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NOTES TO EDITORS:

Supermarket Income REIT plc (SUPR) is listed on the London Stock Exchange. The Company acquires UK supermarket sites that form a key part of the future model of grocery in the UK. It aims to provide long-term RPI-linked income, from institutional grade tenants and the potential for long-term capital growth. Atrato Capital is the Company's Investment Adviser.

Further information is available on the Company's website www.supermarketincomereit.com

CHAIRMAN'S STATEMENT

I am pleased to present the interim unaudited consolidated results for the Group for the six-months ended 31 December 2018 (the "Period").

Overview

The Group delivered a robust performance in the six months to 31 December 2018. Our Investment Adviser, Atrato Capital Limited, continues to source attractive investment opportunities and during the period, we completed the acquisition of a Morrisons store in Sheffield, for £51.7 million (net of acquisition costs), reflecting a net initial yield of 4.9%.

Our Portfolio is let on fully repairing and insuring lease terms, with upward-only, RPI-linked rent reviews. The portfolio generates an annualised passing rent roll of £16.5 million with a current weighted average unexpired lease term of 19 years. The Portfolio was independently valued at £320.6 million as at 31 December 2018, representing a like-for-like increase of approximately 1.3% for the six-month period and 4.7% above the aggregate acquisition price (excluding acquisition costs).

We are pleased to be able to pass on our RPI-linked rent increases to our shareholders with a quarterly dividend increase from 1.375 pence per share to 1.419 pence per share, an increase of 3.2%. We remain on track to meet our dividend target for the 2018/19 financial year of 5.63 pence per share and 5.68 pence per share for the twelve months ending 31 December 2019.

Considering the uncertainty caused by the ongoing Brexit process and the structural headwinds facing the non-food retail sector, our strong performance for the Period highlights the defensive nature of our Portfolio. It is worth reiterating that the environment for food retail is very different to non-food. The grocery sector is experiencing a period of growth and the majority of online grocery is fulfilled from stores like ours.

Financial Results

The Group's net asset value at 31 December 2018 equates to 96 pence per ordinary share (30 June 2018: 96 pence per share; 31 December 2017: 94 pence per share). Acquisition costs (primarily stamp duty land tax) reduced net asset value by 2 pence per share, which has been fully offset by valuation growth in the Portfolio.

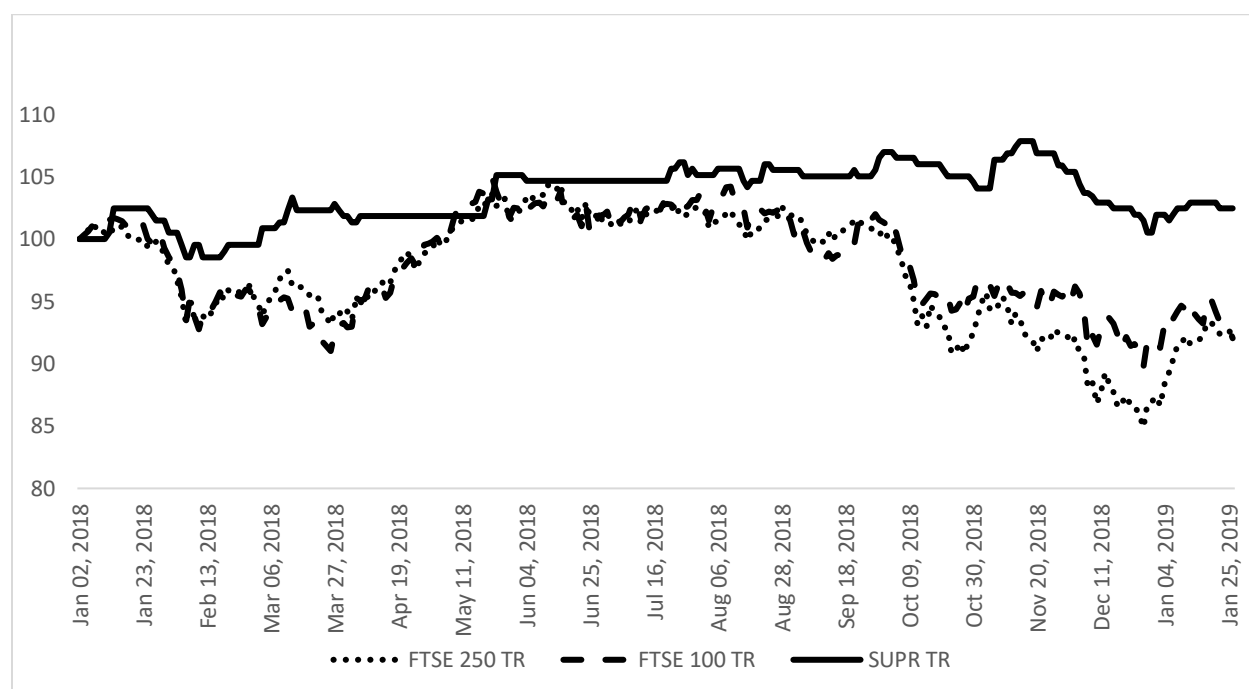
The Portfolio delivers a high degree of certainty of income as a result of the Group's long leases and, with the continuing improvement in financial performance of the supermarket operators. All our properties have contractual, upward-only, inflation-linked, rental uplifts. Two rent reviews were completed in the Period with an average increase of 3.2% (six months ended December 2017: 3.6%; 1 June 2017 to 30 June 2018: 3.6%).

The Group has a highly-transparent and low-cost base. The adjusted EPRA cost ratio (excluding non-recurring costs) is 17% (six months ended December 2017: 26%; 1 June 2017 to 30 June 2018: 21%) with an annualised total expense ratio of 1.6% of net asset value (six months ended December 2017: 1.3%; 1 June 2017 to 30 June 2018: 1.3%).

IFRS Profit for the Period was £5.5 million (six months ended December 2017: loss £3.3 million; 1 June 2017 to 30 June 2018: £0.6 million) generating IFRS earnings per ordinary share for the Period of 3.0 pence (six months ended December 2017: loss 3.4 pence; 1 June 2017 to 30 June 2018: 0.5 pence). Our EPRA measured earnings for the Period were £4.7 million (six months ended December 2017: £1.3 million; 1 June 2017 to 30 June 2018: £4.7 million), generating EPRA EPS for the Period of 2.5 pence per share (six months to December 2017 1.2 pence per share; 1 June 2017 to 30 June 2018: 3.8 pence per share).

Given the defensive nature of our sector and the Group's long dated secure cash flows, we have always maintained our share price ought to be less volatile than our peers. We are nonetheless not immune to broader market moves and were therefore pleased with SUPR's relative performance in the pre-Christmas stock market sell off.

Total Return Jan 2018 - Jan 2019



Dividends

On 18 July 2018, the Company declared a quarterly dividend in respect of the period 1 April 2018 to 30 June 2018 of 1.375 pence per ordinary share, which was paid on 21 August 2018.

On 8 October 2018, the Company declared a quarterly dividend in respect of the period 1 July to 30 September 2018 of 1.375 pence per ordinary share, which was paid on 6 November 2018.

On 8 January 2019, the Company declared a quarterly dividend in respect of the period from 1 October to 31 December 2018 of 1.419 pence per ordinary share, payable on 8 February 2019. This dividend represents an increase of 3.2% over the previous quarterly dividend of 1.375 pence per ordinary share. The Company is targeting an annualised dividend of 5.63 pence per ordinary share.

Financing

As at 31 December 2018, the Group had raised, in aggregate, £185 million gross equity proceeds and net drawn debt totalling £137.8 million, with a further £7.2 million of facilities undrawn at the Period end.

We broadened our banking arrangements during the Period, adding Bayerische Landesbank (“BLB”) to our bank group alongside HSBC. The £52.1 million BLB 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. The debt is hedged for the full term of the loan at a total cost of 2.6%. Our debt pricing reflect the quality of the Portfolio and strength of the tenant covenants.

As at 31 December 2018, the Group's net loan-to-value (LTV) ratio was 43.0% (30 June 2018: 32.4%; 31 December 2017: 44.5%). 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.

Outlook

The Company has performed well over the Period, delivering on its stated objectives and we remain confident of delivering attractive returns for our shareholders through our inflation linked income stream from strong tenant covenants.

Nick Hewson

Chairman

7 February 2019

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

We believe that supermarket property presents a significant investment opportunity for investors.

Throughout the Period, the supermarket operators have continued to improve performance and covenant strength, augmented by good management, delivering on strategies focussed on improving competitiveness, productivity and capital returns. In recognition of their stronger balance sheet, Tesco were upgraded to Investment Grade during the period by Fitch Ratings agency; we believe both Moody's and Standard and Poor's are likely to follow suit in the medium term.

The Group's investment policy is to invest in stores which deliver the future model of grocery in the United Kingdom. As grocery retailers are increasingly adopting a strategy of integrating online and offline shopping, with all the big 4 operators now utilising well located stores as last-mile fulfilment centres, the Group plans to predominantly acquire stores that operate both as physical supermarkets and online fulfilment centres via home delivery and/or click and collect.

We seek to source high quality assets for the Group, with the following characteristics:

- Future-proofed through operating as online fulfilment centres
- Located in areas with large catchment populations and excellent transportation links
- Strong underlying trading performance
- Attractive property fundamentals with opportunities for active asset management

To date, the Group has concentrated on investing in a portfolio of principally freehold and long leasehold properties let to Tesco, Sainsbury's and Morrisons which benefit from annual RPI rental uplifts, in desirable locations with low site cover.

During the Period, the Group strengthened its portfolio with the addition of its sixth supermarket. In July 2018, the Group acquired a Morrisons supermarket in Sheffield, from Opus North for £51.7 million (excluding acquisition costs), reflecting a net initial yield of 4.9%.

The supermarket is located on an 8.4-acre site in the historic and prominent Hillsborough Barracks. It comprises a 113,000 sq ft Morrisons supermarket, with a 58,108 sq ft net sales area, approximately 860 parking spaces and a 12-pump petrol filling station. It was acquired with an unexpired lease term of 21 years with five-yearly, upward-only, RPI-linked rent reviews compounded annually (subject to cap and floor), with the next rent review scheduled for October 2019. As at 31 December 2018 the property was independently valued at £52.2 million representing an increase of £0.5 million over the purchase price (excluding acquisition costs).

The Portfolio

The Portfolio comprises six high-quality supermarket properties benefiting from highly attractive leases to strong tenant covenants (Tesco, Sainsbury's and Morrison's), with upward only, RPI-linked rent reviews and long unexpired lease terms (19 years weighted average unexpired lease term).

| | | | | | | |
|---|------------------|-------------------|---------------------|--------------------------------|--------------------------|-------------------------|
| Tenant | Sainsbury's | Tesco | Tesco | Tesco | Tesco | Morrison's |
| Location | Ashford, Kent | Thetford, Norwich | Lime Trees, Bristol | Cumbernauld, North Lanarkshire | Scunthorpe, Lincolnshire | Hillsborough, Sheffield |
| Acquisition date | August 2017 | August 2017 | August 2017 | December 2017 | May 2018 | July 2018 |
| Purchase price (excl. acquisition costs) | £79.8m | £43.2m | £28.5m | £50.0m | £53.0m | £51.7m |
| Valuation (31 December 2018) | £84.3m | £44.2m | £29.3m | £55.0m | £55.6m | £52.2m |
| Passing annual rent | £3.93m | £2.64m | £1.53m | £2.94m | £2.88m | £2.53m |
| Size (sq. ft.) | 125,000 | 78,000 | 55,000 | 117,000 | 98,000 | 113,000 |
| Net sales area (sq. ft.) | 71,732 | 47,800 | 30,699 | 69,923 | 64,678 | 58,108 |
| Rent review basis | Annual RPI | Annual RPI | Annual RPI | Annual RPI | Annual RPI | 5 Yearly RPI |
| Next rent review | September 2019 | December 2019 | March 2019 | March 2019 | March 2019 | October 2019 |
| Rent review collar | 3% cap, 1% floor | 4% cap, 0% floor | 4% cap, 0% floor | 5% cap, 0% floor | 5% cap, 0% floor | 4% cap, 0% floor |
| Lease expiry | September 2038 | December 2029 | March 2031 | August 2040 | August 2040 | October 2039 |

Valuation

The Portfolio has been independently valued by Cushman & Wakefield in accordance with the RICS Valuation - Professional Standards 2017 (the "Red Book"). As at 31 December 2018, the Portfolio had a market value of £320.6 million, representing a like-for-like increase of approximately 1.3% for the six-month period and 4.7% above the aggregate acquisition price (excluding acquisition costs).

This valuation growth reflects the contracted increases in rent, the continued strengthening of the covenants of the Big 4 supermarket operators and favourable supply and demand characteristics in the investment market. Two rent reviews were completed in the Period with an average increase of 3.2%.

Financial Results

Change in fair value of investment properties in the Period was positive at £1.0 million (six months ended December 2017: negative £4.7 million; 1 June 2017 to 30 June 2018: negative £3.8 million), which comprises £3.1 million acquisition costs offset via a £4.1 million increase in valuation. The Group's EPRA NAV as at 31 December 2018 equates to 96 pence per ordinary share (30 June 2018: 96 pence per share; 31 December 2017: 94 pence per share) and earnings measured on an EPRA basis was 2.5 pence per ordinary share for the six-month period to 31 December 2018 (six months ended December 2017: 1.2 pence per share; 1 June 2017 - 30 June 2018: 3.8 pence per share).

The Group's earnings and dividends are underpinned by the secure and inflation-linked income from its Portfolio. The contracted annual rent reviews on the two properties agreed in the Period resulted in an average agreed rental increase of 3.2% (six months ended December 2017: 3.6%; 1 June 2017 to 30 June 2018: 3.6%).

IFRS Profit for the six-month period was £5.5 million (six months ended December 2017: loss £3.3 million; 1 June 2017 to 30 June 2018: £0.6 million), generating IFRS earnings per share of 3.0 pence (six months ended December 2017: loss 3.4 pence; 1 June 2017 to 30 June 2018: 0.5 pence). Our EPRA earnings for the Period were £4.7 million (six months ended December 2017: £1.3 million; 1 June 2017 to 30 June 2018: £4.7 million), generating EPRA EPS for the Period of 2.5 pence per share (six months to December 2017: 1.2 pence per share; 1 June 2017 to 30 June 2018: 3.8 pence per share).

Administrative and other expenses were £1.5 million for the six-month period (six months ended December 2017: £1.0 million; 1 June 2017 to 30 June 2018: £2.1 million) which comprised £0.1 million (six months ended December 2017: £0.3 million; 1 June 2017 to 30 June 2018: £0.3 million) of non-recurring costs and £1.4 million of costs relating to the management of the Group during the Period. When adjusted for non-recurring costs, the annualised total expense ratio for the six months to 31 December was 1.6% of net asset value (six months ended December 2017: 1.3%; 1 June 2017 to 30 June 2018: 1.3%) with our adjusted EPRA cost ratio of 17% (six months ended December 2017: 26%; 1 June 2017 to 30 June 2018: 21%). The Group's low and largely fixed cost base compares favourably with our peers and will continue to benefit from growth in the portfolio.

Deferred rental income has increased significantly during the period, from £1.7 million to £3.2 million due to the new property acquired in the period and the timing of the invoicing in respect of certain of the existing portfolio assets.

Total accounting return generated during the six-month period to 31 December 2018 was 2.8% (six months to December 2017: negative 3.4%; 1 June 2017 to 30 June 2018: 4.7%). This is measured as the movement in net asset value plus dividends declared for the period.

Total shareholder return for the six-month period was negative 3.9% (six months ended December 2017: 3.1%; 1 June 2017 to 30 June 2018: 8.0%), measured as the movement in share price plus dividends declared during the period. The closing share price of 95.6 pence at 31 December 2018 was impacted by the uncertainty caused by weaker global equity markets in December 2018 and the UK's decision to leave the European Union. Since 31 December the share price has recovered to 100.0 pence as at 6 February 2019.

Financing

The Group arranged a new five-year, interest-only loan facility with Bayerische Landesbank in the Period. 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 facility was hedged using an interest rate swap, thus fixing the Company's cost of debt at 2.6% on this borrowing for the term of the facility.

The Group continues to hold a revolving credit facility of £100 million from HSBC. At 31 December 2018, £92.8 million had been drawn down in total under this facility, leaving £7.2 million undrawn. The credit facility has a current margin of 160 basis points over three-month LIBOR which is equivalent to a total current cost of debt of 2.6% for the Period. The Group purchased a £63.5 million notional cap on 3-month LIBOR for the initial term of this facility with a cap strike rate of 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.

Total net debt as at 31 December 2018 is £137.8 million (30 June 2018: £85.7 million; 31 December 2017: £92.6 million) reflecting a loan-to-value ("LTV") ratio of 43.0% (30 June 2018: 32.4%; 31 December 2017: 44.5%). 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.

The Group has negotiated significant headroom on its loan-to-value covenants. The covenants contain a 60% LTV threshold and 200% interest cover ratio for each asset in the Portfolio. As at 31 December 2018, the Group could afford to suffer a fall in property values of 28% before being in breach of its LTV covenants. With the current hedging arrangements it has in place the Group has significant interest cover headroom.

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.

Asset management

We, together with JTC Global AIFM Solutions Limited (the "AIFM") as the Company's alternative investment fund manager have also made further progress with our asset management initiatives, advanced negotiations on two sites and commencing plans on the remaining four within the Groups' Portfolio, which will enhance returns to the Group on these assets.

These plans include the identification of excess space for repurposing, discussions with potential occupiers of repurposed space, and investment in green energy schemes. Once completed, these asset management initiatives, will add high-quality and environmentally sustainable investments to the portfolio at an attractive yield on cost.

The fundamentals of the UK grocery market remain favourable and we continue to source attractive investment opportunities.

Atrato Capital Limited
Investment Adviser
7 February 2019

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks of the business are set out on pages 18 to 21 of the 2018 Annual Report and Accounts and include commentary on their potential impact, links to the Group's strategic priorities and the relevant mitigation factors. Since the publication of the 2018 Annual Report and Accounts, the Board believes that there has been no material change to the principal risks and the reported mitigation actions remain appropriate to manage the risks.

ALTERNATIVE INVESTMENT FUND MANAGER (the “AIFM”)

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

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

The AIFM is responsible for the day-to-day management of the Company's investments, subject to the investment objective and investment policy and the overall supervision of the Directors. The AIFM is also required to comply with on-going capital, reporting and transparency obligations and a range of organisational requirements and conduct of business rules. The AIFM must also, as the AIFM for the Company, adopt a range of policies and procedures addressing areas such as risk management, liquidity management, conflicts of interest, valuations, compliance, internal audit and remuneration.

DIRECTORS' RESPONSIBILITY STATEMENT

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

- an indication of important events that have occurred during the Period and their impact on the condensed financial statements and a description of the principal risks and uncertainties for the remaining months of the Group's financial year; and
- disclosures of any material related party transactions in the Period. These are included in note 19

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

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

For and on behalf of the Board

Nick Hewson

Chairman

7 February 2019

INDEPENDENT REVIEW REPORT TO SUPERMARKET INCOME REIT PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the interim report for the six month period ended 31 December 2018 which comprise the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Cash Flow Statement, the Condensed Consolidated Statement of Changes in Equity and the related notes.

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

Directors' responsibilities

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

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

Our responsibility

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

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim report for the six month period ended 31 December 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34, as adopted by the European Union, and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

BDO LLP

Chartered Accountants
London
United Kingdom

7 February 2019

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*For the six-month period ended 31 December 2018*

| | | Unaudited six months to 31 December 2018 | Unaudited six months to 31 December 2017 | Audited 1 June 2017 to 30 June 2018 |
|---|-------------|---|--|--|
| Profit or loss | Note | £' 000 | £' 000 | £' 000 |
| Rental income | 4 | 8,293 | 3,151 | 8,942 |
| Administrative and other expenses | 5 | (1,517) | (965) | (2,097) |
| Operating profit before changes in fair value of investment properties | | 6,776 | 2,186 | 6,845 |
| Changes in fair value of investment properties | 11 | 792 | (4,859) | (4,081) |
| Operating profit/(loss) | | 7,568 | (2,673) | 2,764 |
| Finance expense | 7 | (2,057) | (649) | (1,917) |
| Profit/(loss) before taxation | | 5,510 | (3,322) | 847 |
| Tax charge for the period | 8 | - | (231) | (227) |
| Profit/(loss) for the period | | 5,510 | (3,553) | 620 |
| Other comprehensive income | | | | |
| <i>Items to be reclassified to profit or loss in subsequent periods</i> | | | | |
| Fair value gains/losses of cash flow hedges | 17 | (237) | (90) | (82) |
| Total other comprehensive profit/(loss) for the period | | 5,273 | (90) | 538 |
| Total comprehensive profit/(loss) for the period (attributable to ordinary shareholders) | | 5,273 | (3,643) | 538 |
| Earnings per share - basic and diluted (pence) | 9 | 3.0p | (3.4)p | 0.5p |

No operations were discontinued in the financial period.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

| | | Unaudited 31 December 2018 £' 000 | Audited 30 June 2018 £' 000 | Unaudited 31 December 2017 £' 000 |
|--|------|---|---|---|
| | Note | | | |
| Non-current assets | | | | |
| Investment property | 11 | 320,650 | 264,900 | 207,900 |
| Interest rate derivatives | 14 | 60 | 37 | 55 |
| Total non-current assets | | 320,710 | 264,937 | 207,955 |
| Current assets | | | | |
| Trade and other receivables | 12 | 98 | 1,035 | 104 |
| Cash and cash equivalents | | 5,895 | 2,239 | 1,251 |
| Total current assets | | 5,992 | 3,274 | 1,355 |
| Total assets | | 326,702 | 268,211 | 209,310 |
| Current liabilities | | | | |
| Deferred rental income | | 3,221 | 1,666 | 1,188 |
| Current tax liabilities | | 227 | 227 | 231 |
| Trade and other payables | 13 | 2,307 | 1,473 | 1,525 |
| Total current liabilities | | 5,754 | 3,366 | 2,944 |
| Non-current liabilities | | | | |
| Bank borrowings | 15 | 143,710 | 88,099 | 93,822 |
| Interest rate derivatives | 14 | 289 | - | - |
| Total non-current liabilities | | 143,999 | 88,099 | 93,822 |
| Total liabilities | | 149,753 | 91,465 | 96,766 |
| Total net assets | | 176,949 | 176,746 | 112,544 |
| Equity | | | | |
| Share capital | 16 | 1,844 | 1,844 | 1,200 |
| Share premium reserve | 16 | 149,039 | 149,039 | 86,362 |
| Cash flow hedge reserve | 17 | (319) | (82) | (90) |
| Capital reduction reserve | 16 | 20,255 | 25,325 | 28,625 |
| Accumulated profit/ loss) | | 6,130 | 620 | (3,553) |
| Total equity | | 176,949 | 176,746 | 112,544 |
| Net asset value per share - basic and diluted | 20 | 96p | 96p | 94p |
| EPRA net asset value per share | 20 | 96p | 96p | 94p |

These unaudited condensed consolidated financial statements were approved and authorised for issue by the Board of Directors on 7 February 2019 and are signed on its behalf by:

Nick Hewson
Chairman
7 February 2019

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six-month period ended 31 December 2018

| | | Unaudited six months to 31 December 2018 £' 000 | Unaudited six months to 31 December 2017 £' 000 | Audited 1 June 2017 to 30 June 2018 £' 000 |
|--|------|--|--|---|
| | Note | | | |
| Cash flows from operating activities | | | | |
| Profit/(loss) for the period (attributable to ordinary shareholders) | | 5,510 | (3,553) | 620 |
| <i>Adjustments for:</i> | | | | |
| Changes in fair value of investment properties | 11 | (792) | 4,859 | 4,081 |
| Finance expense | 7 | 2,057 | 649 | 1,917 |
| Movement in rent smoothing adjustments | 4 | (187) | (131) | (328) |
| Tax expense | | - | 231 | 227 |
| (Increase)/decrease in trade and other receivables | | 938 | (104) | (1,035) |
| Increase in deferred rental income | | 1,555 | 1,188 | 1,666 |
| Increase in trade and other payables | | 552 | 738 | 913 |
| Cash generated from operations | | 9,634 | 3,877 | 8,061 |
| Net cash flow generated from operating activities | | 9,634 | 3,877 | 8,061 |
| Investing activities | | | | |
| Purchase of investment properties | | (51,700) | (201,540) | (254,540) |
| Capitalised acquisition costs | | (3,071) | (10,660) | (14,113) |
| Net cash flow used in investing activities | | (54,771) | (212,200) | (268,653) |
| Financing activities | | | | |
| Proceeds from issue of ordinary share capital | 16 | - | 120,000 | 185,000 |
| Cost of share issues | 16 | - | (2,438) | (4,117) |
| Issue of redeemable preference shares | 16 | - | 12 | 12 |
| Redemption of redeemable preference shares | 16 | - | (12) | (12) |
| Bank borrowings drawn | | 56,050 | 94,743 | 98,430 |
| Bank borrowings repaid | | - | - | (9,586) |
| Loan arrangement fees paid | | (683) | (1,032) | (1,029) |
| Bank interest paid | | (1,504) | (166) | (1,147) |
| Interest rate cap premium paid | | - | (158) | (158) |
| Dividends paid to equity holders | 10 | (5,070) | (1,375) | (4,562) |
| Net cash flow generated from financing activities | | 48,792 | 209,574 | 262,831 |
| Net increase in cash and cash equivalents for the period | | 3,655 | 1,251 | 2,239 |
| Cash and cash equivalents at the start of the period | | 2,239 | - | - |
| Cash and cash equivalents at the end of the period | | 5,895 | 1,251 | 2,239 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the six-month period ended 31 December 2018 (unaudited)*

| | Share capital £' 000 | Share premium reserve £' 000 | Cash flow hedge reserve £' 000 | Capital reduction reserve £' 000 | Accumulated profit/(loss) £' 000 | Total £' 000 |
|--|----------------------------|---------------------------------------|---|---|--|-----------------|
| As at 1 July 2018 | 1,844 | 149,039 | (82) | 25,325 | 620 | 176,746 |
| <i>Comprehensive income for the period</i> | | | | | | |
| Profit for the period | - | - | - | - | 5,510 | 5,510 |
| Other comprehensive income | - | - | (237) | - | - | (237) |
| Total comprehensive Income for the period | - | - | (237) | - | 5,510 | 5,273 |
| <i>Transactions with owners</i> | | | | | | |
| Interim dividend paid | - | - | - | (5,070) | - | (5,070) |
| As at 31 December 2018 | 1,844 | 149,039 | (319) | 20,255 | 6,130 | 176,949 |

For the period from 1 June 2017 to 30 June 2018 (audited)

| | Share capital £' 000 | Share premium reserve £' 000 | Cash flow hedge reserve £' 000 | Capital reduction reserve £' 000 | Accumulated profit/(loss) £' 000 | Total £' 000 |
|---|----------------------------|---------------------------------------|---|---|--|-----------------|
| As at 1 June 2017 | - | - | - | - | - | - |
| <i>Comprehensive income for the period</i> | | | | | | |
| Profit for the period | - | - | - | - | 620 | 620 |
| Other comprehensive income | - | - | (82) | - | - | (82) |
| Total comprehensive income for the period | - | - | (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 dividend paid | - | - | - | (4,675) | - | (4,675) |
| As at 30 June 2018 | 1,844 | 149,039 | (82) | 25,325 | - | 176,746 |

For the six-month period ended 31 December 2017 (unaudited)

| | Share capital £' 000 | Share premium reserve £' 000 | Cash flow hedge reserve £' 000 | Capital reduction reserve £' 000 | Accumulated profit/(loss) £' 000 | Total £' 000 |
|---|----------------------------|---------------------------------------|---|---|--|-----------------|
| As at 1 July 2017 | 12 | - | - | - | - | 12 |
| <i>Comprehensive income for the period</i> | | | | | | |
| Profit for the period | - | - | - | - | (3,553) | (3,553) |
| Other comprehensive income | - | - | (90) | - | - | (90) |
| Total comprehensive loss for the period | - | - | (90) | - | (3,553) | (3,643) |
| <i>Transactions with owners</i> | | | | | | |
| Ordinary shares issued at a premium during the period | 1,200 | 118,800 | - | - | - | 120,000 |
| Share issue costs | - | (2,438) | - | - | - | (2,438) |
| Redemption of redeemable preference shares | (12) | - | - | - | - | (12) |
| Transfer to capital reduction reserve | - | (30,000) | - | 30,000 | - | - |
| Interim dividend paid | - | - | - | (1,375) | - | (1,375) |
| As at 31 December 2017 | 1,200 | 86,362 | (90) | 28,625 | (3,553) | 112,544 |

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.

The comparative financial information for the period ended 30 June 2018 in this interim report does not constitute statutory accounts for that year. The statutory accounts for the period ended 30 June 2018 have been delivered to the Registrar of Companies. The independent auditors' report on those accounts was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

At 31 December 2018 the Group comprised the Company and its wholly-owned subsidiaries. Each of these subsidiaries is incorporated in England and Wales and has the same registered office as the Company.

The financial information contained in these condensed consolidated financial statements has been prepared in accordance with IAS 34 ‘Interim Financial Reporting’ as adopted by the European Union, and on a going concern basis as set out below. The accounting policies adopted in this report are consistent with those applied in the Group’s statutory accounts for the period to 30 June 2018, apart from any changes arising from the adoption of IFRS 9 ‘Financial Instruments’ and IFRS 15 ‘Revenue from Contracts with Customers’ with effect from 1 January 2018, neither of which required any restatements to the Group’s previously reported financial information. The accounting policies applied in the preparation of this financial information are expected to be consistently applied in the financial statements for the year to 30 June 2019.

The IASB has issued one standard, IFRS 16 ‘Leases’, that is mandatory for periods subsequent to 31 December 2018 which is relevant to the Group since the Group’s revenues are currently all derived from property leases. The Directors’ assessment of the impact of this new accounting standard remains unchanged from that reported in the June 2018 financial statements, where it was noted that its adoption is not expected to have a material impact on the Group’s financial statements, since it will not result in significant changes of accounting policies for lessors.

No other new or revised standard is expected to be relevant to the Group and have a material effect on the Group’s financial statements in future.

Accounting convention and currency

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

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

Going concern

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

During the period covered by this report July the Group entered into a £52.1 million loan facility with Bayerische Landesbank, as at 31 December 2018 the full amount was drawn down. The Group had £7.2 million available for drawdown under the existing HSBC facility. All financial covenants under these facilities have been met to date.

The Group generated net cash flow from operating activities in the period of £9.6 million, with its cash balances at 31 December 2018 totaling £5.9 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.

2. Significant accounting judgements, estimates and assumptions

There have been no new or material revisions to the nature and amount of judgements and estimates reported in the 2018 Annual Report and Accounts, other than changes to certain assumptions applied in the valuation of properties. Details of the key assumptions applied at 31 December 2018 are set out in note 11.

3. Summary of significant accounting policies

The principal accounting policies adopted in this report are consistent with those applied in the Group's statutory accounts for the period ended 30 June 2018 and are expected to be consistently applied during the year ended 30 June 2019.

The below revised accounting policy will apply for the year ended 30 June 2019 and therefore has been applied for the current six month period ended 31 December 2018. Rental income is outside the scope of IFRS 15 'Revenue from Contracts with Customers' and therefore no change to the Group's current revenue recognition policy is required as a consequence of adopting IFRS 15.

IFRS 9 'Financial Instruments'

The IFRS 9 'Financial Instruments' standard which is effective for annual periods beginning on or after 1 January 2018 represents a change from the previous requirements under IAS 39 'Financial Instruments: Recognition and Measurement' in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset is measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets are measured at fair value. The standard eliminates the existing IAS 39 categories of held-to-maturity, available-for-sale and loans and receivables.

The Group's financial assets and liabilities comprise of derivatives (which are classified and measured at fair value), as well as trade and other receivables, cash and cash equivalents, borrowings and trade and other payables.

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 existing accounting policies already adopted for these financial instruments.

Accordingly, no adjustments have been made with regards to the measurement and classification of these financial instruments.

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 has not resulted in any material changes given the Group's requirement for tenants to pay rental payments in advance. Therefore there is no restatement in the current period after the standard was adopted and becomes effective.

On initial application IFRS 9 the Group has elected to continue applying the hedge accounting requirements of IAS 39 in respect of the Group's interest rate derivatives, and this election applies to all of the Group's hedging relationships.

4. Rental income

| | Unaudited six months to 31 December 2018 £' 000 | Unaudited six months to 31 December 2017 £' 000 | Audited 1 June 2017 to 30 June 2018 £' 000 |
|---|--|--|---|
| Rental income - freehold property | 2,136 | 1,408 | 3,510 |
| Rental income - long leasehold property | 6,157 | 1,743 | 5,432 |
| Gross rental income | 8,293 | 3,151 | 8,942 |
| Insurance/service charge income | 90 | - | - |
| Insurance/service charge expense | (90) | - | - |
| Net rental income | 8,293 | 3,151 | 8,942 |

Included within rental income is a £187,000 (six months to 31 December 2017: £131,000; 1 June 2017 to 30 June 2018: £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 a decrease in the gain on investment property revaluation.

5. Administrative and other expenses

| | Unaudited six months to 31 December 2018 £' 000 | Unaudited six months to 31 December 2017 £' 000 | Audited 1 June 2017 to 30 June 2018 £' 000 |
|--|--|--|---|
| Investment Adviser fees | 838 | 440 | 1,079 |
| Directors' remuneration | 74 | 81 | 160 |
| Corporate administration fees | 154 | 110 | 216 |
| Legal and professional fees | 118 | 201 | 297 |
| Other administrative expenses | 333 | 133 | 345 |
| Total administrative and other expenses | 1,517 | 965 | 2,097 |

6. Directors' remuneration

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

| | Unaudited six months to 31 December 2018 £' 000 | Unaudited six months to 31 December 2017 £' 000 | Audited 1 June 2017 to 30 June 2018 £' 000 |
|---|--|--|---|
| Directors' fees | 71 | 73 | 142 |
| Employer's National Insurance Contributions | 3 | 8 | 18 |
| Total directors' remuneration | 74 | 81 | 160 |

7. Finance expense

| | Unaudited six months to 31 December 2018 £' 000 | Unaudited six months to 31 December 2017 £' 000 | Audited 1 June 2017 to 30 June 2018 £' 000 |
|--|--|--|---|
| Interest payable on bank borrowings and hedging arrangements | 1,765 | 453 | 1,495 |
| Commitment fees payable on bank borrowings | 18 | 85 | 99 |
| Amortisation of loan arrangement fees | 245 | 111 | 284 |
| Amortisation of interest rate derivative premium (note 14) | 29 | - | 39 |
| Total finance expense | 2,057 | 649 | 1,917 |

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

| | | | |
|--|--------------|------------|--------------|
| Total interest expense on financial liabilities held at amortised cost | 1,884 | 564 | 1,779 |
| Fee expense not part of effective interest rate for financial liabilities held at amortised cost | 18 | 85 | 99 |
| | 1,902 | 649 | 1,917 |

8. Taxation

a) Tax charge in profit or loss

| | Unaudited six months to 31 December 2018 £' 000 | Unaudited six months to 31 December 2017 £' 000 | Audited 1 June 2017 to 30 June 2018 £' 000 |
|---------------------------|---|---|---|
| UK corporation tax | - | 231 | 227 |

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

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

b) Reconciliation of the tax charge for the period

| | Unaudited six months to 31 December 2018 £' 000 | Unaudited six months to 31 December 2017 £' 000 | Audited 1 June 2017 to 30 June 2018 £' 000 |
|--|---|---|---|
| Profit/(Loss) on ordinary activities before taxation | 5,510 | (3,322) | 842 |
| Theoretical tax at UK standard corporation tax rate of 19% | 1,047 | (631) | (631) |
| Effects of: | | | |
| Investment property revaluation not subject to taxation | (158) | 923 | 923 |
| REIT exempt income | (889) | (61) | (61) |
| Tax charge in the period | - | 231 | 227 |

9. Earnings per share

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

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

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

| | Unaudited six months to 31 December 2018 £' 000 | Unaudited six months to 31 December 2017 £' 000 | Audited 1 June 2017 to 30 June 2018 £' 000 |
|---|--|--|---|
| Net profit/(loss) attributable to ordinary shareholders | 5,510 | (3,553) | 620 |
| <i>EPRA adjustments:</i> | | | |
| <i>Changes in fair value of investment properties</i> | (830) | 4,859 | 4,081 |
| EPRA earnings | 4,680 | 1,306 | 4,701 |
| | Number | Number ¹ | Number ¹ |
| Weighted average number of ordinary shares | 184,356,434 | 105,542,169 | 124,235,902 |

1. 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.

| | Unaudited six months to 31 December 2018 Pence per share | Unaudited six months to 31 December 2017 Pence per share | Audited 1 June 2017 to 30 June 2018 Pence per share |
|---|---|--|---|
| Basic and Diluted EPS | 3.0p | (3.4)p | 0.5p |
| <i>EPRA adjustments:</i> | | | |
| <i>Changes in fair value of investment properties</i> | (0.5)p | 4.6p | 3.3p |
| EPRA earnings | 2.5p | 1.2p | 3.8p |

10. Dividends

| | Unaudited six months to 31 December 2018 £' 000 | Unaudited six months to 31 December 2017 £' 000 | Audited 1 June 2017 to 30 June 2018 £' 000 |
|---|--|--|---|
| <i>Amounts recognised as a distribution to ordinary shareholders in the period:</i> | | | |
| Dividends paid | 5,070 | 1,375 | 4,675 |

On 17 July 2018, the Board declared a fourth interim dividend for the period ended 30 June 2018 of 1.375 pence per share which was paid on 23 August 2018 to shareholders on the register on 26 July 2018.

On 8 October 2018 the Board declared a first interim dividend for the year ending 30 June 2019 of 1.375 pence per share which was paid on 6 November 2018 to shareholders on the register on 19 October 2018.

On 8 January 2019 the Board declared a second interim dividend for the year ending 30 June 2019 of 1.419 pence per share, which will be paid on or around 8 February 2019 to shareholders on the register on 17 January 2019. This has not been included as a liability as at 31 December 2018.

11. Investment property

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 — Professional Standards (the 'Red Book') and incorporate the recommendations of the International Valuation Standards Committee which are consistent with the principles set out in IFRS 13.

The independent valuer in forming its opinion on valuation makes a series of assumptions. All the valuations of the Group's investment property at 31 December 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.

NOTES TO THE FINANCIAL STATEMENTS

| | Unaudited six months to 31 December 2018 £' 000 | Audited 1 June 2017 to 30 June 2018 £' 000 | Unaudited six months to 31 December 2017 £' 000 |
|----------------------------------|--|---|--|
| Long leasehold properties | | | |
| At start of the period | 181,550 | - | - |
| Additions | 51,700 | 174,655 | 121,655 |
| Capitalised acquisition costs | 3,071 | 9,651 | 6,621 |
| Revaluation movement | 9 | (2,756) | (3,576) |
| At the end of the period | 236,330 | 181,550 | 124,700 |

| | Unaudited six months to 31 December 2018 £' 000 | Audited 1 June 2017 to 30 June 2018 £' 000 | Unaudited six months to 31 December 2017 £' 000 |
|---------------------------------|--|---|--|
| Freehold properties | | | |
| At start of the period | 83,350 | - | - |
| Additions | - | 79,885 | 79,885 |
| Capitalised acquisition costs | - | 4,462 | 4,467 |
| Revaluation movement | 970 | (997) | (1,152) |
| At the end of the period | 84,320 | 83,350 | 83,200 |

| | Unaudited six months to 31 December 2018 £' 000 | Audited 1 June 2017 to 30 June 2018 £' 000 | Unaudited six months to 31 December 2017 £' 000 |
|------------------------------------|--|---|--|
| Total investment properties | | | |
| At start of the period | 264,900 | - | - |
| Additions | 51,700 | 254,540 | 201,540 |
| Capitalised acquisition costs | 3,071 | 14,113 | 11,088 |
| Revaluation movement | 979 | (3,753) | (4,728) |
| At the end of the period | 320,650 | 264,900 | 207,900 |

Included within the carrying values of investment properties at 31 December 2018 is £515,000 (30 June 2018: £328,000; 31 December 2017: £131,000) 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:

| | Unaudited six months to 31 December 2018 £' 000 | Unaudited six months to 31 December 2017 £' 000 | Audited 1 June 2017 to 30 June 2018 £' 000 |
|--|--|--|--|
| Revaluation movement per above | 979 | (4,728) | (3,753) |
| Rent smoothing adjustment (note 4) | (187) | (131) | (328) |
| Change in fair value recognised in profit or loss | 792 | (4,859) | (4,081) |

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).

A decrease in ERV would decrease fair value. A decrease in the equivalent yield would increase the fair value. An increase in the remaining lease term would increase the fair value.

Sensitivity of measurement of significant unobservable inputs

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

Sensitivity analysis – impact of changes in initial yields and passing rent

Initial yields of the Group's investment properties at 31 December 2018 range from 4.4% to 5.6% (six months ended December 2017: 4.3% - 5.5%; 1 June 2017 to 30 June 2018: 4.3% to 5.5%). A 0.25% shift of the initial yield on all the Group's investment properties would have approximately a £15.8 million (30 June 2018: £13.1 million; 31 December 2017: £10.3 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 £3.2 million (six months ended December 2017: £2.1 million; 1 June 2017 to 30 June 2018: £2.6 million) impact on the total valuation of the properties.

12. Trade and other receivables

| | Unaudited 31 December 2018 £' 000 | Audited 30 June 2018 £' 000 | Unaudited 31 December 2017 £' 000 |
|--------------------------------|--|--|--|
| Trade and other receivables | - | 29 | 55 |
| Prepayments and accrued income | 98 | 1,006 | 49 |
| | 98 | 1,035 | 104 |

13. Trade and other payables

| | Unaudited 31 December 2018 £' 000 | Audited 30 June 2018 £' 000 | Unaudited 31 December 2017 £' 000 |
|--------------------|--|--|--|
| Corporate accruals | 1,367 | 1,132 | 1,137 |
| Trade payables | 22 | - | 53 |
| VAT payable | 918 | 341 | 335 |
| | 2,307 | 1,473 | 1,525 |

14. Interest rate derivatives

| | Unaudited 31 December 2018 £' 000 | Audited 30 June 2018 £' 000 | Unaudited 31 December 2017 £' 000 |
|---|---|---|---|
| Non-current asset: Interest rate derivative | 60 | 37 | 55 |
| Non-current liability: Interest rate derivative | (289) | - | - |

The interest rate derivatives are remeasured to fair value by the counterparty bank on a quarterly basis.

| The fair value at comprises: | £'000 | £'000 | £' 000 |
|--|--------------|-----------|-----------|
| At start of the period | 37 | - | - |
| Interest rate cap premium paid on inception | - | 158 | 158 |
| Amortisation of cap premium in the period | (29) | (39) | (13) |
| Change in fair value of interest rate derivative in the period | (237) | (82) | (90) |
| As at the end of the period | (229) | 37 | 55 |

To partially mitigate the interest rate risk that arises as a result of entering into the debt facilities referred to in note 15, the Group has entered into a derivative interest rate cap ('the cap') and a derivative interest rate swap ('the swap').

The total notional value of the cap was £63.5 million with its term coinciding with the expiry of the initial term of the HSBC credit facility. The strike rate of the cap as at 31 December 2018 was 1.75%, which caps the Group's cost of borrowing at 3.35% on the hedged notional amount.

The total notional value of the swap was £52.1 million with its term coinciding with the maturity of the Bayerische Landesbank loan facility. The fixed interest rate of the swap as at 31 December 2018 was 1.305%.

80% of the Group's total debt was hedged as at 31 December 2018 (31 December 2017: 67%; 30 June 2018: 72%) 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.

15. Bank borrowings

| | Unaudited 31 December 2018 £' 000 | Audited 30 June 2018 £' 000 | Unaudited 31 December 2017 £' 000 |
|--|---|---|---|
| Amounts falling due after more than one year | | | |
| Secured debt | 144,893 | 88,844 | 94,743 |
| Less: Unamortised finance costs | (1,183) | (745) | (921) |
| | 143,710 | 88,099 | 93,822 |

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

The credit facility has a maturity of three years commencing on 30 August 2018 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.

At 31 December 2018, £92.8 million has been drawn down in total under the credit facility.

All the advances drawn under the credit facility have an interest charge which is payable quarterly based on a margin above three-month LIBOR. The margin payable by the Group on the credit facility as at 31 December 2018 was 160 basis points above three-month LIBOR.

As at 31 December 2018, the full amount of the loan facility had been drawn down. Interest is payable quarterly on the loan facility based on a margin of 125 basis points above three-month LIBOR. The fixed interest rate on the loan facility resulting from the Interest rate swap was 2.55%.

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

16. Share capital

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

NOTES TO THE FINANCIAL STATEMENTS

| | Ordinary shares of 1 pence Number | Share capital £'000 | Share premium reserve £'000 | Capital reduction reserve £'000 | Total £'000 |
|---|--|---------------------------|--------------------------------------|--|----------------|
| 1 June 2017 to 30 June 2018 (audited) | | | | | |
| As at 1 June 2017 | - | - | - | - | - |
| Issue of 1 ordinary share | 1 | - | - | - | - |
| Issue of 50,000 redeemable preference shares - one quarter paid up | - | 12 | - | - | 12 |
| Cancellation of 50,000 redeemable preference shares | - | (12) | - | - | (12) |
| Ordinary shares issued – 18 July 2017 | 100,000,000 | 1,000 | 99,000 | - | 100,000 |
| Ordinary shares issued – 15 November 2017 | 19,999,999 | 200 | 19,800 | - | 20,000 |
| Ordinary shares issued – 25 May 2018 | 64,355,435 | 644 | 64,356 | - | 65,000 |
| Cancellation of 1 ordinary share | (1) | - | - | - | - |
| Share issue costs | - | - | (4,117) | - | (4,117) |
| | 184,356,434 | 1,844 | 179,039 | - | 180,883 |
| Transfer to capital reduction reserve | - | - | (30,000) | 30,000 | - |
| Dividend paid in the period (note 10) | - | - | - | (4,675) | (4,675) |
| As at 30 June 2018 | 184,356,434 | 1,844 | 149,039 | 25,325 | 176,208 |

| | Ordinary shares of 1 pence Number | Share capital £'000 | Share premium reserve £'000 | Capital reduction reserve £'000 | Total £'000 |
|--|--|---------------------------|--------------------------------------|--|----------------|
| Six months to 31 December 2017 (unaudited) | | | | | |
| As at 1 July 2017 | 1 | 12 | - | - | 12 |
| Cancellation of 50,000 redeemable preference shares | - | (12) | - | - | (12) |
| Ordinary shares issued – 18 July 2018 | 100,000,000 | 1,000 | 99,000 | - | 100,000 |
| Ordinary shares issued – 15 November 2018 | 19,999,999 | 200 | 19,800 | - | 20,000 |
| Cancellation of 1 ordinary share | (1) | - | - | - | - |
| Share issue costs | - | - | (2,438) | - | (2,438) |
| | 119,999,999 | 1,200 | 116,362 | - | 117,562 |
| Transfer to capital reduction reserve | - | - | (30,000) | 30,000 | - |
| Dividend paid in the period (note 10) | - | - | - | (1,375) | (1,375) |
| As at 31 December 2017 | 119,999,999 | 1,200 | 86,362 | 28,625 | 116,187 |

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

17. Cash flow hedge reserve

| | Unaudited Six months to 31 December 2018 £' 000 | Audited 1 June 2017 to 30 June 2018 £' 000 | Unaudited Six months to 31 December 2017 £' 000 |
|--|--|---|--|
| At start of the period | (82) | - | - |
| Fair value movement of interest rate derivatives in effective hedges | (237) | (82) | (90) |
| At the end of the period | (319) | (82) | (90) |

18. Capital commitments

The Group had no capital commitments outstanding as at 31 December 2018.

19. 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 31 December 2018 was £71,000 (six months ended December 2017: £73,000; 1 June 2017 to 30 June 2018: £142,000). There were no amounts outstanding at the end of the current or comparative periods.

Directors' interests

Details of the direct and indirect interests of the Directors and their close families in the ordinary shares of one pence each in the Company at 31 December 2018 were as follows:

- Nick Hewson: 360,000 shares
- Jon Austen: 106,500 shares
- Vince Prior: 55,431 shares

b. Investment Adviser

Advisory fees

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

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

Until the Adjusted Net Value of the Group exceeds £500 million, which it has not as at 31 December 2018, the entitlements to advisory fees can be summarized as follows:

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

For the period to 31 December 2018 the total advisory fees payable to the Investment Adviser were £838,000 (six months ended December 2017: £440,000; 1 June 2017 to 30 June 2018: £1,079,000) of which £308,000 (31 December 2017: £265,000; 30 June 2018: £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 31 December 2018 were as follows:

- Ben Green: 1,122,491 shares
- Steve Windsor: 1,166,018 shares

c. Transactions with other related parties

Morgan Williams act as the Senior Adviser to the Company, with their appointment being to provide their supermarket expertise to assist in sourcing suitable assets for investment. Any fees payable to the Senior Adviser form part of the acquisition costs in relation to the acquisition of the relevant property. Mark Morgan is a partner in Morgan Williams and sits on the Investment Committee of the Investment Adviser.

In the period to 31 December 2018 the amount payable to Morgan Williams for these services was £258,500 (six months ended December 2017: £1,008,000; 1 June 2017 to June 2018: 1,273,000). All of which has been capitalised as additions to investment properties. None of the amounts payable were outstanding at the end of the period and included in trade and other payables in the consolidated statements of financial position (31 December 2017: £250,000; 30 June 2018: £nil).

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.

20. Net asset value (NAV) per share

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

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

NAV and EPRA NAV per share calculation are as follows:

| | Unaudited 31 December 2018 £' 000 | Audited 30 June 2018 £' 000 | Unaudited 31 December 2017 £' 000 |
|---|--|--|--|
| Net assets | 176,949 | 176,746 | 112,544 |
| Fair value of interest rate derivatives | 229 | (37) | (55) |
| EPRA NAV | 177,178 | 176,709 | 112,489 |
| | Number | Number | Number |
| Ordinary shares in issue | 184,356,434 | 184,356,434 | 119,999,999 |
| NAV per share - Basic and diluted (pence) | 96p | 96p | 94p |
| EPRA NAV per share (pence) | 96p | 96p | 94p |

21. Subsequent events

On 8 January 2019 the Board declared a second interim dividend for the year ending 30 June 2019 of 1.419 pence per share, which will be paid on or around 8 February 2019 to shareholders on the register on 17 January 2019. This has not been included as a liability as at 31 December 2018.

COMPANY INFORMATION

DIRECTORS, REGISTERED OFFICE, SECRETARY AND ADVISERS

Directors

Nick Hewson – (Non-Executive Chairman)
Vincent Prior – (Non-Executive Director)
Jon Austen – (Non-Executive Director)

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AIFM

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Investment Adviser

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Administrator and Company Secretary

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W1J 8DW

Registrar

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Auditor

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Valuer

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

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