

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

**INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2020**

The Board of Directors of Supermarket Income REIT plc (LSE: SUPR), the real estate investment trust providing secure, inflation-protected, long income from grocery property in the UK, is today reporting its interim results for the Group for the six months ended 31 December 2020 (the "Period").

**FINANCIAL HIGHLIGHTS**

	Six months to 31-Dec-20	Six months to 31-Dec-19	Change in Period
Annualised passing rent	£46.1m	£26.1m	+76.6%
EPRA Earnings	£15.5m	£7.2m	+115.3%
Profit before tax	£33.0m	£7.8m	+323.1%
Dividend paid per share	2.93 pence	2.88 pence	+1.7%
EPRA EPS	2.8 pence	2.5 pence	12.0%
EPRA dividend cover	1.12x	0.84x	n/a

	31-Dec-20	30-June-20	Change in Period
IFRS net assets	£691.8m	£477.2m	+ 45.0%
EPRA NTA	£694.0m	£479.1m	+44.9%
EPRA NTA per share	104 pence	101 pence	+3.0%
Loan to value (Direct Portfolio)	27.0%	19.7%	+37.1%
Portfolio net initial yield	4.7%	5.0%	(6.0)%

- 26.4% Total Shareholder Return since the initial listing in July 2017<sup>1</sup>
- Two quarterly dividends declared for the Period totalling 2.9 pence per ordinary share
- On track to deliver full-year 2021 target dividend of 5.86 pence per share
- Direct Portfolio independently valued at £885.3 million increasing by £345.9 million for the Period following valuation growth of £31.9 million and new acquisitions of £314.0 million (excluding acquisition costs)
  - 5.5% valuation growth on a like-for-like basis for the six month period
  - Direct Portfolio net initial yield ("NIY") of 4.7%
  - Direct Portfolio weighted unexpired lease term ("WAULT") of 16 years

<sup>1</sup> Including 2nd interim dividend paid on 26 February 2021

## **BUSINESS HIGHLIGHTS**

- £200.0 million in equity raised via an upsized and over-subscribed Placing and Offer for Subscription in October 2020
- Acquisition of 13 complementary omnichannel supermarket assets in the six months to 31 December at an aggregate purchase price of £314.0 million (excluding acquisition costs)
  - New acquisitions NIY of 5.1% versus Portfolio NIY of 4.7%
  - New acquisitions WAULT of 14 years
- Direct Portfolio net loan to value ("LTV") ratio of 27.0% as at 31 December 2020
- Weighted current cost of debt of 2.0%
- Net Tangible Asset Value ("NTA") per ordinary share of 104 pence as at 31 December 2020; and
- 100% of rent collected in full shortly after the balance sheet date

## **POST BALANCE SHEET EVENTS**

- £177.1 million of post balance sheet acquisitions comprising:
  - Purchase of 4 omnichannel supermarket sites for £119.6 million (excluding acquisition costs) providing a blended NIY of 4.9% and a blended 19 year unexpired lease term.
  - Acquisition of a further 25.5% stake in the Sainsburys Reversion Portfolio for £115.0 million (excluding funding for acquisition costs) through the Company's existing 50:50 joint venture with British Airways Pension Trustees Limited ("BAPTL"). The Group's investment was £57.5 million (excluding funding for acquisition costs).
  - £113.75 million in new debt financing at a cost of 1.55% and a term of 5 years.

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

"I am delighted to report another period of solid performance by the Group. Our Direct Portfolio benefitted from a 5.5% like for like valuation growth which in turn delivered a material growth in EPRA NTA to 104 pence per share.

The last 12 months have highlighted the critical role of grocery property in the UK's feed the nation infrastructure. Our supermarkets play a key role in supporting the response of the UK grocery sector to the pandemic and as a result we have experienced strong property investor interest in our market and consequently a tightening of yields.

Since our IPO in July 2017, we are pleased to have delivered a Total Shareholder Return of 26.4% for our shareholders. We continue to offer investors stable, long-term, inflation-protected income, supported by a compelling real estate opportunity."

## PRESENTATION FOR ANALYSTS

A presentation to analysts will take place today at 08.30am.

Webcast details are as follows:

<https://webcasting.brrmedia.co.uk/broadcast/601d6f87a6bfbf43d06adbd9>

The results presentation is available in the Investor Centre section of the Company's website. For further details, please email Dido Laurimore at [SupermarketIncomeREIT@fticonsulting.com](mailto:SupermarketIncomeREIT@fticonsulting.com)

## FOR FURTHER INFORMATION

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## NOTES TO EDITORS:

Supermarket Income REIT plc (LSE: SUPR) is a real estate investment trust dedicated to investing in grocery properties which are an essential part of the UK's feed the nation infrastructure. The Company focuses on grocery stores which are omnichannel, fulfilling online and in-person sales. All of the Company's 53 supermarkets<sup>(1)</sup> are let to leading UK supermarket operators, diversified by both tenant and geography.

The Company provides investors with attractive, long-dated, secure, inflation-linked, growing income with the potential for capital appreciation over the longer term and targets a 7% to 10% p.a. total shareholder return over the medium term<sup>(2)</sup>. The Company has increased its dividend target in line with UK RPI inflation each year.

The Company's ordinary shares were admitted to trading on the Main Market of the London Stock Exchange, Specialist Fund Segment, on 21 July 2017.

Atrato Capital Limited is the Company's Investment Adviser.

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

*(1) 27 directly owned supermarkets, plus 26 via joint venture, this includes acquisitions after the balance sheet date*

*(2) There is no certainty that these illustrative projections will be achieved*

## CHAIRMAN'S STATEMENT

### Dear Shareholder,

I am delighted to report to you another period of solid performance by the Group, during which we have delivered a 5.5% like for like growth in the value of our Direct Portfolio<sup>2</sup> and a 3% growth in EPRA NTA<sup>3</sup> from 101 pence per share to 104 pence per share in the six month period to 31 December 2020.

Our strategy is to invest in omnichannel supermarkets which we firmly believe is the future model of grocery in the UK. Omnichannel supermarkets operate both as physical supermarkets and as online fulfilment centres performing a critical role in the business strategies of our tenants and the UK's feed the nation infrastructure.

### Overview

The continued effect of the pandemic has created unprecedented sales volumes for the sector both in-store and online. Grocery sales rose by £13 billion over the course of 2020, with record annual growth of 11% for the year to December 2020<sup>4</sup>. All grocery channels and operators have experienced a major increase in demand during this period, and the most notable growth has been in the online grocery channel. More than a fifth of UK households are now making at least one online grocery purchase each month with the online channel growing by over 60% from 8% of supermarket sales in January to a peak of 13% in December.

The major supermarket operators have supplied much of this increased capacity that has enabled online sales to grow so quickly. Tesco, Sainsbury's, Morrisons and Asda now provide over 80% of UK online capacity. This dominance has been achievable due to their network of omnichannel supermarkets, which are extremely well placed to provide last mile delivery, having the size and stock to respond effectively to the increased demand, whilst having the operational flexibility to increase online fulfilment capacity.

The pandemic has served to reinforce the fact that omnichannel supermarkets provide an essential service in feeding the nation. The effective response by the largest supermarket operators to meet elevated levels of demand both in-store and online, illustrates that well located omnichannel supermarkets have become pivotal to the delivery of food to the nation and demonstrates the vital necessity of these stores to urban infrastructure.

I am pleased to report that during the Period our portfolio valuation yield tightened from 5.0% to 4.7% generating like for like valuation growth of 5.5%, and including new acquisitions, the direct portfolio was valued at £885.3 million. This yield compression and valuation growth is evidence of the growing dominance of the omnichannel model in the UK online grocery market together with the undoubted covenant strength of the operators, driving value creation within the supermarket property market.

I was also pleased to announce in January, a scrip dividend scheme which allows eligible shareholders to elect to receive new ordinary shares in the Company in lieu of a cash dividend.

We recognise our obligation to continue to create long term value for investors in a responsible and sustainable way. Sustainability is a strategic priority and increasingly central to the way we run the business. We have been making good progress against our broader Environmental, Social and Governance ('ESG') strategy with a specialist third party consultant appointed to identify ways to fully integrate environmental and sustainable initiatives into our investment and asset management strategies.

Our tenants have proven themselves invaluable in providing a crucial service to local communities during the pandemic. However, we acknowledge that as a business there is always more that we can do.

### Financial results

The direct portfolio of investment properties was independently valued on 31 December 2020 at £885.3 million, reflecting a 5.5% like for like growth in value during the Period. This has in turn driven a 3% increase in the

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<sup>2</sup> Excluding acquisition costs

<sup>3</sup> EPRA's updated Best Practice Recommendations Guidelines issued in October 2019, include three replacement Net Asset Valuation metrics, namely EPRA Net Reinstatement Value (NRV), EPRA Net Tangible Assets (NTA) and EPRA Net Disposal Value (NDV).

<sup>4</sup> Kantar 2021

Group's EPRA NTA from 101 pence per share as at 30 June 2020 to 104 pence per share as at 31 December 2020. During the Period, we acquired an additional 13 supermarkets totalling £314.0 million excluding acquisition costs.

In October, we completed an over-subscribed equity placing raising £200.0 million. We also continued to diversify our banking relationships with the addition of Wells Fargo to our banking group. The proceeds of these placings together with drawings under our banking facilities have enabled us to enhance significantly the quality and geographic diversification of the Portfolio.

Including our interest in the Sainsbury's Reversion Portfolio and our post balance sheet events listed below, we now have direct or indirect exposure to 53 supermarkets.

Reflecting the growth in our direct portfolio, rental income for the six months to 31 December was £20.4 million compared to £11.9 million as at 31 December 2019, representing a 71.4% increase in the period. We have a high degree of certainty of income through the Group's long, upward-only, inflation-linked rental uplifts, leased to tenants with undoubted covenants. Throughout the COVID-19 crisis this has been borne out as we collected 100% of rents with no defaults, deferrals, or rent reductions.

The Group has a low and highly transparent cost base. Our ongoing cost ratio, calculated under the AIC methodology, was 1.4% and our annualised EPRA cost ratio for the Period remained relatively flat at 19.9% compared to 19.7% for the financial year ending 30 June 2020. We expect this ratio to stabilise as the Company continues to deploy further capital and thus increase portfolio value.

The Company has declared two interim dividends for the Period on 17 September 2020 and on 8 January 2021, both at 1.465 pence per share. We are therefore on track to declare dividends of 5.86 pence per share for the financial year. The Group's EPRA dividend cover ratio was 1.12x for the period which reflects the short-term impact on dividend cover applicable to the period between equity proceeds being raised in October and being fully deployed. We recognise that the earnings from the Sainsbury's Reversion Portfolio are used to repay debt secured against that portfolio and that we do not receive a cash distribution of those earnings. In response, we have calculated an adjusted EPRA dividend cover ("Adjusted EPRA Dividend Cover") which excludes undistributed profits of the Sainsbury's Reversion Portfolio. The Adjusted EPRA Dividend Cover for the Period was 0.91x.

Since the balance sheet date, transactional activity levels have remained high. We have continued to deploy capital through the purchase of a further 4 supermarkets for £119.6 million. We also invested an additional £57.5 million<sup>5</sup> to acquire a further 25.5% interest in the Sainsburys Reversion Portfolio through the existing 50:50 joint venture with British Airways Pension Trustees Limited. In addition, the Group entered into financing arrangements with Barclays and the Royal Bank of Canada providing us with a new five-year revolving credit facility (including two one-year extension options).

## **Outlook**

Given the challenging environment for the wider real estate market and the continued impact of the COVID-19 pandemic, we have been especially pleased with the robust performance of our portfolio and our 100% rental collection each quarter.

The Investment Adviser has proven its ability to identify and acquire attractive investments for the Group despite the on-going COVID-19 crisis. Since lockdown in late March 2020, the Investment Adviser has deployed £542.6 million on behalf of the Group in 15 separate transactions, spreading our geographic coverage and diversifying our tenant base.

**Nick Hewson**  
**Chairman**  
**02 March 2021**

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<sup>5</sup> Excluding funding for acquisition costs

## INVESTMENT ADVISER'S REPORT

Atrato Capital Limited, the Investment Adviser to the Group, is pleased to report on the operations of the Group for the Period.

### Overview

The continued COVID-19 pandemic has illustrated that supermarket stores in strategic locations, are pivotal to the critical supply of food across the UK. Supermarkets are a regular part of the lives of the UK population and a core part of the UK's food infrastructure. UK Supermarkets stayed open throughout the periods of lockdown and, at the height of the crisis, employed an additional 45,000 workers to maintain the supply chain and implement social distancing measures. The continued impact of the pandemic has driven record grocery sales volumes with an unprecedented annual growth rate of 11% for the year to December 2020<sup>6</sup>.

The pandemic has also accelerated the move to online grocery shopping propelling the online channel to 13% of the market up from 8% a year earlier and represents 16%-18% of Tesco and Sainsbury's total sales<sup>7</sup>. Much of this demand is here to stay as online becomes an integrated part of customers grocery shopping habits. A survey from Waitrose indicated that around 75% of the UK population was now doing part of its food shopping online with half of those surveyed believing their shopping habits have been changed permanently.

The substantial capacity growth by the big four to meet demand, adding over 1.9 million slots from 1.8 million per week to 3.7 million per week, has re-emphasised the vital role of omnichannel stores operating as last mile logistics nodes in the food supply network<sup>8</sup>. Omnichannel supermarkets represent the mission critical infrastructure that is integrating online and traditional in-store sales, with characteristics not evident in other forms of real estate, namely:

- ideally located for catchment populations and excellent transportation links
- long unexpired lease terms with inflation linked rental uplifts
- strong underlying trading
- attractive property fundamentals with opportunities for active asset management

A pillar of the Group's investment strategy is investing in these omnichannel supermarkets that facilitate in-store shopping, while also forming part of the UK online grocery distribution network. These omnichannel properties have become the dominant model for last-mile grocery fulfilment. The sites owned by the Group proved particularly flexible and resilient in dealing with the increased grocery demand from both online and in-store sales growth caused by the COVID-19 pandemic.

The Group is highly selective in the supermarket assets that it seeks to acquire. As well as targeting assets which operate both as physical supermarkets and online fulfilment centres, the Group also seeks to ensure that its assets benefit from a solid trading history for the operators, long unexpired lease terms, contractual, upward only rental uplifts, strong tenant covenants and geographic diversity.

### Investment activity – Direct Portfolio

During the Period, the Group added 13 accretive omnichannel supermarket assets for £314.0 million, namely;

- Portfolio of six supermarkets via a sale and leaseback transaction with Waitrose & Partners ("Waitrose") for £74.1 million<sup>9</sup> with 15 years unexpired lease term and five-yearly, upward-only, CPIH-linked rent reviews.

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<sup>6</sup> Kantar 2021

<sup>7</sup> Kantar, Sainsburys and Tesco 2020 Q3 trading statements - 2021

<sup>8</sup> Top 5 online grocery operator websites and Atrato estimates.

<sup>9</sup> Excluding acquisition costs

- Morrisons in Telford, Shropshire for £14.3 million<sup>9</sup> with 13 years unexpired lease term and five-yearly, upward-only, RPI-linked rent reviews.
- Tesco Extra in Newmarket, Suffolk for £61.0 million<sup>9</sup> with 15 years unexpired lease term and annual, upward-only, RPI-linked rent reviews.
- Tesco in Bracknell, Berkshire for £39.5m<sup>9</sup> with 10 years unexpired lease term and annual, upward-only, RPI-linked rent reviews.
- Sainsbury's in Heaton, Newcastle upon Tyne for £53.1 million<sup>9</sup> with a 21 years unexpired lease term and five-yearly, upward-only, RPI-linked rent reviews.
- Tesco Extra, and an Aldi supermarket in Beaumont Leys for £63.4 million<sup>9</sup>. The Tesco Extra was acquired with a 7 years unexpired lease term, with 5-yearly, upwards only, open market rent reviews. The Aldi was acquired 15 years unexpired lease term, with 5-yearly, upwards only, RPI-linked rent reviews.
- Waitrose in Market Harborough, Leicestershire, for £9.1m<sup>9</sup> with 14 years unexpired lease term and annual, upward-only, RPI-linked rent reviews.

The acquisitions had a blended unexpired lease term of 14 years and a blended net initial yield of 5.1%, which is accretive to the Direct Portfolio net initial yield of 4.7%, supporting the Group's ability to grow its dividend whilst also enhancing the quality and diversification of the Portfolio.

Included in the acquisitions above were 17 ancillary units which were acquired as part of the site freeholds. These units serve to enhance the onsite offer and have the potential for value enhancing asset management. These have been valued at £5.0m as at 31 December 2020 and consist of a mix of retail and quick service restaurant units.

Post balance sheet the Group acquired a further 4 supermarkets with a blended net initial yield of 4.9% and a blended unexpired lease term of 19 years for a total consideration of £119.6 million (excluding acquisition costs). The stores acquired post balance sheet were:

- Morrisons in Winchester, Hampshire for £29.7 million<sup>9</sup> with 24 years unexpired lease term and five-yearly, upward-only, RPI-linked rent reviews.
- Sainsbury's in Melksham, Wiltshire for £35.1 million<sup>9</sup> with 17 years unexpired lease term and annual, upward-only, RPI-linked rent reviews.
- Morrisons in Wisbech, Cambridgeshire for £30.0 million<sup>9</sup> with 20 years unexpired lease term and five-yearly, upwards only, RPI-linked rent reviews.
- Sainsbury's in Bangor, Northern Ireland for £24.8 million<sup>9</sup> with 16 years unexpired lease term and five-yearly, 2% fixed rent reviews compounded annually.

Included in the acquisitions above were 9 ancillary units which were acquired as part of the site freeholds and serve to enhance the onsite offer. These have been acquired for a combined value of £22.2 million and consist of a mix of retail, quick service restaurants, residential units and a GP Surgery.

The total acquisitions of £433.6 million from 1 July 2020 were financed from our equity raises in April 2020 and October 2020 and drawings from banking facilities (see financing below).

Our Direct Portfolio of supermarket comprises the properties in the following table.

Tenant	Location	Acquisition Date	Purchase Price (millions)	Valuation at 31 December 2020 (millions)	Passing annual rent (millions)	GIA (sq.ft.)	NSA (Sq.ft.)	Rent review basis	Lease Expiry	Tenure
Tesco	Thetford, Norf	Aug-17	£43.20	£42.21	£2.70	78,000	48,000	Annual RPI	Dec-29	Virtual freehold
Tesco	Bristol, Avon	Aug-17	£28.50	£28.14	£1.60	55,000	31,000	Annual RPI	Mar-31	Virtual freehold
Sainsbury's	Ashford, Kent	Aug-17	£79.80	£91.78	£4.00	125,000	72,000	Annual RPI	Sep-38	Freehold
Tesco	Cumbernauld, N Lanak	Dec-17	£50.00	£64.38	£3.10	117,000	70,000	Annual RPI	Aug-40	Virtual freehold
Tesco	Scunthorpe, Lincs	May-18	£53.00	£65.24	£3.00	98,000	65,000	Annual RPI	Aug-40	Virtual freehold
Morrisons	Sheffield, South Yorks	Jul-18	£51.70	£59.06	£2.90	113,000	58,000	5 yearly RPI	Oct-39	Virtual freehold
Tesco	Mansfield, Notts	Apr-19	£45.00	£53.55	£2.60	90,000	64,000	Annual RPI	Mar-39	Virtual freehold
Sainsbury's	Preston, Lanc	Aug-19	£54.40	£64.52	£3.00	106,000	78,000	Annual RPI	Feb-42	Freehold
Sainsbury's	Cheltenham, Gloucs	Oct-19	£60.40	£62.92	£3.40	98,724	61,964	5 yearly RPI	Jun-32	Freehold
Sainsbury's	Hessle, Yorks	Feb-20	£34.00	£37.00	£2.30	70,899	50,763	Annual RPI	Jun-34	Freehold
Waitrose	Eastbourne, East Sussex	Jul-20	£13.30	£13.63	£0.60	34,600	22,177	5 yearly CPIH	Jul-40	Freehold
Waitrose	Edenbridge, Kent	Jul-20	£7.50	£7.84	£0.40	19,104	13,275	5 yearly CPIH	Jul-40	Freehold
Waitrose	Ely, Cambs	Jul-20	£12.60	£12.70	£0.60	32,890	15,137	5 yearly CPIH	Jul-40	Freehold
Waitrose	Oundle, Northants	Jul-20	£8.70	£8.80	£0.40	22,104	15,220	5 yearly CPIH	Jul-40	Freehold
Waitrose	Sandbach, Ches	Jul-20	£15.80	£15.91	£0.70	40,082	24,443	5 yearly CPIH	Jul-40	Freehold
Waitrose	Sudbury, Suff	Jul-20	£16.30	£16.40	£0.80	43,734	30,380	5 yearly CPIH	Jul-40	Freehold
Tesco	Newmarket, Suff	Jul-20	£61.00	£61.71	£3.00	106,834	68,421	Annual RPI	Mar-36	Freehold
Morrisons	Telford, Shrops	Aug-20	£14.30	£14.51	£0.80	42,434	27,200	5 yearly RPI	Nov-37	Freehold
Tesco	Bracknell, Berk	Sep-20	£39.50	£39.78	£2.40	80,109	56,729	Annual RPI	Dec-30	Virtual Freehold
Sainsbury's	Newcastle, Northumberland	Oct-20	£49.00	£49.00	£2.01	99,836	67,629	5 yearly RPI	Nov-41	Freehold
Tesco	Beaumont Leys, Leics	Nov-20	£56.50	£57.13	£3.85	149,820	97,081	5 yearly OMV	Feb-28	Freehold
Aldi	Beaumont Leys, Leics	Nov-20	£5.50	£5.49	£0.28	18,500	14,800	5 yearly RPI	Aug-45	Freehold
Waitrose	Market Harborough, Leics	Dec-20	£9.08	£9.08	£0.42	22,522	14,636	5 yearly Fixed	Sep-39	Freehold
Ancillary pre-balance Sheet	Various	Various	£5.50	£5.03	£1.45	117,884		Various	Various	Freehold
Waitrose <sup>1</sup>	Winchester, Hampshire	Jan-21	£20.60	£20.60	£0.90	32,156	25,725	5 yearly RPI	Sep-44	Freehold
Sainsbury's <sup>1</sup>	Melksham, Wilts	Feb-21	£35.06	£35.06	£1.61	60,989	44,522	Annual RPI	Sep-37	Freehold
Sainsbury's <sup>1</sup>	Bangor, Northern Ireland	Feb-21	£18.80	£18.80	£1.00	60,515	44,176	5 yearly Fixed	Aug-36	Freehold
Morrisons <sup>1</sup>	Wisbech, Cambridgeshire	Jan-21	£23.00	£23.00	£0.95	48,835	36,626	5 yearly RPI	Aug-46	Freehold
Ancillary post-balance Sheet <sup>1</sup>	Various	Various	£22.21	£22.21	£1.73	114,221		Various <sup>4</sup>	Various	Freehold

<sup>1</sup> Acquired post balance sheet date



### **Investment activity – Sainsbury’s Reversion Portfolio (post balance sheet event)**

On 18 February 2021 the Company announced the acquisition of a further interest in the Sainsburys Reversion Portfolio from Aviva Life and Pensions UK Limited. The 25.5% beneficial interest was acquired through the Company’s existing 50:50 joint venture (the “JV”) with British Airways Pension Trustees Limited (“BAPTL”). The purchase price was £115.0 million<sup>10</sup>. The Company’s contribution to the JV to fund the acquisition was £57.5 million<sup>10</sup>.

The JV acquired its initial 25.5% stake from British Land Plc in May 2020. Following this second acquisition, the JV’s ownership in the Portfolio is now 51.0%. The remaining 49.0% stake is held by Sainsbury’s plc.

The strategic rationale for the acquisition is the underlying high quality portfolio of predominantly omnichannel supermarkets with strong property fundamentals and scope for progressive valuation growth in excess of the Company’s targeted total shareholder return.

### **Portfolio valuation**

Cushman & Wakefield valued the Direct Portfolio at 31 December 2020, in accordance with the RICS Valuation Global Standards. The properties were valued individually without any premium/discount applying to the Portfolio as a whole.

The direct portfolio market value was £885.3 million, an increase of £345.9 million for the Period following valuation growth of £31.4 million and new acquisitions of £314.0 million<sup>10</sup> reflecting a net initial yield (“NIY”) of 4.7% and a like for like valuation growth of 5.5%.

The valuation growth in the direct portfolio reflects the supermarket operators’ undoubted covenant strength as tenants, increased demand in the investment market, and our ability to source off-market acquisitions for the Group. With index-linked lease agreements and the high degree of certainty of income inherent in the Group’s long leases, the Investment Adviser believes further valuation growth can be achieved in the future.

The Group’s investment in the Sainsbury’s Reversion Portfolio (the “Indirect Portfolio”), held as investment in joint ventures, was also independently valued by Cushman & Wakefield, in accordance with the RICS Valuation Global Standards.

The underlying properties comprising the Sainsbury’s Reversion Portfolio were revalued to £916.5 million as 31 December 2020 from £900.7 million as at 30 June 2020, representing an increase of £15.8 million. The Group’s share of this increase is 12.5% translating to a £2.0 million valuation uplift for the Group. The net carrying value of the underlying investment has increased by a total of £4.9 million to £61.1 million during the Period. This increase is recognised within share of income from joint venture.

### **Financial results**

IFRS net rental income for the Period was £20.4 million (six months to 31 December 2019: £11.9 million) with a £5.4 million rental growth contribution from new acquisitions.

Administrative and other expenses, which include management and advisory fees and other costs of running the Group, were £4.1 million (six months to 31 December 2019: £2.3 million) generating an annualised EPRA cost ratio for the Period of 19.9% (six months to 31 December 2019: 18.9%). The increase in the EPRA cost ratio reflects the short-term impact of costs applicable to the period between equity proceeds being raised and fully deployed. The Group’s EPRA cost ratio is expected to stabilise in the coming years, reflecting a growing level of cost efficiency that is achievable as the Group continues to scale.

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<sup>10</sup> Excluding acquisition costs

Financing costs for the Period were £3.7 million (six months to 31 December 2019: £2.4 million). As at 31 December 2020 the Group's weighted average finance cost was circa 2.0% (six months to 31 December 2019: 2.2%). The change in net financing costs in the Period reflects the continued growth in the business and the reduction in the cost of borrowing for its most recent facilities.

As a result of the above, operating profit, before changes in the fair value of investment properties, as reported under IFRS, increased by 69% to £16.3 million (six months to 31 December 2019: £9.6 million).

The net change in fair value of the direct portfolio investment properties in the Period was £15.5m (six months to 31 December 2019: £0.6 million), which comprises a £32.0 million valuation gain offset by a £15.7 million acquisition costs and a £0.8 million rent smoothing adjustment.

The Group is a qualifying UK Real Estate Investment Trust ("REIT") which exempts the Group's property rental business from UK Corporation Tax.

The Company has declared two interim dividends for the Period; on the 17 September 2020 an interim dividend of 1.465 pence per share and on 8 January 2021, a second interim dividend of 1.465 pence per share. The Company is on track to declare dividends of 5.86 pence per share for the financial year.

The Group's EPRA dividend cover ratio was 1.12x for the Period which reflects the short term impact on dividend cover applicable to the period between equity proceeds being raised in October and being fully deployed. The Group's adjusted EPRA dividend cover, taking into account the undistributed profits from the Sainsbury's Reversion Portfolio was 0.91x.

#### **New EPRA Measures for net asset value**

EPRA's updated Best Practice Recommendations Guidelines issued in October 2019, which became effective for financial years beginning on 1 January 2020, include three replacement Net Asset Valuation metrics, namely EPRA Net Reinstatement Value (NRV), EPRA Net Tangible Assets (NTA) and EPRA Net Disposal Value (NDV). We report these because management considers them to improve the transparency and relevance of our published results as well as the comparability with other listed European real estate companies.

The Group will report all three metrics going forward, whilst choosing to adopt EPRA NTA as our primary metric as it is the closest to our previous primary metric, EPRA NAV. A reconciliation of all three metrics has been provided in note 22 of the financial statements.

At 31 December 2020, the EPRA NTA per share was 104 pence (30 June 2020: 101 pence), an increase of 3.0%.

#### **Financing and hedging**

In October 2020, the Company successfully completed an oversubscribed £200.0 million Placing and Offer for Subscription under which 192,307,692 New Ordinary Shares were issued at 104 pence per New Ordinary Share representing a 3% premium to prevailing NAV at the time of issue. Following a strong level of support from investors during the marketing roadshow, the October Placing was increased from the original target of £150.0 million.

During the Period, the Group has broadened its banking relationships further. In July 2020, the Group arranged a new secured revolving credit facility of £60.0 million with Wells Fargo. This facility has a seven-year term (five year plus two one-year extension options). The facility has a margin of 2.0% above 3-month Libor which is currently equivalent to a total cost of 2.1%. It also includes a £100 million uncommitted accordion option, exercisable at any time throughout the term of the facility.

In August 2020, the Group increased its existing facility with Bayerische Landesbank by £34.8 million comprising a new £27.5 million, secured, five-year tranche and a further £7.3 million tranche, upsizing its existing £52.1 million secured term loan for the remaining three-year term. The facilities are in both cases priced at a 1.85% margin over 3-month Libor, representing a total cost of debt of 2.0%. In September, the Group also agreed an increase to its

existing HSBC RCF facility of £40.0 million at a 1.75% margin over 3-month Libor, whilst other terms remain the same as the existing £100m RCF facility.

Post balance sheet, in January 2021, the Group arranged a new secured revolving credit facility of £80.0 million with Barclays and Royal Bank of Canada. This facility has a five-year term (three year plus two one-year extension options). Once drawn, the facility has a margin of 1.5% above SONIA which is currently equivalent to a total cost of 1.6%. It also includes a £70 million uncommitted accordion option, exercisable at any time throughout the term of the facility.

A summary of the Group's credit facilities is provided below:

Lender	Facility	Maturity	Credit margin	Loan commitment £m	Amount drawn at 31 December 2020 £m
HSBC	Revolving Credit Facility	Aug 2022	1.65%	100.0	100.0
HSBC	Revolving Credit Facility	Aug 2022	1.75%	40.0	11.0
Bayerische Landesbank	Term Loan	Jul 2023	1.25%	52.1	52.1
Bayerische Landesbank	Additional Term Loan A	July 2023	1.85%	7.3	7.3
Bayerische Landesbank	Additional Term Loan B	Aug 2025	1.85%	27.5	27.5
Deka Bank	Term loan	Aug 2026*	1.35%	76.6	76.6
Wells Fargo	Revolving Credit Facility	July 2027*	2.00%	60.0	30.0
<b>Total</b>				<b>363.5</b>	<b>304.5</b>
<i>Post balance sheet events</i>					
Barclays and RBC	Revolving Credit Facility	Jan 2026*	1.50%	113.75	n/a
<b>Total</b>				<b>476.5</b>	<b>n/a</b>
<b>Average credit margin</b>			<b>1.65%</b>		

\*Including two further one-year extension options.

Total net debt as at 31 December 2020 is £239.2 million, reflecting a net loan-to-value ("LTV") ratio of 27.0%. The Group's medium-term debt target is an LTV ratio of 30%-40%.

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

The Group has significant headroom on its LTV covenants. The covenants contain a maximum 60% LTV threshold and a minimum 200% interest cover ratio for each asset in the Portfolio. As at 31 December 2020, the Group could afford to suffer a fall in property values of 35.3% before being in breach of its LTV covenants and, with the current hedging arrangements it has in place, it has 461.5% of interest cover headroom.

The Group has designed its debt strategy to minimise the effect of a significant rise in underlying interest rates through the use of hedging instruments. Further details of our debt and hedging can be found within notes 16 and 17 of these accounts.

### Asset Management

During the period, the Group has completed three rent reviews. The combination of these inflation-linked rent reviews resulted in an annualised increase in rental income of £0.01 million, equivalent to a 0.86% average annualised increase in the rents for these reviewed properties. All rent reviews on the Portfolio are upward-only and linked to the UK Retail Price Index with a weighted average Portfolio floor of 0.49% and a cap of 3.57%.

We are passionate about improving the environmental impact of our properties and our medium-term ambition is to install on-site decarbonised energy producing plants across our estate.

Although the installation programme was delayed due to the impact of COVID-19, we have made strong progress across the estate in advancing the structural and technical designs and planning approvals for the installation of a combined 1.6 Megawatt rooftop solar array across the portfolio.

These solar investments improve the environmental sustainability of our sites something which is very important to the company and its tenants, whilst also generating an additional incremental income stream for the Group, thus enhancing the long-term capital value of the site.

**Atrato Capital Limited**  
**Investment Adviser**  
**02 March 2021**

## **PRINCIPAL RISKS AND UNCERTAINTIES**

The principal risks of the business are set out on pages 28 to 35 of the Annual Report 2020 and include commentary on their potential impact, links to the Group's strategic priorities and the relevant mitigation factors. Since the publication of the Annual Report 2020, the Board believes that there has been no material change to the principal risks as stated and the reported mitigation actions remain appropriate to manage the risks. An assessment of these risks as at 31 December 2020 has been noted below:

### **Impact of the COVID-19 pandemic**

The Covid-19 pandemic continues to remain a principal risk to the business and we expect this to continue well into 2021. Notwithstanding the ongoing health and social care risks, the potential impact of the pandemic could be significant, specifically in relation to rent collection and availability of credit facilities. However, the grocery sector has continued to be robust in the face of the wider challenges posed by the pandemic, reporting increased sales, albeit pitted against higher costs, and a rapid positive response to the changing ways in which customers shopped. This has resulted in the supermarket asset class being resilient and in high demand, underpinning asset values. All rental income has been received in full. The Board, the AIFM and the Adviser continue to monitor the impact of the pandemic and where necessary implement additional controls to anticipate and mitigate any adverse consequences.

### **Uncertainty around the impact of Brexit transitional arrangements**

Since the publication of the Annual report the UK has left the European Union. The impact on the supply chains to the major supermarket operators to whom the Group leases the majority of its assets, to date, has been limited.

### **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 21.

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**

**02 March 2021**

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

### **Introduction**

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2020 which comprises the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Cash Flow Statement and the related notes.

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

### **Directors' responsibilities**

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

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

### **Our responsibility**

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

### **Scope of review**

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

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2020 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.

**Use of our report**

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

**BDO LLP**

Chartered Accountants

London

United Kingdom

02 March 2021

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 2020*

		Unaudited Six months to 31 December 2020	Unaudited Six months to 31 December 2019	Audited Year to 30 June 2020
	Note	£' 000	£' 000	£' 000
<b>Profit or loss</b>				
Rental income	4	<b>20,408</b>	11,901	26,352
Administrative and other expenses	5	<b>(4,065)</b>	(2,254)	(5,184)
<b>Operating profit before changes in fair value of investment properties and share of income from joint venture</b>		<b>16,343</b>	9,647	21,168
Changes in fair value of investment properties	11	<b>15,462</b>	557	13,052
Share of income from joint venture	12	<b>4,906</b>	–	486
Negative goodwill		–	–	2,960
<b>Total share of income from joint venture</b>		<b>4,906</b>	–	3,446
<b>Operating profit</b>		<b>36,711</b>	10,204	37,666
Finance expense	7	<b>(3,746)</b>	(2,450)	(4,903)
<b>Profit before taxation</b>		<b>32,965</b>	7,754	32,763
Tax charge for the period	8	–	–	–
<b>Profit for the period</b>		<b>32,965</b>	7,754	32,763
<b><i>Items to be classified to profit or loss in subsequent periods</i></b>				
Changes in the fair value of interest rate derivatives	19	<b>(210)</b>	175	(818)
<b>Total comprehensive income for the period</b>		<b>32,755</b>	7,929	31,945
<b>Total comprehensive income for the period attributable to ordinary shareholders</b>		<b>32,755</b>	7,929	31,945
<b>Earnings per share - basic and diluted (pence)</b>	9	<b>5.9p</b>	2.7p	9.8p

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

		Unaudited 31 December 2020 £' 000	Audited 30 June 2020 £' 000	Unaudited 31 December 2019 £' 000
	Note			
<b>Non-current assets</b>				
Investment properties	11	885,333	539,410	490,410
Investment in Joint ventures	12	61,112	56,081	–
Other financial assets		–	–	172
<b>Total non-current assets</b>		<b>946,445</b>	595,491	490,582
<b>Current assets</b>				
Financial assets held at fair value through profit and loss	13	478	–	–
Trade and other receivables	14	2,750	1,702	5,981
Cash and cash equivalents		61,936	20,353	7,654
<b>Total current assets</b>		<b>65,164</b>	22,055	13,635
<b>Total assets</b>		<b>1,011,609</b>	617,546	504,217
<b>Non-current liabilities</b>				
Bank borrowings	17	301,163	126,791	166,367
Interest rate derivatives	16	2,213	1,988	972
<b>Total non-current liabilities</b>		<b>303,376</b>	128,779	167,339
<b>Current liabilities</b>				
Deferred rental income		9,418	5,203	5,314
Current tax liabilities		–	–	–
Trade and other payables	15	7,041	6,403	3,574
<b>Total current liabilities</b>		<b>16,459</b>	11,606	8,888
<b>Total liabilities</b>		<b>319,835</b>	140,385	176,227
<b>Total net assets</b>		<b>691,774</b>	477,161	327,990
<b>Equity</b>				
Share capital	18	6,658	4,735	3,379
Share premium reserve	18	629,914	436,126	300,481
Cash flow hedge reserve	19	(2,231)	(2,021)	(1,029)
Capital reduction reserve	18	–	–	6,193
Retained earnings		57,433	38,321	18,966
<b>Total equity</b>		<b>691,774</b>	477,161	327,990
<b>Net asset value per share – basic and diluted</b>	22	<b>104p</b>	101p	97p
<b>EPRA net tangible asset per share – basic and diluted</b>	22	<b>104p</b>	101p	97p

These unaudited condensed consolidated financial statements were approved and authorised for issue by the Board of Directors on 02 March 2021 and were signed on its behalf by:

Nick Hewson  
Chairman

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six month period ended 31 December 2020 (unaudited)

	Share capital £' 000	Share premium reserve £' 000	Cash flow hedge reserve £' 000	Capital reduction reserve £' 000	Retained earnings £' 000	Total £' 000
<b>As at 1 July 2020</b>	<b>4,735</b>	<b>436,126</b>	<b>(2,021)</b>	<b>–</b>	<b>38,321</b>	<b>477,161</b>
<i>Comprehensive income for the period</i>	–	–	–	–	–	–
Profit for the period	–	–	–	–	32,965	32,965
Other comprehensive income	–	–	(210)	–	–	(210)
<b>Total comprehensive income for the period</b>	<b>–</b>	<b>–</b>	<b>(210)</b>	<b>–</b>	<b>32,965</b>	<b>32,755</b>
<i>Transactions with owners</i>						
Ordinary shares issued at a premium during the period	1,923	198,077	–	–	–	200,000
Share issue costs	–	(4,289)	–	–	–	(4,289)
Interim dividend paid	–	–	–	–	(13,853)	(13,853)
<b>As at 31 December 2020</b>	<b>6,658</b>	<b>629,914</b>	<b>(2,231)</b>	<b>–</b>	<b>57,433</b>	<b>691,774</b>

For the year from 1 July 2019 to 30 June 2020 (audited)

	Share capital £' 000	Share premium Reserve £' 000	Cash flow hedge reserve £' 000	Capital reduction reserve £' 000	Retained earnings £' 000	Total £' 000
<b>As at 1 July 2019</b>	<b>2,398</b>	<b>203,672</b>	<b>(1,203)</b>	<b>14,391</b>	<b>11,212</b>	<b>230,470</b>
<i>Comprehensive income for the year</i>	–	–	–	–	–	–
Profit for the year	–	–	–	–	32,763	32,763
Other comprehensive income	–	–	(818)	–	–	(818)
<b>Total comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>(818)</b>	<b>–</b>	<b>32,763</b>	<b>31,945</b>
<i>Transactions with owners</i>						
Ordinary shares issued at a premium during the year	2,338	237,483	–	–	–	239,821
Share issue costs	–	(5,029)	–	–	–	(5,029)
Interim dividend paid	–	–	–	(14,391)	(5,655)	(20,046)
<b>As at 30 June 2020</b>	<b>4,735</b>	<b>436,126</b>	<b>(2,021)</b>	<b>–</b>	<b>38,321</b>	<b>477,161</b>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Share capital £' 000	Share premium reserve £' 000	Cash flow hedge reserve £' 000	Capital reduction reserve £' 000	Retained earnings £' 000	Total £' 000
<b>As at 1 July 2019</b>	<b>2,398</b>	<b>203,672</b>	<b>(1,203)</b>	<b>14,391</b>	<b>11,212</b>	<b>230,470</b>
<i>Comprehensive income for the period</i>						
Profit for the period	–	–	–	–	7,754	7,754
Other comprehensive income	–	–	175	–	–	175
Total comprehensive Income for the period	–	–	(175)	–	7,754	7,929
<i>Transactions with owners</i>						
Ordinary shares issued at a premium during the period	981	99,020	–	–	–	100,000
Share issue costs	–	(2,211)	–	–	–	(2,211)
Interim dividend paid	–	–	–	(8,198)	–	(8,198)
<b>As at 31 December 2019</b>	<b>3,379</b>	<b>300,481</b>	<b>(1,029)</b>	<b>6,193</b>	<b>18,966</b>	<b>327,990</b>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six month period ending 31 December 2020

		Unaudited Six months to 31 December 2020 £'000	Unaudited Six months to 31 December 2019 £'000	Audited Year to 30 June 2020 £'000
<b>Operating activities</b>	Notes			
Profit for the period (attributable to ordinary shareholders)		32,965	7,754	32,763
<i>Adjustments for:</i>				
Changes in fair value of Investment properties	11	(15,462)	(557)	(13,052)
Movement in rent smoothing adjustments	4	(769)	(313)	(865)
Finance expense	7	3,746	2,450	4,902
Tax expense	8	–	–	–
Negative goodwill arising on revaluation of interest in Joint ventures		–	–	(2,960)
Share of income from Joint ventures		(4,906)	–	(486)
<b>Cash flows from operating activities before changes in working capital</b>		<b>15,574</b>	<b>9,334</b>	<b>20,303</b>
(Decrease)/ Increase in trade and other receivables		(1,048)	(2,460)	1,819
Increase in deferred rental income		4,215	1,771	1,660
Corporation tax paid		–	(245)	(245)
Increase in trade and other payables		63	536	3,411
<b>Cash flows from operating activities</b>		<b>18,804</b>	<b>8,936</b>	<b>26,947</b>
<b>Investing activities</b>				
Acquisition of investment properties	11	(313,973)	(114,800)	(148,825)
Acquisition of financial assets held at fair value through profit and loss	13	(478)	–	–
Investment in Joint venture	12	(125)	–	(52,635)
Capitalised acquisition costs	11	(15,718)	(6,510)	(8,438)
<b>Net cash flows used in investing activities</b>		<b>(330,294)</b>	<b>(121,310)</b>	<b>(209,899)</b>
<b>Financing activities</b>				
Proceeds from issue of ordinary share capital	18	200,000	100,000	239,820
Costs of share issues	18	(4,289)	(2,211)	(5,029)
Bank borrowings drawn		327,602	81,075	141,510
Bank borrowings repaid		(151,790)	(57,744)	(157,744)
Loan arrangement fees paid		(2,085)	(922)	(1,270)
Bank interest paid		(2,365)	(2,089)	(4,116)
Bank commitment fees paid		(147)	(21)	(166)
Dividends paid to equity holders	10	(13,853)	(7,958)	(19,600)
<b>Net cash flows from financing activities</b>		<b>353,073</b>	<b>110,130</b>	<b>193,406</b>
<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		<b>41,583</b>	<b>(2,244)</b>	<b>10,455</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>20,353</b>	<b>9,898</b>	<b>9,898</b>
<b>Cash and cash equivalents at the end of the period</b>		<b>61,936</b>	<b>7,654</b>	<b>20,353</b>

## **1. Basis of preparation**

### **General information**

Supermarket Income REIT plc (the “Company”) is a company registered in England and Wales with its registered office at The Scalpel 18<sup>th</sup> Floor, 52 Lime Street, London, United Kingdom EC3M 7AF. The principal activity of the Company and its subsidiaries (the “Group”) is to provide its shareholders with an attractive level of income together with the potential for capital growth by investing in a diversified portfolio of supermarket real estate assets in the UK.

The financial information set out in this report covers the six months to 31 December 2020, with comparative numbers amounts shown for the year to 30 June 2020 and the six months to 31 December 2019. These condensed financial statements are unaudited and the financial information for the year ended 2020 contained herein does not constitute statutory accounts for as defined in section 434 of the Companies Act 2006. The statutory accounts for the year ended 30 June 2020 have been delivered to the Registrar of Companies. The independent auditors' report on those accounts was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under sections 498(2) or 498(3) of the Companies Act 2006.

At 31 December 2020 the Group comprised the Company and its wholly-owned subsidiaries. Each of these subsidiaries is incorporated in England and Wales and has the same registered office as the Company.

The condensed consolidated financial statements have been prepared in accordance with IAS 34 ‘Interim Financial Reporting’ as adopted by the European Union. The accounting policies adopted in this report are consistent with those applied in the Group’s audited financial statements for the year ended 30 June 2020. 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 2021.

### **Accounting convention and currency**

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

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

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

### **Going concern**

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

The Group generated net cash flow from operating activities in the period of 18.8 million, with cash balances at 31 December 2020 totalling £61.9 million and the Group had £59.0 million available for drawdown under the loan facility with HSBC and Wells Fargo. It had no capital commitments or contingent liabilities as at that date. There has been no significant deterioration in this position since the balance sheet date.

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

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

## 2. Significant accounting judgements, estimates and assumptions

There have been no new or material revisions to the nature and amount of judgements and estimates reported in the Annual Report 2020, other than changes to certain assumptions applied in the valuation of properties. Details of the key assumptions applied at 31 December 2020 are set out in note 11.

## 3. Summary of significant accounting policies

The principal accounting policies adopted in this report are consistent with those applied in the Group's audited financial statements for the year ended 30 June 2020 and are expected to be consistently applied during the year ending 30 June 2021.

### 3.1 New standards issued and effective

There were a number of new standards and amendments to existing standards which are required for the Group's accounting period beginning on 1 July 2020, which have been considered as follows:

Amendments to IAS 39 and IFRS 7 Interest Rate Benchmark Reform – The amendments provide relief in applying the requirements of IAS 39 to certain hedges, including allowing the Group to assume that interest rate benchmarks on which hedged cash flows are based (e.g LIBOR) will not be altered as a result of interest rate benchmark reform. Consequently, hedging relationships that may have otherwise been impacted by interest rate benchmark reform have remained in place and no ineffective portion of the hedge has been recognised.

The Group has also considered other amendments to standards endorsed by the European Union effective for the current accounting period and determined that these do not have a material impact on the consolidated financial statements of the Group in the period ended 31 December 2020. These amendments are as follows: References to Conceptual Framework in IFRSs (amended); IAS 1 and IAS 8 (amended) – Definition of Material; IFRS 3 (amended) – Definition of a Business; and IFRS 16 (amended) – Covid-19 related Rent Concessions.

### 3.2 New standards issued but not yet effective

A number of new standards and amendments to standards and interpretations have been issued but are not yet effective for the current accounting period. None of these are expected to have a material impact on the consolidated financial statements of the Group.

## 4. Rental Income

	Unaudited Six months to 31 December 2020 £' 000	Unaudited Six months to 31 December 2019 £' 000	Audited Year to 30 June 2020 £' 000
Rental income – freehold property	11,673	4,140	10,725
Rental income – long lease hold property	8,739	7,761	15,627
<b>Gross rental income</b>	<b>20,412</b>	<b>11,901</b>	<b>26,352</b>
Insurance/service charge income	200	125	315
Insurance/service charge expense	(204)	(125)	(315)
<b>Net rental income</b>	<b>20,408</b>	<b>11,901</b>	<b>26,352</b>

Included within rental income is a £769,000 (six months to 31 December 2019: £313,000; year to 30 June 2020: £865,000) rent smoothing adjustment that arises as a result of IFRS 16 'Leases' requiring that rental income in respect of leases with rents increasing by a fixed percentage to be accounted for on straight line basis over the lease term. During the period this resulted in an increase in rental income and an offsetting entry being recognised in profit or loss as an adjustment to the investment property revaluation.

## 5. Administrative and other expenses

	Unaudited Six months to 31 December 2020 £' 000	Unaudited Six months to 31 December 2019 £' 000	Audited Year to 30 June 2020 £' 000
Investment Adviser fees (note 21)	2,718	1,370	3,252
Directors' remuneration (note 6)	130	74	165
Corporate administration fees	276	191	317
Legal and professional fees	515	155	708
Other administrative expenses	426	464	742
<b>Total administrative and other expenses</b>	<b>4,065</b>	<b>2,254</b>	<b>5,184</b>

## 6. Directors' remuneration

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

	Unaudited Six months to 31 December 2020 £' 000	Unaudited Six months to 31 December 2019 £' 000	Audited Year to 30 June 2020 £' 000
Directors' fees	120	71	148
Employer's National Insurance Contribution	10	3	17
<b>Total Directors' remuneration</b>	<b>130</b>	<b>74</b>	<b>165</b>

## 7. Finance Expense

	Unaudited Six months to 31 December 2020 £' 000	Unaudited Six months to 31 December 2019 £' 000	Audited Year to 30 June 2020 £' 000
Interest payable on bank borrowings and hedging arrangements	2,508	1,921	3,685
Fair value adjustment of interest rate derivatives (note 16)	342	135	294
Commitment fees payable on bank borrowings	235	89	280
Amortisation of loan arrangement fees	647	271	587
Amortisation of interest rate cap premium (note 16)	14	34	57
<b>Total finance expense</b>	<b>3,746</b>	<b>2,450</b>	<b>4,903</b>



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

	<b>Unaudited Six months to 31 December 2020 £' 000</b>	Unaudited Six months to 31 December 2019 £' 000	Audited Year to 30 June 2020 £' 000
Total interest expense on financial liabilities held at amortised cost	<b>3,155</b>	2,277	4,271
Fee expense not part of effective interest rate for financial liabilities held at amortised cost	<b>235</b>	89	280
<b>Total finance expense</b>	<b>3,390</b>	2,366	4,551

## 8. Taxation

### a) Tax charge in profit or loss

	<b>Unaudited Six months to 31 December 2020 £' 000</b>	Unaudited Six months to 31 December 2019 £' 000	Audited Year to 30 June 2020 £' 000
<b>UK corporation tax</b>	–	–	–

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 21 December 2017 the Group has met all such applicable conditions.

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

### b) Reconciliation of the tax charge for the period

	<b>Unaudited Six months to 31 December 2020 £' 000</b>	Unaudited Six months to 31 December 2019 £' 000	Audited Year to 30 June 2020 £' 000
Profit on ordinary activities before taxation	<b>32,965</b>	7,669	32,763
Theoretical tax at UK standard corporation tax rate of 19%			
Effects of:	<b>6,263</b>	1,457	6,225
Investment property revaluation not subject to taxation	<b>(2,938)</b>	(106)	(2,480)
Negative goodwill not taxable	–	–	(562)
REIT exempt income	<b>(3,325)</b>	(1,351)	(3,183)
<b>Tax charge in the period</b>	<b>–</b>	–	–

## 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:

	<b>Unaudited Six months to 31 December 2020</b>	Unaudited Six months to 31 December 2019	Audited Year to 30 June 2020
	<b>£' 000</b>	£' 000	£' 000
Net profit attributable to ordinary shareholders	<b>32,965</b>	7,754	32,763
<i>EPRA adjustments:</i>			
<i>Changes in fair value of investment properties</i>	<b>(15,462)</b>	(557)	(13,052)
<i>Changes in fair value of investment properties within joint ventures</i>	<b>(1,975)</b>		
<i>Negative Goodwill</i>	–	–	(2,960)
<b>EPRA earnings</b>	<b>15,528</b>	7,197	16,751
	<b>Number<sup>1</sup></b>	Number <sup>1</sup>	Number <sup>1</sup>
Weighted average number of ordinary shares	<b>561,413,104</b>	285,370,561	334,236,233

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

	<b>Unaudited Six months to 31 December 2020</b>	Unaudited Six months to 31 December 2019	Audited Year to 30 June 2020
	<b>Pence per share</b>	Pence per share	Pence per share
Basic and Diluted EPS	<b>5.9p</b>	2.7p	9.8p
<i>EPRA adjustments:</i>			
<i>Changes in fair value of investment properties</i>	<b>(2.8)p</b>	(0.2)p	(3.9)p
<i>Changes in fair value of investment properties within joint ventures</i>	<b>(0.3)p</b>		
<i>Negative Goodwill</i>	–	–	(0.9)p
EPRA EPS	<b>2.8p</b>	2.5p	5.0p

## 10. Dividends

	<b>Unaudited Six months to 31 December 2020</b>	Unaudited Six months to 31 December 2019	Audited Year to 30 June 2020
	<b>£' 000</b>	£' 000	£' 000
<i>Distributions to ordinary shareholders in the period:</i>			
Dividends paid	<b>13,853</b>	8,198	20,045

On 8 July 2020, the Board declared a fourth interim dividend for the year ended 30 June 2020 of 1.460 pence per share, which was paid on 7 August 2020 to shareholders on the register on 17 July 2020.

On 17 September 2020 the Board declared a first interim dividend for the year ending 30 June 2021 of 1.465 pence per share, which was paid on 16 October 2020 to shareholders on the register on 25 September 2020.

On 8 January 2021, the Board declared a second interim dividend for the year ending 30 June 2021 of 1.465 pence per share, which was paid on 26 February 2021 to shareholder on the register on 21 January 2020. This has not been included as a liability as at 31 December 2021.

### 11. Investment Properties

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

The independent valuer in forming its opinion on valuation makes a series of assumptions. All the valuations of the Group's investment property at 31 December 2020 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 July 2020	244,030	295,380	539,410
Property additions	274,502	39,471	313,973
Capitalised acquisition costs	13,491	2,227	15,718
Revaluation movement	949	15,283	16,231
<b>Valuation at 31 December 2020</b>	<b>532,972</b>	<b>352,361</b>	<b>885,333</b>

	Freehold £' 000	Long Leasehold £' 000	Total £' 000
At 1 July 2019	84,450	283,780	368,230
Property additions	148,825	–	148,825
Capitalised acquisition costs	8,438	–	8,438
Revaluation movement	2,317	11,600	13,917
<b>Valuation at 30 June 2020</b>	<b>244,030</b>	<b>295,380</b>	<b>539,410</b>

	Freehold £' 000	Long Leasehold £' 000	Total £' 000
At 1 July 2019	84,450	283,780	368,230
Property additions	114,800	–	114,800
Capitalised acquisition costs	6,510	–	6,510
Revaluation movement	(2,949)	3,819	870
<b>Valuation at 31 December 2019</b>	<b>202,811</b>	<b>287,599</b>	<b>490,410</b>

Of the seven properties held under long leaseholds, one has 118 years unexpired on the headlease, one has 158 years with the option to extend and option to acquire, three have 985 years unexpired, one has 990 years unexpired and one has 989 years unexpired. The Group has no material liabilities in respect of these headleases.

Included within the carrying values of investment properties at 31 December 2020 is £2,329,000 (30 June 2020: £1,560,000; 31 December 2019: £1,007,000) in respect of the smoothing of fixed contractual rent uplifts as described in note 4. The difference between rents on a straight-line basis and rents actually receivable is included within the carrying value of the investment properties but does not increase that carrying value over fair value. The effect of this adjustment on the revaluation movement for the period is as follows:

	<b>Unaudited Six months to 31 December 2020 £' 000</b>	Unaudited Six months to 31 December 2019 £' 000	Audited Year to 30 June 2020 £' 000
Revaluation movement per above	<b>16,232</b>	13,917	870
Rent smoothing adjustment (note 4)	<b>(769)</b>	(865)	(313)
<b>Change in fair value recognised in profit or loss</b>	<b>15,462</b>	13,052	557

### 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*

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

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

### Sensitivity of measurement of significant unobservable inputs

The determination of the valuation of the Group's investment property portfolio is open to judgements and is inherently subjective by nature.

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

Initial yields of the Group's investment properties at 31 December 2020 range from 4.2% to 6.1% (year ended 30 June 2020: 4.3% to 6.2%; six months ended 31 December 2019: 4.4% to 6.0%). A 0.25% shift of the initial yield on all the Group's investment properties would have approximately a £44.7 million (30 June 2020: £23.8 million; 31 December 2019: £23.6 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 £8.9 million (30 June 2020: £2.9m; December 2019: £4.9 million) impact on the total valuation of the properties.

## 12. Investment in joint ventures

As at 31 December 2020 the group has one joint venture investment. On the 28 May 2020, the Group entered into a 50:50 joint venture with the British Airways Pension Trustees Limited to acquire 100% of the issued share capital in Horndrift Limited for a combined total consideration of £102m plus costs.

Horndrift Limited holds a 25.2% share of certain beneficial interests in a property trust arrangement that holds a portfolio of 26 Sainsbury's supermarket properties funded by bonds which mature in 2023 (the "Structure"). Rental surpluses generated by the Structure are required to be applied in the repayment of the bonds and not therefore capable of being transferred to the joint venture or group until those bonds have been repaid.

The Group deem this to be a joint venture, as through its 50:50 share of a 25.2% of beneficial interest in a property trust arrangement it indirectly has joint control of the Structure. The joint venture ownership structure is summarised below:

	Partner	Address	Ownership
<b>Jersey</b>			
Horner (Jersey) LP	British Airways Pensions Trustees Limited	Third Floor, Liberation House, Castle Street, St Helier, Jersey, JE1 2LH parent company	50% owned by the Group
Horner REIT Limited		Third Floor, Liberation House, Castle Street, St Helier, Jersey, JE1 2LH parent company	100% owned by Horner (Jersey) LP
<b>United Kingdom</b>			
Horndrift Limited		Langham Hall UK LLP, 1 Fleet Street, London, E4M 7RA	100% owned by Horner REIT Limited

	Period ended 31 December 2020 £'000
Opening balance	56,081
Additions in the year	125
Group's share of profit after tax	4,906
<b>Closing Balance</b>	<b>61,112</b>

The joint venture entities have a 31 March year end. For accounting purposes consolidated management accounts have been prepared for the joint venture for the period from 1 July to 31 December 2020 using accounting policies that are consistent with those of the Group.

## 12. Investment in joint ventures (continued)

The financial statements of Horner (Jersey) LP prepared on this basis would be as follows:

	Period ended 31 December 2020
<b>Statement of comprehensive income</b>	<b>£'000</b>
Share of income from joint venture	9,812
<b>Profit for the period and total comprehensive income</b>	<b>9,812</b>
<b>Group's share of profit for the period</b>	<b>4,906</b>

	Period ended 31 December 2020
<b>Statement of financial position</b>	<b>£'000</b>
Investment in joint ventures	122,223
<b>Net assets</b>	<b>122,223</b>
<b>Group's share of net assets</b>	<b>61,112</b>

Horner (Jersey) LP's share of the aggregate amounts recognised in the consolidated statement of comprehensive income and statement of financial position of the Structure are as follows:

	Period ended 31 December 2020
	<b>£'000</b>
Rental income	7,282
Administrative and other expenses	(383)
Change in fair value of investment properties	4,376
<b>Operating profit</b>	<b>11,275</b>
Finance expense	(1,022)
<b>Profit before taxation</b>	<b>10,253</b>
Tax charge for the period	(441)
<b>Profit for the period</b>	<b>9,812</b>
<b>Group's share of profit for the period</b>	<b>4,906</b>

## 12. Investment in joint ventures (continued)

	Period ended 31 December 2020 £000
<b>Non-current assets</b>	
Investment properties	233,088
<b>Total non-current assets</b>	<b>233,088</b>
<b>Current assets</b>	
Trade and other receivables	8,758
Cash and cash equivalents	–
<b>Total current assets</b>	8,758
<b>Total assets</b>	<b>241,846</b>
<b>Non-current liabilities</b>	
Debt securities in issue	99,423
Interest rate derivative	5,547
Deferred tax	5,787
Other liabilities	4,536
<b>Total non-current liabilities</b>	<b>115,293</b>
<b>Current liabilities</b>	
Trade and other payables	4,330
<b>Total current liabilities</b>	<b>4,330</b>
<b>Total liabilities</b>	119,623
<b>Net assets</b>	<b>122,223</b>
<b>Group's share of net assets</b>	<b>61,112</b>

### 13. Financial assets held at fair value through profit or loss

Rental guarantees provided by the seller of an investment property are recognised as a financial asset when there is a valid expectation that the Group will utilise the guarantee over the contractual term. Rental guarantees are classified as financial assets at fair value through profit and loss in accordance with IFRS 9.

In determining the fair value of the rental guarantee, the Group makes an assessment of the expected future cashflows to be derived over the term of the rental guarantee and discounted these at the market rate. A review is performed on a periodic basis based on payments received and changes in the estimation of future cashflows.

The fair value of rental guarantees held by the Group as at the period end date are as follows:

	Unaudited 31 December 2020 £' 000	Audited 30 June 2020 £' 000	Unaudited 31 December 2019 £' 000
At start of period	–	–	–
Additions	478	–	–
Fair value changes (including changes in estimated cash flows)	–	–	–
Payments received	–	–	–
<b>At end of period</b>	<b>478</b>	–	–

The fair value of rental guarantees recognised have a contractual expiry of less than next twelve months.

### 14. Trade and other receivables

	Unaudited 31 December 2020 £' 000	Audited 30 June 2020 £' 000	Unaudited 31 December 2019 £' 000
Trade and other receivables	2,436	1,629	5,904
Prepayments	314	73	77
<b>Total trade and other receivables</b>	<b>2,750</b>	<b>1,702</b>	<b>5,981</b>

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

The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. To measure expected credit losses on a collective basis, trade receivables are grouped based on similar credit risk and ageing. The expected loss rates are based on the Group's historical credit losses experienced over the period from incorporation to 31 December 2020. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Group's customers. Both the expected credit loss provision and the incurred loss provision in the current and prior year are immaterial. No reasonable possible changes in the assumptions underpinning the expected credit loss provision would give rise to a material expected credit loss.



## 15. Trade and other payables

	Unaudited 31 December 2020 £' 000	Audited 30 June 2020 £' 000	Unaudited 31 December 2019 £' 000
Corporate accruals	5,256	5,279	2,790
VAT payable	1,785	1,124	784
<b>Total trade and other payables</b>	<b>7,041</b>	<b>6,403</b>	<b>3,574</b>

## 16. Interest rate derivatives

	Unaudited 31 December 2020 £' 000	Audited 30 June 2020 £' 000	Unaudited 31 December 2019 £' 000
Non-current liability: Interest rate cap	–	–	(1)
Non-current liability: Interest rate swap	<b>(2,213)</b>	<b>(1,988)</b>	<b>(971)</b>

The interest rate cap and interest rate swap is remeasured to fair value by the counterparty bank on a quarterly basis.

	Unaudited 31 December 2020	Audited 30 June 2020	Unaudited 31 December 2019
<b>The fair value at the end of the period comprises:</b>			
At start of the period	<b>(1,988)</b>	(1,113)	(1,113)
Interest rate cap premium paid on inception	–	–	–
Amortisation of cap premium in the period (note 7)	<b>(14)</b>	(57)	(34)
Changes in fair value of interest rate derivative in the period	<b>(553)</b>	(1,112)	40
Charge to the income statement	<b>342</b>	294	135
<b>As at the end of the period</b>	<b>(2,213)</b>	<b>(1,988)</b>	<b>(972)</b>

To partially mitigate the interest rate risk that arises as a result of entering into the floating rate debt facilities referred to in note 17, the Group has entered into a derivative interest rate cap ('the cap') with HSBC and derivative interest rate swaps in relation to the loan facilities with Bayerische Landesbank ('the BLB swaps') and Wells Fargo Bank ('the Wells swaps').

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 2020 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 BLB swaps was £86.9 million, which is equal to the total amounts drawn under Bayerische Landesbank loan facility. The terms of the BLB swaps coincide with the maturity of the respective Bayerische Landesbank loan facility. The fixed interest rate of £52.1 million of the swap exposure as at 31 December 2020 was 1.305%. The fixed interest rate of the swaps of £27.5 and £7.3m for the remaining exposure of £34.8 million were 0.178% and 0.128% respectively.

The total notional value of the Wells swap was £30.0 million with its term coinciding with the maturity of the Wells Fargo loan facility. The fixed interest rate of the swap as at 31 December 2020 was 0.189%.

79% of the Group's variable rate debt was hedged as at 31 December 2020 (30 June 2020: 100%; 31 December 2019: 100%). It is the Group's target to hedge at least 60% of the Group's total debt at any time using interest rate derivatives.

The derivatives have been valued in accordance with IFRS 13 by reference to interbank bid market rates as at the close of business on the last working day prior to each balance sheet date. The fair values are 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. The amounts and timing of future cash flows are projected on the basis of the contractual terms.

All interest rate derivatives are classified as level 2 in the fair value hierarchy as defined under IFRS 13 and there were no transfers to or from other levels of the fair value hierarchy during the year.

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.

## 17. Bank borrowings

	Unaudited 31 December 2020 £' 000	Audited 30 June 2020 £' 000	Unaudited 31 December 2019 £' 000
Amounts falling due after more than one year:			
Secured debt	<b>304,473</b>	128,660	168,204
Less: Unamortised finance costs	<b>(3,310)</b>	(1,869)	(1,837)
<b>Bank borrowing per consolidated statement of financial position</b>	<b>301,163</b>	126,791	166,367

Secured debt comprises a revolving credit facility (the 'credit facility') of £140 million with HSBC Bank Plc, a five year interest-only loan facility ('the BLB loan facility') of £86.9 million with Bayerische Landesbank, a five year fixed rate loan facility ('the Deka loan facility') of £76.6 million with Deka Bank and a five year interest-only revolving credit facility with Wells Fargo ('the Wells loan facility') of £60.0 million.

The credit facility had an original maturity of three years commencing on 30 August 2017. The Group has since exercised two one year extensions with the credit facility now maturing on 30 August 2022.

At 31 December 2020, £111.0 million has been drawn down under the credit facility. All the advances drawn under the credit facility have an interest charge which is payable quarterly based on a margin above three-month LIBOR.

At 31 December 2020, the full amount of the BLB loan facility had been drawn down. Interest is payable quarterly on the BLB loan facility based on a margin of 125 basis points above three-month LIBOR for the initial £52.1 million and 185 basis points above three-month LIBOR for the remaining £34.8 million. The fixed interest rate on the BLB loan facility resulting from the interest rate swaps were 2.56% on the £52.1 million swap, 2.03% on the £27.5 million swap and 1.98% on the £7.3 million swap.

At 31 December 2020, the full £76.6 million of the Deka loan facility had been drawn down. The Deka loan facility has been entered into as a fixed rate agreement, fixing the interest rate at 1.9% over the term of the facility.

As at 31 December 2020, £30.0 million had been drawn under the Wells loan facility. Interest is payable quarterly on the Wells loan facility based on a margin of 200 basis points above three-month LIBOR. The fixed interest rate on the Wells loan facility resulting from the interest rate swap was 2.19%.

Any associated fees in arranging the bank borrowings that are unamortised as at the end of the period are offset against amounts drawn under the facilities as shown in the table above. The debt is secured by charges over the Group's investment properties and by charges over the shares of certain group companies, not including the Company itself. There have been no defaults of breaches of any loan covenants during the current or any prior period.

The Group's borrowings carried at amortised cost are considered to be approximate to their fair value.

## 18. Share capital

	Ordinary shares of 1 pence	Share capital	Share premium reserve	Capital reduction reserve	Total
Six months to 31 December 2020 (unaudited)	Number	£'000	£'000	£'000	£'000
<b>As at 1 July 2020</b>	<b>473,620,462</b>	<b>4,735</b>	<b>436,126</b>	<b>–</b>	<b>440,861</b>
Ordinary shares issued and fully paid – 9 October 2020	192,307,692	1,923	198,077	–	<b>200,000</b>
Share issue costs	–	–	(4,289)	–	<b>(4,289)</b>
Dividend paid in the period (note 10)	–	–	–	–	–
<b>As at 31 December 2020</b>	<b>665,928,154</b>	<b>6,658</b>	<b>629,914</b>	<b>–</b>	<b>636,572</b>

	Ordinary shares of 1 pence	Share capital	Share premium reserve	Capital reduction reserve	Total
Year to 30 June 2020 (audited)	Number	£'000	£'000	£'000	£'000
<b>As at 1 July 2019</b>	<b>239,833,219</b>	<b>2,398</b>	<b>203,672</b>	<b>14,391</b>	<b>220,461</b>
Ordinary shares issued and fully paid – 7 October 2019	98,039,215	980	99,020	–	<b>100,000</b>
Ordinary shares issued and fully paid – 30 April 2020	135,748,028	1,357	138,463	–	<b>139,820</b>
Share issue costs	–	–	(5,029)	–	<b>(5,029)</b>
Dividend paid in the period (note 10)	–	–	–	(14,391)	<b>(14,391)</b>
<b>As at 30 June 2020</b>	<b>473,620,462</b>	<b>4,735</b>	<b>436,126</b>	<b>–</b>	<b>440,861</b>

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

On 9 October 2020 the Company completed an equity fundraising and issued an additional 192,307,692 ordinary shares of one pence each at a price of £1.04 per share. The consideration received in excess of the par value of the

ordinary shares issues, net of total capitalised issue costs, of £193.8 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.

#### 19. Cash flow hedge reserve

	Unaudited Six months to 31 December 2020 £' 000	Audited Year to 30 June 2020 £' 000	Unaudited Six months to 31 December 2019 £' 000
<b>At start of the period</b>	<b>(2,021)</b>	(1,203)	(1,203)
Fair value movement of interest rate derivatives in effective hedges	<b>(210)</b>	(818)	175
<b>At the end of the period</b>	<b>(2,231)</b>	(2,021)	(1,029)

#### 20. Capital commitments

The Group had no capital commitments outstanding as at 31 December 2020 (30 June 2019: none; 31 December 2019: none).

#### 21. 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*

As noted in the 2020 Annual Report, the remuneration of the Directors' fees were benchmarked during the year ended 30 June 2020 as the fees had remained unchanged since the IPO in July 2017. Having regard to the increase in size and complexity of the Group, fees for all Board members were increased with effect from 1 July 2020. The total remuneration payable to the Directors in respect of the period to 31 December 2020 was £120,000 (six months to 31 December 2019: £71,000; year to 30 June 2020: £148,000). There were no amounts outstanding at the end of the current or comparative periods.

Nick Hewson, Chairman of the Board of Directors of the Company, is paid fees of £70,000 per annum, with the other Directors each being paid fees of £50,000 per annum. Jon Austen is paid an additional £7,500 per annum for his role as chair of the Company's Audit Committee, Vince Prior is paid an additional £2,500 per annum for his role as chair of the Company's Nominations Committee and £5,000 for his role as Senior Independent Director. Cathryn Vanderspar is paid an additional £5,000 for her role as Chair of the Remuneration Committee.

###### *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 2020 were as follows:

- Nick Hewson: 498,525 shares (0.07% of issued share capital)
- Jon Austen: 163,500 shares (0.02% of issued share capital)
- Vince Prior: 96,019 shares (0.01% of issued share capital)
- Cathryn Vanderspar: 38,648 shares (0.01% 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 17 September 2020.

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 £1,000 million, 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 and 1/12th of 0.5625% per calendar month of Adjusted Net Asset Value above £500 million and up to or equal to £1,000 million.
- Semi-Annual Management Fee payable semi-annually in arrears: 0.11875% of Adjusted Net Asset Value up to or equal to £500 million and 0.09375% of Adjusted Net Asset Value above £500 million and up to or equal to £1,000 million.

For the period 31 December 2020 the total advisory fees payable to the Investment Adviser were £2,718,000 (six months to December 2019: £1,370,000; year to 30 June 2020: £3,252,000) of which £1,357,684 (30 June 2020: £820,000; 31 December 2019: £572,000) is included in trade and other payables in the consolidated statement of financial position.

### *Introducer Services*

Atrato Partners, an affiliate of the Investment Adviser, is entitled to fees in relation to the successful introduction of prospective investors in connection with subscriptions for ordinary share capital in the Company. The entitlement of the Investment Adviser to introducer fees is by fees and/or commission which can be summarised as follows:

- Fee basis: £5,000 for any day on which prospective investors are introduced in meetings, provided that there are at least five such meetings with prospective investors on that day; and (ii) £1,000 per meeting for any day on which prospective investors are introduced in meetings but there are fewer than five such meetings with prospective investors on that day or:
- Commission basis: one per cent of total subscription in respect of ordinary shares subscribed for by any prospective investor introduced by Atrato Partners.

For the period to 31 December 2020 the total introducer fees payable to the affiliate of the Investment Adviser were £104,947 (six months to 31 December 2019: Nil; year to 30 June 2020: £25,000)

### *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 2020 were as follows:

- Ben Green: 1,137,101 shares
- Steve Windsor: 1,251,936 shares

## 22. EPRA Measures of net asset value

The Group adopted the EPRA issued new best practice reporting guidelines in the period ending 31 December 2020, incorporating the three new measures of net asset value: EPRA Net Tangible Assets (NTA), Net Reinvestment Value (NRV) and Net Disposal Value (NDV) and are defined as follows:

- EPRA Net Reinstatement Value (“EPRA NRV”) which assumes that entities never sell assets and aims to represent the value required to rebuild the entity.
- EPRA Net Tangible Assets (“EPRA NTA”) which assumes that entities buy and sell assets, thereby crystallising certain levels of unavoidable deferred tax.
- EPRA Net Disposal Value (“EPRA NDV”) which represents the shareholders’ value under a disposal scenario, where deferred tax, financial instruments and certain other adjustments are calculated to the full extent of their liability, net of any resulting tax.

EPRA NTA is considered to be the most relevant measure for the Group and is now the primary measure of net assets, replacing the previously reported EPRA Net Asset Value metric. For the current period EPRA NTA is calculated as net assets per the consolidated statement of financial position excluding the fair value of interest rate derivatives.

EPRA NDV is almost the same as the previous EPRA NNAV and EPRA NRV is a new number adding back assumed purchasers’ costs to the property value.

The table below illustrates the reconciliation of the numbers under the new measures, where prior year comparative figures have also been restated in line with the new EPRA methodology.

31 December 2020 (Unaudited)	EPRA NTA £' 000	EPRA NRV £' 000	EPRA NDV £' 000
<b>IFRS NAV attributable to ordinary shareholders</b>	<b>691,774</b>	<b>691,774</b>	<b>691,774</b>
Fair value of interest rate derivatives	2,213	2,213	2,213
Intangibles	–	–	–
Purchasers' costs	–	60,203	–
Fair value of debt	–	–	3,700
Deferred tax	–	–	–
<b>EPRA NAV</b>	<b>693,987</b>	<b>754,190</b>	<b>697,687</b>
<b>EPRA NAV per share</b>	<b>104p</b>	<b>113p</b>	<b>105p</b>
30 June 2020 (audited)	EPRA NTA £' 000	EPRA NRV £' 000	EPRA NDV £' 000
<b>IFRS NAV attributable to ordinary shareholders</b>	<b>477,161</b>	<b>477,161</b>	<b>477,161</b>
Fair value of interest rate derivatives	1,988	1,988	1,988
Intangibles	–	–	–
Purchasers' costs	–	36,680	–
Fair value of debt	–	–	2,328
Deferred tax	–	–	–
<b>EPRA NAV</b>	<b>479,149</b>	<b>515,829</b>	<b>481,477</b>
<b>EPRA NAV per share</b>	<b>101p</b>	<b>109p</b>	<b>102p</b>

31 December 2019 (Unaudited)	EPRA NTA £' 000	EPRA NRV £' 000	EPRA NDV £' 000
<b>IFRS NAV attributable to ordinary shareholders</b>	<b>327,990</b>	<b>327,990</b>	<b>327,990</b>
Fair value of interest rate derivatives	972	972	972
Intangibles	–	–	–
Purchasers' costs	–	33,348	–
Fair value of debt	–	–	1,418
Deferred tax	–	–	–
<b>EPRA NAV</b>	<b>328,962</b>	<b>362,310</b>	<b>330,380</b>
<b>EPRA NAV per share</b>	<b>97p</b>	<b>107p</b>	<b>98p</b>

### 23. Subsequent events

On 8 January 2021 the Board declared a second interim dividend for the year ending 30 June 2021 of 1.465 pence per share, which was paid on 26 February 2021. This has not been included as a liability as at 31 December 2020.

On the 22 January 2021, the Group announced a new revolving credit facility ("RCF") of £80.0 million with Barclays and Royal Bank of Canada. This secured, interest-only, RCF has a five-year term (comprising an initial three year term and two further one year extension options) and a margin of 150 basis points over SONIA, representing a total cost of debt of 1.55%. The RCF also includes a £70 million uncommitted accordion option which is exercisable at any time over the term of the facility.

On 25 January 2021, the Group announced the exchange of contracts for the acquisition of a Sainsbury's store in Melksham and the acquisition of a Waitrose store in Winchester for a combined value of £64.8 million (excluding acquisition costs) with an unexpired lease term of 17 years and 24 years respectively. The acquisition of the Sainsbury's store in Melksham completed on 25 February 2021.

On 26 January 2021, the group announced the acquisition of a Morrisons store Wisbech, which was acquired for £30.0 million (excluding acquisition costs) with a new 26 year lease term with five-yearly, upwards only, RPI-linked rent reviews.

On 17 February 2021, the Group announced the acquisition of a Sainsbury's store with an ancillary Homebase unit in Bangor, Northern Ireland, which was acquired for £24.8 million (excluding acquisition costs) with an unexpired lease term of 16 years with five-yearly, upwards only, 2% fixed rent reviews compounded annually.

On 18 February 2021, the group announced the acquisition of a further 25.5% stake in the Sainsburys Reversion Portfolio for £115.0 million (excluding acquisition costs) through the Company's existing 50:50 joint venture with the British Airways Pension Trustees Limited ("BAPTL"). The Company's contribution to the JV to fund the acquisition was £57.5 million, excluding funds for acquisition costs.

## COMPANY INFORMATION

### ***Directors***

Nick Hewson (Non-Executive Chairman)  
Vince Prior (Chair of Nomination Committee &  
Senior Independent Director)  
Jon Austen (Chair of Audit Committee)  
Cathryn Vanderspar (Chair of Remuneration  
Committee)

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

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