



Half-year Report

SUPERMARKET INCOME REIT PLC

Released 07:00:07 02 March 2022

RNS Number : 2924D
Supermarket Income REIT PLC
02 March 2022

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

INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2021

GROCERY SECTOR STRENGTH AND INFLATIONARY TAILWINDS PROVIDE SUPPORTIVE BACKDROP FOR SUPERMARKET INCOME REIT

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 2021 (the "Period").

FINANCIAL HIGHLIGHTS

	Six months to 31-Dec-21	Six months to 31-Dec-20	Change in Period
Annualised passing rent	£70.2m	£46.1m	+52%
EPRA Earnings	£26.9m	£15.5m	+74%
Profit before tax	£68.9m	£33.0m	+109%
Dividend paid per share	3.0 pence	2.9 pence	+3%
IFRS EPS	7.9 pence	5.9 pence	+34%
EPRA EPS	3.1 pence	2.8 pence	+11%
EPRA dividend cover	1.13x	1.12x	n/a

	31-Dec-21	30-June-21	Change in Period
IFRS net assets	£1,115m	£871m	+28%
EPRA NTA	£1,113m	£872m	+28%
EPRA NTA per share	113 pence	108 pence	+5%
Loan to value (Direct Portfolio)	32.1%	34.0%	-6%
Portfolio net initial yield	4.7%	4.7%	0%

- 48% Total Shareholder Return since the initial listing in July 2017^[1]
- On track to deliver full-year 2022 target dividend of 5.94 pence per share
- Direct Portfolio independently valued at £1,413.5 million, increasing by £265.1 million for the Period following valuation growth of £21.7 million and new acquisitions of £243.4 million (excluding acquisition costs)
 - 2% valuation growth on a like-for-like basis for the Period
 - Direct Portfolio net initial yield ("NIY") of 4.7%
 - Direct Portfolio weighted unexpired lease term ("WAULT") of 15 years
- Annualised passing rent increased by 52% to £70.2 million following rent reviews and new acquisitions during the Period
- Value of investment in the Sainsbury's Reversion Portfolio increased by £37.2 million to £167.5 million, following the exercise of purchase options by Sainsbury's
- EPRA NTA per share increased by 5 pence in the Period to 113 pence as at 31 December 2021

BUSINESS HIGHLIGHTS IN THE PERIOD

- Further portfolio growth through the deployment of £200.0 million of equity raised via an upsized and over-subscribed Placing and Offer for Subscription in October 2021
- Acquisition of eight omnichannel supermarkets at an aggregate purchase price of £243.4 million (excluding acquisition costs)
 - New acquisitions weighted average NIY of 4.5%
 - New acquisitions WAULT of 16 years
- Seven rent reviews, adding £0.9 million annualised rental income, and a lease regear completed
- Sainsbury's exercised its first option to acquire 13 supermarkets in the Sainsbury's Reversion Portfolio

POST BALANCE SHEET HIGHLIGHTS

- Migration of the Group's listing to the Premium Segment of the FCA's Official List and London Stock Exchange's Main Market, from the Specialist Fund Segment
- Fitch Ratings Limited ("Fitch") Investment Grade credit rating of BBB+ assigned to the Group
- Purchase of three omnichannel supermarkets for £128.3 million (excluding acquisition costs)
 - New acquisitions weighted average NIY of 4.8%
 - New acquisitions WAULT of 19 years
- Active asset management led to a lease regear of the Tesco supermarket in Leicester
- 85% of rental income for the Direct Portfolio directly linked to inflation
- Sainsbury's exercised its second option to acquire eight further stores in the Sainsbury's Reversion Portfolio, acquiring in total 21 of 26 stores upon current lease expiry in mid-2023

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

"I am very pleased to be reporting another strong set of results for the Group which reflect significant growth in the Period.

We have continued to diversify our portfolio by sourcing and acquiring high quality omnichannel supermarket properties that represent the future model of grocery in the UK. We are delighted to have achieved the strategic milestones of becoming a Premium Segment listed company and receiving an Investment Grade credit rating, demonstrating both the strength and maturity of our business. Since our IPO in July 2017, we have delivered a Total Shareholder Return of 48% for our shareholders.

In this highly inflationary environment, our portfolio offers investors secure, long-term, inflation-protected income that is backed by one of the most compelling real estate asset classes in the UK investment market."

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/6203c5f6636d105baf47a366>

The results presentation is available in the Investor Centre section of the Group's website. For further details, please email Dido Laurimore at 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 Group focuses on grocery stores which are omnichannel, fulfilling online and in-person sales. All of the Group's 67 supermarkets⁽¹⁾ are let to leading UK supermarket operators, diversified by both tenant and geography.

The Group provides investors with secure, inflation-protected, long 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⁽²⁾. Atrato Capital Limited is the Group's Investment Adviser.

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

1. 41 directly owned supermarkets, plus 26 via joint venture
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 strategic progress and strong financial performance for the Group. During the Period we have delivered a 5 pence increase in our EPRA NTA per share, from 108 pence per share to 113 pence per share as at 31 December 2021. We have also successfully deployed the proceeds of our oversubscribed equity raise of £200 million in October 2021, acquiring a further £372 million of supermarket property assets².

Since our IPO in July 2017, we have grown our investment portfolio to £1.6 billion and delivered a Total Shareholder Return of 48%.

Our strategy is to invest in omnichannel supermarkets which we firmly believe is the future model of grocery retailing 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.

Over the past two years UK grocery sales have materially increased above pre-pandemic levels. This reflects the lasting impact of changes to working habits on the UK grocery market. Kantar's January 2022 grocery sales data demonstrates the full extent of this impact, with UK grocery sales remaining 10% higher than pre-pandemic levels, despite the gradual re-opening of the economy.

Our omnichannel stores have captured an outsized share of the increase in grocery demand as the growth in online sales fulfilled from stores has significantly exceeded that of the overall market.

Against this backdrop we have seen record levels of capital investment in the UK grocery sector. In October 2021 Clayton, Dubilier & Rice completed the £7 billion takeover of Morrisons, following on from Asda's £7 billion takeover by EG & TDR Capital in February of the same year. The managers of global equity capital clearly believe it is the right time in the cycle to make strategic investments in this space to capitalise on the strong underlying fundamentals of the asset class, combined with post-pandemic changes in consumer habits and the growth in online shopping.

In January 2022, Colliers highlighted that UK supermarket property investment volumes in 2021 were once again over £1.8 billion (2020: £1.8 billion). This continuing investment interest has resulted in supermarket property yields compressing, supporting our long-term investment thesis.

Our Direct Portfolio of investment properties was independently valued on 31 December 2021 at £1,413.5 million, reflecting a 2% like-for-like growth in value during the Period. A key focus of the investment market remains mitigating the impact of higher inflation. In that regard, we are especially pleased to have built a portfolio benefiting from long, index linked, leases, with 85% of our rental income directly linked to inflation³. The grocery sector is particularly resilient in an inflationary environment, with an ability to pass on supply chain cost pressures through price increases. Our rents remain highly affordable with average rent to turnover across our portfolio of approximately 4%⁴.

The Group achieved two significant strategic milestones after the balance sheet date. Firstly, Supermarket Income REIT is now listed on the Premium Segment of the FCA's Official List and the London Stock Exchange's Main Market following the migration of the Group's shares from the Specialist Fund Segment on 23 February 2022. We expect our new Premium Segment listing to deliver benefits to our existing shareholders, including the increased liquidity that can arise from inclusion in stock indices.

Secondly, the Group has achieved an Investment Grade BBB+ (stable outlook) credit rating. This solid Investment Grade rating from Fitch will enable us to pursue a wider range of debt funding strategies going forward.

We continue to prioritise Environmental, Social and Governance ("ESG") matters. Last year we completed a materiality assessment, and we are using the shortlisted factors identified by our stakeholders to inform our strategy and to continue to enhance our reporting and disclosures in these key areas. During the Period, we became supporters of the Task Force on Climate-related Financial Disclosures ("TCFD") and we are also on track to become signatories of the UN Principles for Responsible Investment ("UN PRI"). We look forward to reporting further updates on these, as well as progress on our wider ESG strategy, over the coming year.

Outlook

We are now operating in a highly inflationary environment, making our secure, upward only, inflation-linked rental reviews an ever more appealing source of inflation protected income. Given the high degree of correlation between inflation and food prices and the level of investor appetite in the sector, we believe we will see continued progressive growth in both supermarket rents and capital values.

Whilst we remain mindful of the uncertain political and macro-economic outlook and the ongoing economic risks of rising inflation and higher interest rates, we nevertheless feel well positioned for the future given the strengths of our chosen sector and the resilience of our income profile.

Through our deep sector expertise and strong relationships with both our tenants and the investment market within which we operate, we have built a leading portfolio in one of the most compelling real estate asset classes in the UK investment market. We are delighted to now be a Premium Segment listed company with an Investment Grade credit rating.

Nick Hewson
Chairman
01 March 2022

KEY PERFORMANCE INDICATORS

Our objective is to provide secure, inflation-protected, long income from grocery property in the UK. Set out below are the key performance indicators we use to track our progress.

KPI	Definition	Performance
1. Total Shareholder Return	Shareholder return is one of the Group's principal measures of performance. Total Shareholder Return ("TSR") is measured by reference to the growth in the Group's share price over a period, plus dividends.	6.3% for the six months ended 31 December 2021 (Six months ended 31 December 2020: -1.8%)
2. WAULT	WAULT measures the average unexpired lease term of the Direct Portfolio, weighted by the Direct Portfolio valuations.	15 years WAULT as at 31 December 2021 (As at 30 June 2021: 15 years)
3. EPRA NTA per share	The value of our assets (based on an independent valuation) less the book value of our liabilities, attributable to Shareholders and calculated in accordance with EPRA guidelines. EPRA state	113 pence per share as at 31 December 2021 (As at 30 June 2021: 108 pence per share)

	three measures of NAV to be used; of which the Group deem EPRA NTA as the most meaningful measure. See Note 23 for more information.	
4. Net Loan to Value	The proportion of our Direct Portfolio gross asset value that is funded by borrowings calculated as balance sheet borrowings less cash balances divided by total investment properties valuation.	32.1% as at 31 December 2021 (As at 30 June 2021: 34.0%)
5. EPRA EPS	Earnings attributable to Shareholders adjusted for other earnings not supported by cash flows and calculated in accordance with EPRA guidelines.	3.1 pence per share for the six months ended 31 December 2021 (Six months ended 31 December 2020: 2.8 pence per share)

The Group uses alternative performance measures including the European Public Real Estate ("EPRA") Best Practice Recommendations ("BPR") to supplement its IFRS measures as the Board considers that these measures give users of the Annual Report and financial statements the best understanding of the underlying performance of the Group's property portfolio.

The EPRA measures are widely recognised and used by public real estate companies and investors and seek to improve transparency, comparability and relevance of published results in the sector.

Reconciliations between EPRA measures and the IFRS financial statements can be found in Notes 10 and 23 to the financial statements.

EPRA PERFORMANCE INDICATORS

The table below shows additional performance measures, calculated in accordance with the Best Practices Recommendations of the European Public Real Estate Association (EPRA). We provide these measures to aid comparison with other European real estate businesses.

For a full reconciliation of all EPRA performance indicators, please see the Notes to EPRA measures within the supplementary section of the interim financial statements.

Measure	Definition	Performance
1. EPRA Earnings per Share	A measure of EPS designed by EPRA to present underlying earnings from core operating activities.	3.1 pence per share for the six months ended 31 December 2021 (Six months ended 31 December 2020: 2.9 pence per share)
2. EPRA Net Reinstatement Value (NRV) per share	An EPRA NAV per share metric which assumes that entities never sell assets and aims to represent the value required to rebuild the entity.	123 pence per share as at 31 December 2021 (As at 30 June 2021: 118 pence per share)
3. EPRA Net Tangible Assets (NTA) per share	An EPRA NAV per share metric which assumes entities buy and sell assets, thereby crystallising certain levels of unavoidable deferred tax.	113 pence per share as at 31 December 2021 (As at 30 June 2021: 108 pence per share)
4. EPRA Net Disposal Value (NDV) per share	An EPRA NAV per share metric 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.	113 pence per share as at 31 December 2021 (As at 30 June 2021: 107 pence per share)
5. EPRA Net Initial Yield (NIY) & EPRA "Topped-Up" Net Initial Yield	Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased with (estimated) purchasers' costs. The "topped-up" yield is the same as the standard measure as we do not have adjustments for any rent-free periods or other lease incentives.	4.6% as at 31 December 2021 (As at 30 June 2021: 4.8%)
6. EPRA Vacancy Rate	Estimated Market Rental Value (ERV) of vacant space divided by ERV of the whole portfolio.	0.2% as at 31 December 2021 (As at 30 June 2021: 0.4%)
7. EPRA Cost Ratio	Administrative & operating costs (including costs of direct vacancy) divided by gross rental income.	15.8% for the six months ended 31 December 2021 (Six months ended 31 December 2020: 19.9%)

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

Supermarkets continue to demonstrate their critical role in the UK economy as core food infrastructure. Grocery sales remain 10% higher than pre-pandemic levels despite the re-opening of the economy, in part due to a longer-term structural shift towards working from home resulting in a more permanent increase in household spend on groceries.

Whilst in-store shopping remains the dominant channel, representing 87%⁵ of all grocery market sales, there has been an acceleration in the channel shift to online grocery in line with the digital transformation of the UK economy. Online grocery accounts for 13%⁵ of the UK grocery market and has nearly doubled in market share since the start of the pandemic.

A key pillar of the Group's investment strategy is to invest in 'future-proofed' omnichannel supermarkets that facilitate in-store shopping, while also forming part of the UK online grocery distribution network. It is omnichannel stores such as those in the Supermarket Income REIT portfolio that have primarily benefited from increased market volumes, with 80% of all UK online orders fulfilled from a store. Omnichannel stores with in-store picking for online orders are capital light, flexible, rapidly scalable and are now a profitable method of fulfilment for online grocery.

Unlike other sectors which have been disrupted by online-only players, the major supermarket operators (68% market share) have dominated the online channel shift. Their existing store networks provide them with an invaluable last mile delivery infrastructure and create a significant barrier to entry. The Group's tenants are continuing to invest in its assets to build out their online fulfilment capacity.

The Group is highly selective in the supermarkets it acquires and seeks to ensure that its assets benefit from long unexpired lease terms with contractual, upward only, rental uplifts. In addition, we undertake a robust process of due diligence to identify acquisition opportunities and screen for sustainability credentials. The Group's stores typically have the following attributes:

- sites which are critical to the operations of the UK's leading grocers;
- ideally located for large catchment populations and excellent transportation links;
- long unexpired lease terms with inflation linked rental uplifts;
- robust underlying trading and strong tenant covenants;
- attractive property fundamentals with opportunities for active asset management; and
- good sustainability credentials or the opportunity for improvement through asset management

88%⁶ of leases within the portfolio benefit from contractual rental uplifts, either to inflation (85%) or through fixed uplifts (3%). With supermarket rents a function of store turnover, the combination of the enlarged grocery sector and the inflationary environment provide favorable tailwinds for sustainable rental growth, from which the Group is well placed to benefit over the long term.

Investment activity - Direct Portfolio

The Investment Adviser has continued to identify accretive pipeline opportunities and deploy capital, including the proceeds from the recent equity raise. During the Period, the Group added eight accretive supermarket assets for £243.4 million (excluding acquisition costs):

- **August 2021:** An M&S and Aldi in West Derby, Liverpool for £10.2 million. The M&S store has 10 years unexpired lease term and five-yearly, upward-only, open market rent reviews. The Aldi store has 15 years unexpired lease term and five-yearly, upwards only, 2.5% fixed rent reviews compounded annually.
- **September 2021:** An Aldi in Oldham, Manchester for £5.6 million with 10 years unexpired lease term and five-yearly, upwards-only, 2% fixed rent reviews compounded annually.
- **September 2021:** A Tesco in Prescot, Merseyside for £50.0 million with 15 years unexpired lease term and annual, upwards-only, CPI-linked rent reviews.
- **September 2021:** A Morrisons in Workington, Cumbria for £28.9 million with 17 years unexpired lease term and five-yearly, upwards-only, CPI-linked rent reviews.
- **November 2021:** Sainsbury's in Swansea, and Tesco in Maidstone, for £73.0 million with a weighted average unexpired lease term of 21 years, both with five-yearly, upward-only, open market rent reviews.
- **November 2021:** Sainsbury's in Cannock for £75.8 million with 15 years unexpired lease term and five-yearly, upward-only, RPI-linked rent reviews.

The acquisitions have a weighted average unexpired lease term of 16 years and a weighted average net initial yield of 4.5%, 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 10 non-food 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 £13.9 million as at 31 December 2021 and consist of a mix of non-food retail and consumer services. Post balance sheet the Group acquired a further three supermarkets with a weighted average net initial yield of 4.8% and a weighted average unexpired lease term of 19 years for a total consideration of £128.3 million (excluding acquisition costs). This included the Group's first Asda store, providing further tenant diversification to the Portfolio.

The stores acquired post balance sheet were:

- **January 2022:** Sainsbury's in Washington and Asda in Cwmbran for £55.1 million with a weighted average unexpired lease term of 21 years. The Sainsbury's has seven-yearly, upward-only, RPI-linked rent reviews and the Asda has five-yearly, upwards-only, open market rent reviews.
- **January 2022:** Tesco in Sheffield for £73.2 million with 17 years unexpired lease term and annual, upward-only, RPI-linked rent reviews.

Included in the acquisitions above were two non-food, quick service restaurant, 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 £2.5 million (excluding acquisition costs). The total acquisitions of £371.7 million (excluding acquisition costs) from 1 July 2021 were financed from the Group's equity raises, in March 2021 and October 2021, and drawings from banking facilities (see financing below).

A table summarising the properties in the Direct Portfolio of supermarkets can be found in the Portfolio section on the Group's website: www.supermarketincomereit.com

Investment activity - Sainsbury's Reversion Portfolio (pre and post balance sheet events)

In May 2020 the Group formed a 50:50 joint venture (the "JV") with British Airways Pension Trustees Limited to acquire from British Land Plc a 25.5% stake in one of the UK's largest portfolios of supermarket properties (the "Sainsbury's Reversion Portfolio") for £102 million, excluding acquisition costs. Subsequently, in February 2021 the JV acquired a further 25.5% stake in this portfolio from Aviva for £115 million, excluding acquisition costs.

As such, the Group's total contribution to the JV was £108.5 million, excluding acquisition costs, and freehold interests of the properties are now owned by Sainsbury's (49%) and the JV (51%). Further details of the JV can be found in note 13 to the financial statements.

The Sainsbury's Reversion Portfolio comprises a high-quality portfolio of 26 predominantly omnichannel Sainsbury's supermarkets with strong trading histories and attractive property fundamentals. At acquisition, the stores in the Sainsbury's Reversion Portfolio were leased to Sainsbury's until 2023. The investment case for acquiring the stakes in the Sainsbury's Reversion Portfolio was largely based on the Group's conviction that Sainsbury's would want to remain in occupation of a large majority of the stores.

In September 2021 and in January 2022 (shortly after the balance sheet date), Sainsbury's exercised options to acquire 21 stores within the Portfolio. This outcome is in-line with the Group's initial underwriting of the transaction and is evidence of the strength of demand for UK grocery assets.

Sainsbury's purchase price under the option is to be determined based on the assumption of a new 20-year lease term at the higher of passing or open market rent, subject to upward-only, five yearly market rent reviews.

The exercise of Sainsbury's option to purchase 21 of the 26 stores has generated a material valuation gain for the Group, as detailed in the Portfolio Valuation section below. The remaining five stores within the portfolio remain under negotiation with Sainsbury's.

Portfolio valuation

Cushman & Wakefield valued the Direct Portfolio as at 31 December 2021 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 £1,413.5 million, an increase of £265.1 million for the Period following valuation growth of £21.7 million and new acquisitions of £243.4 million reflecting a net initial yield ("NIY") of 4.7% and a like for like valuation growth of 2.0%.

The valuation growth in the Direct Portfolio reflects the strength of our covenants, continuing heightened investor appetite for supermarket property assets, and our ability to source off-market acquisitions for the Group in a market where new supply is limited. Against a backdrop of high inflation and broader industry tailwinds, the Investment Adviser believes further growth in market rents and valuations can be achieved in the future.

The Group's beneficial interest in the Sainsbury's Reversion Portfolio, held as an investment in a joint venture, was also independently valued by Cushman & Wakefield in accordance with the RICS Valuation Global Standards.

The net carrying value of the underlying investment has increased by a total of £37.2 million to £167.5 million during the Period. This increase is recognised within the Group's share of income from joint venture as shown within the consolidated statement of comprehensive income.

Asset Management

During the Period, the Group completed seven rent reviews, resulting in an annualised increase in rental income of £0.9 million. The average rental uplift for the rent reviews in the Period was 6.3% across seven stores of which three stores benefited from a 5-yearly rent reviews.

The Group has also completed two notable lease regears. In September 2021 the Group completed the acquisition of a Tesco in Prescot and simultaneously regear its lease with rent reviews to open market value with a four-year remaining term on the same day. The regear secured the Group a new 15-year lease with annual CPI uplifts, rebased to 4% rent-to-turnover (from 5%), consistent with the wider portfolio, whilst creating the potential to expand home delivery at the rear of the property. The Investment Adviser identified this opportunity and initiated discussions with the vendor and the operator two-years ago in order to create an off-market acquisition opportunity.

After the balance sheet date, in February 2022, the Group completed the regear of an open market value lease with eight years remaining on our Tesco in Leicester. This is a strategically important store for the operator with a significant home delivery operation. The new 15-year lease with annual RPI uplifts, also rebased to 4% rent-to-turnover, generated an attractive total return on cost for the Group.

Environmental, Social and Governance ('ESG')

The Group is committed to building a resilient portfolio that plays an integral role in local communities and contributes to the natural environment and path to net zero, and it recognises the importance of tenant engagement to achieve this.

Last year the Group completed a materiality assessment using a specialist third party. The shortlisted ESG factors identified as priorities by stakeholders are being used to inform the strategy and continue enhancing reporting and disclosures in these key areas.

Unsurprisingly, given the footprint of the assets, building energy ratings were identified among the highest priorities. The Group is pleased to report that three quarters of its Direct Portfolio assets are rated EPC C or above, with energy efficiency being an important consideration in the investment decision-making process. The Group only acquires stores with an EPC rating of C or above, or where asset management opportunities have been identified to improve the rating to this level as a minimum.

The Group is aware of the UK government's Minimum Energy Efficiency Standards (MEES) requirements to ensure that all commercial properties have an EPC rating of at least a "B" by the end of 2030, with the first compliance window being April 2028. In the period to 30 June 2022, the Investment Adviser continues to work on an integrated Sustainable Investment management plan to address those properties most at risk of not complying to the various rating deadlines that have been set out in the MEES framework. We are confident that this will enable us to meet or exceed the specified targets within the required timeframe.

During the Period, the Group declared its support for the TCFD, and it is also on track to become a signatory of the UN PRI. The Group looks forward to providing further updates on these, and progress on the wider ESG strategy, in the 2022 Annual Report.

Financial results

IFRS net rental income for the Period increased by 59.8% to £32.6 million (six months to 31 December 2020: £20.4 million). Contracted inflation-linked rent reviews in the Period resulted in average passing rent increases of 6.3% (six months to 31 December 2020: 0.9%), in addition to IFRS £2.2 million rental contribution from new acquisitions.

Administrative and other expenses, which include management and advisory fees and other costs of running the Group, were £6.2 million (six months to 31 December 2020: £4.1 million) generating an annualised EPRA cost ratio for the Period of 15.8% (six months to 31 December 2020: 19.9%).

Financing costs for the Period were £5.7 million (six months to 31 December 2020: £3.7 million). As at 31 December 2021, the Group's weighted average finance cost was circa 2.5% (six months to 31 December 2020: 2.7%).

Operating profit, before changes in the fair value of investment properties, as reported under IFRS, increased by 61.9% to £26.4 million (six months to 31 December 2020: £16.3 million).

The net change in fair value of the Direct Portfolio investment properties in the Period was £11.0 million (six months to 31 December 2020: £15.5 million), which comprises a £21.7 million valuation gain offset by £9.3 million acquisition costs and a £1.4 million rent smoothing adjustment.

As at 31 December 2021, the EPRA NTA per share was 113 pence (30 June 2021: 108 pence), an increase of 4.6%.

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

Dividend

The Group declared two interim dividends for the Period, on 23 September 2021 a Q4 2021 final dividend of 1.465 pence per share and on 10 January 2022, a Q1 2022 interim dividend of 1.485 pence per share. The Q2 2022 interim dividend of 1.485 pence per share was declared after the period end and the Group remains on track to declare dividends of 5.94 pence per share for the financial year. The Group's EPRA dividend cover ratio, which shows the level of cover of EPRA earnings versus dividends paid for the Period, was 1.13x for the Period.

The earnings from the Sainsbury's Reversion Portfolio are used to repay debt secured against that portfolio and the Group does not receive a cash distribution from those earnings. As such, it has also 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 0.87x (six months to 31 December 2020: 0.91x) reflecting the increase in the Group's investment in the Sainsbury's Reversion Portfolio in February 2021.

Financing and hedging

In October 2021, the Group successfully completed an oversubscribed £200.0 million Placing and Offer for Subscription, under which 173,913,043 New Ordinary Shares were issued at 115 pence per New Ordinary Share, representing a 6.5% premium to prevailing EPRA NTA 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 £100.0 million.

During the Period, the Group has broadened its banking relationships further. In August 2021, the Group increased its secured term loan with Deka by £20.0 million to £96.6 million for the remaining three-year term. The new tranche of the secured term has a fixed rate of 1.72%.

Similarly, in August 2021 the Group also completed a one-year extension alongside a £10.0 million increase to its Revolving Credit Facility with HSBC, priced at a margin of 1.75% above SONIA.

In September 2021, the Group exercised its accordion option under the Wells Fargo credit facility by £61.3 million. The new tranche has a term of two years plus three one-year extension options at a margin of 1.40% above SONIA.

After the balance sheet date, in January 2022, the Group arranged a £136.5 million increase to its Revolving Credit Facility with Barclays and Royal Bank of Canada. Following this increase, the total size of the facility is £250.2 million with a further £49.8 million uncommitted accordion option, which is exercisable at any time over the term of the facility. This secured, interest-only, Revolving Credit Facility has a remaining term of two years and two further one-year extension options, with a margin of 1.50% above SONIA.

In February 2022, the Group was assigned by Fitch Ratings Limited an Investment Grade BBB+ (stable outlook) credit rating, which will enable a wider range of debt funding strategies moving forward.

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

Lender	Facility	Maturity	Running interest cost	Loan commitment £m	Amount drawn at 31 December 2021 £m
HSBC	Revolving Credit Facility	Aug 2023	1.84%	100.0	77.4
HSBC	Revolving Credit Facility	Aug 2023	1.94%	50.0	-
Bayerische Landesbank	Term Loan	Jul 2023	2.75%	52.1	52.1
Bayerische Landesbank	Additional Term Loan A	July 2023	2.17%	7.3	7.3
Bayerische Landesbank	Additional Term Loan B	Aug 2025	2.22%	27.5	27.5
Deka Bank	Term loan	Aug 2026*	2.08%	47.6	76.6
Deka Bank	Term loan	Aug 2026*	2.24%	28.9	28.9
Deka Bank	Term loan	Aug 2026*	1.91%	20.0	20.0
Wells Fargo	Revolving Credit Facility	July 2027*	2.30%	30.0	30.0
Wells Fargo	Revolving Credit Facility	July 2027*	2.38%	60.0	60.0
Wells Fargo	Revolving Credit Facility	July 2027*	1.59%	61.4	47.2
Barclays and RBC	Revolving Credit Facility	Jan 2026*	1.69%	113.8	113.8
Total				568.7	481.9
<i>Post balance sheet events</i>					
Barclays and RBC	Revolving Credit Facility	Jan 2026*	1.69%	136.5	n/a
Total				705.2	n/a
Average running cost			1.91%		

*Including two further one-year extension options.

Total net debt as at 31 December 2021 stood at £454.0 million (30 June 2021: £390.1 million), reflecting a net loan-to-value ("LTV") ratio of 32.1% (30 June 2021: 34.0%). 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 2021, the Group could afford to suffer a fall in property values of 29.5% before being in breach of its LTV covenants and with the current hedging arrangements it has in place it has 504% of interest cover.

The Group utilises hedging derivatives to partially offset the effect of a rise in underlying interest rates. Further details of our debt and hedging can be found within notes 17 and 18 of these accounts.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks of the business are set out on pages 34 to 39 of the Annual Report 2021 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 2021, the Board believes that there has been no material change to the principal risks as stated and are expected to remain unchanged for the remaining six months of the financial year.

Since March 2020, the COVID-19 pandemic has been considered a principal risk to the business. We expect this risk to continue for the remainder of 2022. The grocery sector continues 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. 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.

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 United Kingdom 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 22.

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
01 March 2022

INDEPENDENT REVIEW REPORT TO SUPERMARKET INCOME REIT PLC

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 2021 is not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

We have been engaged by the Group to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2021 which comprises 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.

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" ("ISRE (UK) 2410"). 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.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with UK adopted international accounting standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with UK adopted International Accounting Standard 34, "Interim Financial Reporting".

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410, however future events or conditions may cause the Group to cease to continue as a going concern.

Responsibilities of 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.

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

Auditor's responsibilities for the review of the financial information

In reviewing the half-yearly report, we are responsible for expressing to the Group a conclusion on the condensed set of financial statement in the half-yearly financial report. Our conclusion, including our Conclusions Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report

Our report has been prepared in accordance with the terms of our engagement to assist the Group in meeting the requirements of 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, UK
01 March 2022

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 2021

		Unaudited Six months to 31 December 2021	Unaudited Six months to 31 December 2020	Audited Year to 30 June 2021
	Note	£' 000	£' 000	£' 000
Profit or loss				
Gross rental income	4	32,746	20,412	48,156
Service charge income	4	906	200	830
Service charge expense	5	(1,008)	(204)	(1,044)
Net Rental Income		32,644	20,408	47,942
Administrative and other expenses	6	(6,218)	(4,065)	(9,262)
Operating profit before changes in fair value of investment properties and share of income from joint venture		26,426	16,343	38,680
Changes in fair value of investment properties and associated rent guarantees	12	10,967	15,462	36,288
Share of income from joint venture	13	37,214	4,906	15,506
Operating profit		74,607	36,711	90,474
Finance expense	8	(5,661)	(3,746)	(8,518)
Profit before taxation		68,946	32,965	81,956
Tax charge for the period	9	-	-	-
Profit for the period		68,946	32,965	81,956
<i>Items to be classified to profit or loss in subsequent periods</i>				
Changes in the fair value of interest rate derivatives	20	2,232	(210)	1,569
Total comprehensive income for the period		71,178	32,755	83,525
Total comprehensive income for the period attributable to ordinary shareholders		71,178	32,755	83,525
Earnings per share - basic and diluted (pence)	10	7.9p	5.9p	12.6p

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

		Unaudited 31 December 2021	Audited 30 June 2021	Unaudited 31 December 2020
	Note	£' 000	£' 000	£' 000

Non-current assets				
Property, plant and equipment		129	129	-
Investment properties	12	1,413,500	1,148,380	885,333
Investment in joint ventures	13	167,534	130,321	61,112
Contract fulfilment asset		85	85	-
Other financial assets		2,786	-	-
Interest rate derivatives	17	2,124	763	-
Total non-current assets		1,586,158	1,279,678	946,445
Current assets				
Financial assets held at fair value through profit and loss	14	98	237	478
Trade and other receivables	15	10,368	3,140	2,750
Cash and cash equivalents		24,070	19,579	61,936
Total current assets		34,536	22,956	65,164
Total assets		1,620,694	1,302,634	1,011,609
Non-current liabilities				
Bank borrowings	18	478,031	409,684	301,163
Interest rate derivatives	17	344	1,210	2,213
Total non-current liabilities		478,375	410,894	303,376
Current liabilities				
Deferred rental income		15,047	12,061	9,418
Trade and other payables	16	12,188	8,369	7,041
Total current liabilities		27,235	20,430	16,459
Total liabilities		505,610	431,324	319,835
Total net assets		1,115,084	871,310	691,774
Equity				
Share capital	19	9,854	8,107	6,658
Share premium reserve	19	194,770	778,859	629,914
Cash flow hedge reserve	20	1,780	(452)	(2,231)
Capital reduction reserve	19	778,859	-	-
Retained earnings		129,821	84,796	57,433
Total equity		1,115,084	871,310	691,774
Net asset value per share - basic and diluted	23	113p	108p	104p
EPRA net tangible asset per share - basic and diluted	23	113p	108p	104p

These unaudited condensed consolidated financial statements were approved and authorised for issue by the Board of Directors on 01 March 2022 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 2021 (unaudited)

	Share capital £' 000	Share premium reserve £' 000	Cash flow hedge reserve £' 000	Capital reduction reserve £' 000	Retained earnings £' 000	Total £' 000
As at 1 July 2021	8,107	778,859	(452)	-	84,796	871,310
<i>Comprehensive income for the period</i>						
Profit for the period	-	-	-	-	68,946	68,946
Other comprehensive income	-	-	2,232	-	-	2,232
Total comprehensive income for the period	-	-	2,232	-	68,946	71,178
<i>Transactions with owners</i>						
Ordinary shares issued at a premium during the period	1,747	199,188	-	-	-	200,935
Share issue costs	-	(4,418)	-	-	-	(4,418)
Transfer to capital reduction reserve	-	(778,859)	-	778,859	-	-
Interim dividends paid	-	-	-	-	(23,921)	(23,921)
As at 31 December 2021	9,854	194,770	1,780	778,859	129,821	1,115,084
<i>For the year from 1 July 2020 to 30 June 2021 (audited)</i>						
	Share capital £' 000	Share premium Reserve £' 000	Cash flow hedge reserve £' 000	Capital reduction reserve £' 000	Retained earnings £' 000	Total £' 000
As at 1 July 2020	4,735	436,126	(2,021)	-	38,321	477,161
<i>Comprehensive income for the year</i>						

Profit for the year	-	-	-	-	81,956	81,956
Other comprehensive income	-	-	1,569	-	-	1,569
Total comprehensive income for the year	-	-	1,569	-	81,956	83,525

Transactions with owners

Ordinary shares issued at a premium during the year	3,372	350,132	-	-	-	353,504
Share issue costs	-	(7,399)	-	-	-	(7,399)
Interim dividends paid	-	-	-	-	(35,481)	(35,481)
As at 30 June 2021	8,107	778,859	(452)	-	84,796	871,310

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
As at 1 July 2020	4,735	436,126	(2,021)	-	38,321	477,161
<i>Comprehensive income for the period</i>	-	-	-	-	-	-
Profit for the period	-	-	-	-	32,965	32,965
Other comprehensive income	-	-	(210)	-	-	(210)
Total comprehensive income for the period	-	-	(210)	-	32,965	32,755
<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 dividends paid	-	-	-	-	(13,853)	(13,853)
As at 31 December 2020	6,658	629,914	(2,231)	-	57,433	691,774

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six month period ending 31 December 2021

	Notes	Unaudited Six months to 31 December 2021 £'000	Unaudited Six months to 31 December 2020 £'000	Audited Year to 30 June 2021 £'000
Operating activities				
Profit for the period (attributable to ordinary shareholders)		68,946	32,965	81,956
<i>Adjustments for:</i>				
Changes in fair value of Investment properties and associated rent guarantees	12	(10,967)	(15,462)	(36,288)
Movement in rent smoothing adjustments	4	(1,209)	(769)	(1,998)
Finance expense	8	5,661	3,746	8,518
Share of income from Joint ventures	13	(37,214)	(4,906)	(15,506)
Cash flows from operating activities before changes in working capital		25,217	15,574	36,682
Increase in trade and other receivables		(7,229)	(1,048)	(1,437)
(Decrease)/ Increase in rent guarantee receivables	14	(70)	-	185
Increase in deferred rental income		2,986	4,215	6,858
Increase in trade and other payables		1,226	63	516
Cash flows from operating activities		22,130	18,804	42,804
Investing activities				
Acquisition of contract fulfilment assets		-	-	(85)
Acquisition of investment properties	12	(243,449)	(313,973)	(541,210)
Acquisition of financial assets held at fair value through profit and loss	14	-	(478)	(766)
Increase in other financial assets		(2,786)	-	-
Investment in Joint venture	13	-	(125)	(58,734)
Capitalised acquisition costs		(7,146)	(15,718)	(28,752)
Net cash flows used in investing activities		(253,381)	(330,294)	(629,547)
Financing activities				
Proceeds from issue of ordinary share capital	19	200,000	200,000	352,956

Costs of share issues	19	(4,418)	(4,289)	(7,399)
Bank borrowings drawn		256,407	327,602	582,961
Bank borrowings repaid		(187,971)	(151,790)	(298,300)
Loan arrangement fees paid		(1,096)	(2,085)	(3,211)
Bank interest paid		(3,884)	(2,365)	(5,578)
Bank commitment fees paid		(310)	(147)	(527)
Dividends paid to equity holders		(22,986)	(13,853)	(34,933)
Net cash flows from financing activities		235,742	353,073	585,969
<hr/>				
Net increase / (decrease) in cash and cash equivalents for the period		4,491	41,583	(774)
Cash and cash equivalents at the beginning of the period		19,579	20,353	20,353
Cash and cash equivalents at the end of the period		24,070	61,936	19,579

1. Basis of preparation

General information

Supermarket Income REIT plc (the "Company" or "Group") is a company registered in England and Wales with its registered office at The Scalpel 18th 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 2021, with comparative numbers amounts shown for the year to 30 June 2021 and the six months to 31 December 2020. 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 2021 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 2021 the Group comprised of the Company and its wholly-owned subsidiaries. The Company has one subsidiary incorporated in Jersey, the registered office is 28 Esplanade, St Helier, Jersey JE2 3QA. All other subsidiaries are incorporated in England and Wales and have 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 United Kingdom. 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 2021. 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 2022.

Accounting convention and currency

The condensed consolidated financial statements ("the financial statements") have been prepared on a historical cost basis, except that investment properties, rental guarantees 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 Group 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 £22.1 million, with cash balances at 31 December 2021 totalling £24.1 million and the Group had further amounts available for drawdown under the loan facilities with Wells Fargo and Barclays/ RBC as enacted after the period end. 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 rent reviews.

1. Basis of preparation (continued)

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 2021, other than changes to certain assumptions applied in the valuation of properties. Details of the key assumptions applied at 31 December 2021 are set out in note 12.

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 2021 and are expected to be consistently applied during the year ending 30 June 2022.

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 2021, which have been considered as follows:

The Interest Rate Benchmark Reform - IBOR 'phase 2' amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 provides a practical expedient to account for changes in the basis for determining contractual cash flows of financial assets and financial liabilities as a result of IBOR reform. Under the practical expedient, the Group accounted for the benchmark change from LIBOR to SONIA on hedged cash flows by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9 without the recognition of an immediate gain or loss.

The Group has also considered other amendments to standards endorsed by the United Kingdom 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 2021.

3.2 New standards issued but not yet effective

Amendments to IAS 1 on Classification of liabilities as Current or Non-Current are effective for the financial years commencing on or after 1 January 2023 and are to be applied retrospectively. It is not expected that the amendments may have an impact on the presentation and classification of liabilities in the Group Statement of Financial Position based on rights that are in existence at the end of the reporting period.

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. Gross rental income

	Unaudited Six months to 31 December 2021 £' 000	Unaudited Six months to 31 December 2020 £' 000	Audited Year to 30 June 2021 £' 000
Rental income - freehold property	20,832	11,673	29,679
Rental income - long lease hold property	11,833	8,739	18,477
Surrender premiums	81	-	-
Gross rental income	32,746	20,412	48,156

4. Gross rental income (continued)

	Unaudited Six months to 31 December 2021 £' 000	Unaudited Six months to 31 December 2020 £' 000	Audited Year to 30 June 2021 £' 000
Property insurance recoverable	177	80	251
Service charge recoverable	729	120	579
Total property insurance and service charge income	906	200	830
Total property income	33,652	20,612	48,986

Included within rental income is a £1,209,000 (six months to 31 December 2020: £769,000; year to 30 June 2021: £1,998,000) 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 be accounted for on straight-line basis over the lease term. During the year this resulted in an increase in rental income and an offsetting entry being recognised in profit or loss as an adjustment to the investment property revaluation.

On an annualised basis, rental income comprises £31,000,000 relating to the Group's largest tenant and £23,000,000 relating to the Group's second largest tenant. There were no further tenants representing more than 10% of annualised gross rental income during either year.

5. Service charge expense

	Unaudited Six months to 31 December 2021 £' 000	Unaudited Six months to 31 December 2020 £' 000	Audited Year to 30 June 2021 £' 000
Property insurance expenses	248	81	379
Service charge expenses	760	123	665
Total property insurance and service charge expenses	1,008	204	1,044

6. Administrative and other expenses

	Unaudited Six months to 31 December 2021 £' 000	Unaudited Six months to 31 December 2020 £' 000	Audited Year to 30 June 2021 £' 000
Investment Adviser fees (note 22)	4,300	2,718	6,255
Directors' remuneration (note 7)	134	130	260
Corporate administration fees	414	276	676
Legal and professional fees	842	515	916
Other administrative expenses	528	426	1,155
Total administrative and other expenses	6,218	4,065	9,262

7. Directors' remuneration

The Group has no employees. The Directors, who are the key management personnel of the Group, 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 2021 £' 000	Unaudited Six months to 31 December 2020 £' 000	Audited Year to 30 June 2021 £' 000
Directors' fees	120	120	240
Employer's National Insurance Contribution	14	10	20
Total Directors' remuneration	134	130	260

8. Finance Expense

	Unaudited Six months to 31 December 2021 £' 000	Unaudited Six months to 31 December 2020 £' 000	Audited Year to 30 June 2021 £' 000
Interest payable on bank borrowings and hedging arrangements	3,928	2,508	5,810
Fair value adjustment of interest rate derivatives (note 17)	326	342	706
Commitment fees payable on bank borrowings	465	235	532
Amortisation of loan arrangement fees	937	647	1,442
Amortisation of interest rate cap premium (note 17)	5	14	28
Total finance expense	5,661	3,746	8,518

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

	Unaudited Six months to 31 December 2021 £' 000	Unaudited Six months to 31 December 2020 £' 000	Audited Year to 30 June 2021 £' 000
Total interest expense on financial liabilities held at amortised cost	4,864	3,155	7,252
Fee expense not part of effective interest rate for financial liabilities held at amortised cost	465	235	532
Total finance expense	5,329	3,390	7,784

9. Taxation

a) Tax charge in profit or loss

	Unaudited Six months to 31 December 2021 £' 000	Unaudited Six months to 31 December 2020 £' 000	Audited Year to 30 June 2021 £' 000
Corporation tax	-	-	-

9. Taxation (continued)

b) Total tax expense

	Unaudited Six months to 31 December 2021 £' 000	Unaudited Six months to 31 December 2020 £' 000	Audited Year to 30 June 2021 £' 000
Tax charge in profit and loss as per the above	-	-	-
Share of tax expense of equity accounted joint ventures	421	219	511
Total tax expense	421	219	511

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:

c) Reconciliation of the tax charge for the period

	Unaudited Six months to 31 December 2021 £' 000	Unaudited Six months to 31 December 2020 £' 000	Audited Year to 30 June 2021 £' 000
Profit on ordinary activities before taxation	68,946	32,965	81,956
Theoretical tax at UK standard corporation tax rate of 19%			
Effects of:			
Investment property revaluation not subject to taxation	13,100	6,263	15,572
REIT exempt income	(2,084)	(2,938)	(6,895)
Share of tax expense of equity accounted joint ventures	(11,016)	(3,325)	(8,677)
Total tax expense for the period	421	219	511

10. Earnings per share

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

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

10. Earnings per share (continued)

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

Unaudited	Unaudited	Audited
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	Six months to 31 December 2021 £' 000	Six months to 31 December 2020 £' 000	Year to 30 June 2021 £' 000
Net profit attributable to ordinary shareholders	68,946	32,965	81,956
<i>EPRA adjustments:</i>			
<i>Changes in fair value of investment properties and rent guarantees</i>	(10,967)	(15,462)	(36,288)
<i>Group share of negative goodwill from joint venture investment</i>	-	-	(3,265)
<i>Group share of changes in fair value of joint venture investment properties</i>	(31,048)	(1,975)	(5,619)
EPRA earnings	26,931	15,528	36,784
	Number¹	Number¹	Number¹
Weighted average number of ordinary shares	878,171,925	561,413,104	652,828,945

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

	Unaudited Six months to 31 December 2021 Pence per share	Unaudited Six months to 31 December 2020 Pence per share	Audited Year to 30 June 2021 Pence per share
Basic and Diluted EPS	7.9p	5.9p	12.6p
<i>EPRA adjustments:</i>			
<i>Changes in fair value of investment properties and rent guarantees</i>	(1.3)p	(2.8)p	(5.6)p
<i>Group share of negative goodwill from joint venture investment</i>	-	-	(0.5)p
<i>Group share of changes in fair value of joint venture investment properties</i>	(3.5)p	(0.3)p	(0.9)p
EPRA EPS	3.1p	2.8p	5.6p

11. Dividends

	Unaudited Six months to 31 December 2021 £' 000	Unaudited Six months to 31 December 2020 £' 000	Audited Year to 30 June 2021 £' 000
<i>Distributions to ordinary shareholders in the period:</i>			
Dividends paid	23,921	13,853	35,481

11. Dividends (continued)

On 8 July 2021, the Board declared a fourth interim dividend for the year ended 30 June 2021 of 1.465 pence per share, which was paid on 7 August 2021 to shareholders on the register on 16 July 2021.

On 23 September 2021 the Board declared a first interim dividend for the year ending 30 June 2022 of 1.485 pence per share, which was paid on 16 November 2021 to shareholders on the register on 8 October 2021.

On 10 January 2022, the Board declared a second interim dividend for the year ending 30 June 2022 of 1.485 pence per share, which was paid on 25 February 2022 to shareholders on the register on 21 January 2022. This has not been included as a liability as at 31 December 2021.

12. Investment Properties

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

The independent valuer in forming its opinion on valuation makes a series of assumptions. All the valuations of the Group's investment property at 31 December 2021 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 2021	723,540	424,840	1,148,380
Property additions	96,182	147,267	243,449
Capitalised acquisition costs	3,629	5,657	9,286
Revaluation movement	18,339	(5,954)	12,385
Valuation at 31 December 2021	841,690	571,810	1,413,500

	Freehold £' 000	Long Leasehold £' 000	Total £' 000
At 1 July 2020	244,030	295,380	539,410
Property additions	438,710	102,500	541,210
Capitalised acquisition costs	23,331	5,799	29,130
Revaluation movement	17,469	21,161	38,630
Valuation at 30 June 2021	723,540	424,840	1,148,380

	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
Valuation at 31 December 2020	532,972	352,361	885,333

12. Investment Properties (continued)

Of the ten properties held under long leaseholds, the years unexpired on the headleases are as follows: four properties with between 117 and 157 years, and six properties with between 984 and 989 years. The Group has no material liabilities in respect of these headleases.

Included within the carrying values of investment properties at 31 December 2021 is £4,767,000 (six months to 31 December 2020: £2,329,000, year to 30 June 2021: £3,558,000) in respect of the smoothing of fixed contractual rent uplifts as described in note 4. The difference between rents on a straight-line basis and rents actually receivable is included within the carrying value of the investment properties but does not increase that carrying value over fair value. The effect of this adjustment on the revaluation movement for the period is as follows:

	Unaudited Six months to 31 December 2021 £' 000	Unaudited Six months to 31 December 2020 £' 000	Audited Year to 30 June 2021 £' 000
Revaluation movement per above	12,385	16,232	38,630
Rent smoothing adjustment (note 4)	(1,209)	(769)	(1,998)
Movements in associated rent guarantees (note 14)	(209)	-	(344)
Change in fair value recognised in profit or loss	10,967	15,462	36,288

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 2021 range from 3.8% to 6.6% (year ended 30 June 2021: 3.9% to 6.2%; six months ended 31 December 2020: 4.2% to 6.1%). Rental values (being passing rents or ERV as relevant) on the Group's investment properties at 31 December 2021 range from £0.3m to £4.8 million (year ended 30 June 2021: £0.4 million to £4.8 million; six months ended 31 December 2020: £0.4 million to £4.1 million).

12. Investment Properties (continued)

The table below analyses the sensitivity on the fair value of investment properties for changes in rental values and net initial yields:

	+1% Rental value £m	-1% Rental value £m	+0.25% Net Initial Yield £m	-0.25% Net Initial Yield £m
(Decrease)/increase in the fair value of investment properties as at 31 December 2021	14.1	(14.1)	(72.3)	81.9
(Decrease)/increase in the fair value of investment properties as at 31 December 2020	8.9	(8.9)	(44.7)	49.8
(Decrease)/increase in the fair value of investment properties as at 30 June 2021	11.5	(11.5)	(58.8)	65.6

13. Investment in joint ventures

As at 31 December 2021 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 £102.0m plus costs.

On the 17 February 2021, the joint venture also acquired 100% of the issued share capital in Cornerford Limited for a combined total consideration of £115m plus costs.

Horndrift and Cornerford Limited each hold 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 deems this to be a joint venture, as through the Group's interest in Horndrift Limited and Cornerford Limited it indirectly has joint control of the structure.

Under the terms of the Horner (Jersey) LP (the "JV") Limited Partnership Agreement ("LPA"), an affiliate of the Investment Adviser, Atrato Halliwell Limited (the "Carry Partner"), has a carried interest entitlement over the investment returns from the JV's investment in the Structure. Under the terms of the LPA, once the Group and its JV partner have received a return equal to their total investment in the JV plus an amount equivalent to a 10% per annum preferred return on that investment, the Carry Partner is entitled to share in any further cash returns to be distributed by the JV.

The Carry Partner's entitlement to share in cash returns in excess of the preferred return increases depending on the extent of those cash returns, up to a capped maximum entitlement. The Group has estimated the value of the Carry Partner's interest in the Group's share of the JV as at 31 December 2021 to be £7,500,000 (six months to 31 December 2020: £nil, 30 June 2021 £2,200,000) which is the Group's maximum share under the capped entitlement. This has been determined by reference to the expected returns from the JV's investment in the Structure, assuming that the proceeds realised from the future sale of the properties held by within the Structure are equal to the independent valuations of those properties as at 31 December 2021. Accordingly, the Group's beneficial interest in the JV, and therefore the Group's share of the JV's net assets as at 31 December 2021, is estimated to amount to 47.9%.

The carried interest payments are only payable upon cash distributions from the JV to the Group. To date there have been no cash distributions received by the Group and therefore no carried interest payment has yet become payable.

13. Investment in joint ventures (continued)

	Partner	Address	Ownership
Jersey			
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
United Kingdom			
Horndrift Limited		Langham Hall UK LLP, 1 Fleet Street, London, E4M 7RA	100% owned by Horner REIT Limited
Cornerford Limited		Langham Hall UK LLP, 1 Fleet Street, London, E4M 7RA	100% owned by Horner REIT Limited

	Unaudited Six months to 31 December 2021 £' 000	Unaudited Six months to 31 December 2020 £' 000	Audited Year to 30 June 2021 £' 000
Opening balance	130,320	56,081	56,081
Additions	-	125	58,734
Group's share of profit after tax	37,214	4,906	15,506
Closing balance	167,534	61,112	130,321

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 2021 using accounting policies that are consistent with those of the Group.

13. Investment in joint ventures (continued)

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

	Unaudited Six months to 31 December 2021 £'000	Unaudited Six months to 31 December 2020 £'000	Audited Year to 30 June 2021 £'000
Statement of comprehensive income			
Share of income from joint venture	84,748	9,812	28,885
Negative Goodwill	-	-	6,530
Profit for the period and total comprehensive income	84,748	9,812	35,415
Group's share of profit for the period	37,214	4,906	15,506
	Unaudited 31 December 2021 £'000	Unaudited 31 December 2020 £'000	Audited 30 June 2021 £'000
Statement of financial position			
Investment in joint ventures	350,069	122,223	265,045
Net assets	350,069	122,223	265,045
Group's share of net assets	167,534	61,112	130,320

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:

	Unaudited Six months to 31 December 2021	Unaudited Six months to 31 December 2020	Audited Year to 30 June 2021

	£'000	£'000	£'000
Rental income	14,986	7,283	19,886
Administrative and other expenses	(99)	(383)	(585)
Change in fair value of investment properties	72,693	4,376	13,259
Operating profit	87,580	11,275	32,560
Finance expense	(1,869)	(1,022)	(2,470)
Profit before taxation	85,710	10,253	30,090
Tax charge for the period	(962)	(441)	(1,205)
Profit for the period	84,748	9,812	28,885

13. Investment in joint ventures (continued)

	Unaudited 31 December 2021 £'000	Unaudited 31 December 2020 £'000	Audited 30 June 2021 £'000
Non-current assets			
Investment properties	555,925	233,088	477,447
Total non-current assets	555,925	233,088	447,447
Current assets			
Trade and other receivables	18,220	8,758	15,163
Cash and cash equivalents	-	-	-
Total current assets	18,220	8,758	15,163
Total assets	574,145	241,846	492,610
Non-current liabilities			
Debt securities in issue	187,133	99,423	190,788
Interest rate derivative	6,849	5,547	8,836
Deferred tax	11,321	5,787	11,048
Other liabilities	10,039	4,536	9,188
Total non-current liabilities	215,342	115,293	219,860
Current liabilities			
Trade and other payables	8,733	4,330	7,705
Total current liabilities	8,733	4,330	7,705
Total liabilities	224,075	119,623	227,565
Net assets	350,070	122,223	265,045

14. 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 2021 £' 000	Audited 30 June 2021 £' 000	Unaudited 31 December 2020 £' 000
At start of period	237	-	-
Additions	-	766	478
Fair value changes (including changes in estimated cash flows)	(209)	(344)	-
Payments (received)/refunded	70	(185)	-
At end of period	98	237	478

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

15. Trade and other receivables

	Unaudited 31 December 2021 £' 000	Audited 30 June 2021 £' 000	Unaudited 31 December 2020 £' 000
Trade and other receivables	9,531	2,624	2,436
Prepayments	837	516	314
Total trade and other receivables	10,368	3,140	2,750

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 2021. 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.

16. Trade and other payables

	Unaudited 31 December 2021 £' 000	Audited 30 June 2021 £' 000	Unaudited 31 December 2020 £' 000
Corporate accruals	9,607	6,153	5,256
VAT payable	2,581	2,216	1,785
Total trade and other payables	12,188	8,369	7,041

17. Interest rate derivatives

	Unaudited 31 December 2021 £' 000	Audited 30 June 2021 £' 000	Unaudited 31 December 2020 £' 000
Non-current asset: Interest rate swaps	2,124	763	-
Non-current liability: Interest rate swap	(344)	(1,210)	(2,213)

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

	Unaudited 31 December 2021	Audited 30 June 2021	Unaudited 31 December 2020
The fair value at the end of the period comprises:			
At start of the period	(447)	(1,988)	(1,988)
Amortisation of cap premium in the period (note 8)	(5)	(28)	(14)
Changes in fair value of interest rate derivative in the period	1,906	863	(553)
Charge to the income statement	326	706	342
As at the end of the period	1,780	(447)	(2,213)

To partially mitigate the interest rate risk that arises as a result of entering into the floating rate debt facilities referred to in note 18, the Group has entered into derivative interest rate swaps in relation to the loan facilities with Bayerische Landesbank ('the BLB swaps') and Wells Fargo Bank ('the Wells swaps').

As disclosed in note 1, the Group has adopted Interest Rate Benchmark Reform - IBOR 'phase 2'. The amendments provide relief in applying the requirements of IFRS 9 to certain hedges, including allowing the Group to assume the amounts accumulated in the cash flow hedge reserve are based on the alternative benchmark rate (i.e. SONIA) on which the hedged future cash flows are determined.

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 2021 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 2021 was 0.189%.

44% of the Group's variable rate debt was hedged as at 31 December 2021 (30 June 2021: 54%; 31 December 2020: 79%). It is the Group's target to hedge on an annualised basis, at least 60% of the Group's total using interest rate derivatives.

17. Interest rate derivatives (continued)

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.

18. Bank borrowings

	Unaudited 31 December 2021 £' 000	Audited 30 June 2021 £' 000	Unaudited 31 December 2020 £' 000
Amounts falling due after more than one year:			
Secured debt	481,826	413,320	304,473
Less: Unamortised finance costs	(3,795)	(3,636)	(3,310)
Bank borrowing per consolidated statement of financial position	478,031	409,684	301,163

The Group has a secured revolving credit facility (the 'credit facility') of £150 million with HSBC Bank Plc, a five year interest-only loan secured facility ('the BLB loan facility') of £86.9 million with Bayerische Landesbank, a five year fixed rate secured loan facility ('the Deka loan facility') of £96.6 million with Deka Bank, a seven year secured revolving credit facility (the 'Wells Fargo Credit facility') of £121.3 million with Wells Fargo and a five year secured revolving credit facility (the 'Barclays/RBC credit facility') of £113.8 million with Barclays and Royal Bank of Canada.

As disclosed in note 1, the Group has adopted Interest Rate Benchmark Reform - IBOR 'phase 2'. Applying the practical expedient introduced by the amendments, when the benchmarks affecting the credit facility and the BLB loan facility were transitioned from LIBOR to SONIA the adjustments to the contractual cash flows have been reflected as an adjustment to the effective interest rate. Therefore, the replacement of the loans' benchmark interest rate has not result in an immediate gain or loss recorded in profit or loss.

Each of the Group's facilities impacted by the changes resulting from interest rate benchmark reform transitioned during the period and the Group does not consider that the transition from LIBOR to SONIA within the Group's floating rate facilities gives rise to a significant change in market risk.

At 31 December 2021, £77.4 million has been drawn down under the credit facility. Interest is payable quarterly on the loan facility based on a margin of 1.65% over SONIA on the first £100.0 million of the facility and a margin of 1.75% above SONIA on the remaining £50.0 million of the facility.

18. Bank borrowings (continued)

At 31 December 2021, 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 1.37% above SONIA for the initial £52.1 million and 1.97% above SONIA 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 2021, the full £96.6 million of the Deka loan facility had been drawn down. £76.56 million of the Deka loan facility has a weighted average fixed interest rate of 1.95%. In August 2021, the Group increased the Deka loan facility by a further £20.0 million to £96.6 million at a fixed interest rate of 1.72%. All other terms remained unchanged.

As at 31 December 2021, £107.2 million had been drawn under the Wells Fargo Credit facility. Interest is payable quarterly on the Wells Fargo Credit facility based on a margin of 2.11% above SONIA on the first £60.0 million of the facility. In September 2021, the Group exercised its accordion option to increase this facility by a further £61.3 million at a price of 1.40% above SONIA. The weighted average interest rate on Wells Fargo Credit facility resulting from the interest rate swap was 1.80%.

As at 31 December 2021, the full £113.8 million of the Barclays/RBC credit facility has been drawn down. Interest is payable quarterly on the loan facility based on a margin of 1.50% above SONIA. In January 2022, the Group increased its Revolving Credit Facility with Barclays and Royal Bank of Canada by a further £136.5 million, bringing the total size of the facility to £250.2 million with a further £49.8 million uncommitted accordion option.

The Group has been in compliance with all of the financial covenants across the Group's bank facilities as applicable throughout the periods covered by these financial statements.

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.

19. Share capital

	Ordinary shares of 1 pence Number	Share capital £'000	Share premium reserve £'000	Capital reduction reserve £'000	Total £'000
Six months to 31 December 2021 (unaudited)					
As at 1 July 2021	810,720,168	8,107	778,859	-	786,966
Scrip dividends issued and fully paid - 20 August 2021	300,468	3	349	-	352
Ordinary shares issued and fully paid - 22 October 2021	173,913,043	1,739	198,261	-	200,000
Scrip dividends issued and fully paid - 16 November 2021	500,750	5	578	-	583
Transfer to capital reduction reserve			(778,859)	778,859	-
Share issue costs	-	-	(4,418)	-	(4,418)
As at 31 December 2021	985,434,429	9,854	194,770	778,859	983,483

19. Share capital (continued)

	Ordinary shares of 1 pence Number	Share capital £'000	Share premium reserve £'000	Capital reduction reserve £'000	Total £'000
Year to 30 June 2021 (audited)					
As at 1 July 2020	473,620,462	4,735	436,126	-	440,861
Ordinary shares issued and fully paid - 9 October 2020	192,307,692	1,923	198,077	-	200,000
Scrip dividends issued and fully paid - 26 February 2021	124,795	2	132	-	134
Ordinary shares issued and fully paid - 23 March 2021	144,297,503	1,443	151,513	-	152,956
Scrip dividends issued and fully paid - 21 May 2021	369,716	4	410	-	414
Share issue costs	-	-	(7,399)	-	(7,399)
As at 30 June 2021	810,720,168	8,107	778,859	-	786,966

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

On 22 October 2021 the Company completed an equity fundraising and issued an additional 173,913,043 ordinary shares of one pence each at a price of £1.15 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.

Following a successful application to the High Court and lodgement of the Company's statement of capital with the Registrar of Companies, the Company was permitted to reduce the capital of the Company by an amount of £778.9 million. This was effected on 15 December 2021 by a transfer of that amount from the share premium reserve to the capital reduction reserve. The capital reduction reserve is classed as a distributable reserve.

Scrip dividends were issued on 20 August 2021 and 16 November 2021 at a reference price of £1.17 and £1.16 per share respectively. The Company issued a combined total of 801,218 shares under the scrip dividend programme during the year. The consideration received in excess of the par value of the ordinary shares issued, of £0.9 million was credited to the share premium reserve.

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

20. Cash flow hedge reserve

	Unaudited Six months to 31 December 2021 £' 000	Audited Year to 30 June 2021 £' 000	Unaudited Six months to 31 December 2020 £' 000
At start of the period	(452)	(2,231)	(2,021)
Fair value movement of interest rate derivatives in effective hedges	2,232	1,779	(210)
At the end of the period	1,780	(452)	(2,231)

21. Capital commitments

The Group had no capital commitments outstanding as at 31 December 2021 (30 June 2021: none; 31 December 2020: none).

22. Transactions with related parties

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

a. Directors

Directors' fees

Nick Hewson, Chairman of the Board of Directors of the Company, is paid fees of £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 2021 were as follows:

- Nick Hewson: 614,563 shares (0.06% of issued share capital)
- Jon Austen: 230,193 shares (0.02% of issued share capital)
- Vince Prior: 134,886 shares (0.01% of issued share capital)
- Cathryn Vanderspar: 75,210 shares (0.01% of issued share capital)

b. Investment Adviser

Investment advisory and accounting 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 14 July 2021.

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).

22. Transactions with related parties (continued)

Until the Adjusted Net Value of the Group exceeds £1,500 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, 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 and 1/12th of 0.4875% per calendar month of Adjusted Net Asset Value above £1,000 million and up to or equal to £1,500 million.
- Semi-Annual Management Fee payable semi-annually in arrears: 0.11875% of Adjusted Net Asset Value up to or equal to £500 million, 0.09375% of Adjusted Net Asset Value above £500 million and up to or equal to £1,000 million and 0.08125% of Adjusted Net Asset Value above £1,000 million and up to or equal to £1,500 million.

For the period 31 December 2021 the total advisory fees payable to the Investment Adviser were £4,300,000 (six months to December 2020: £2,718,000; year to 30 June 2021: £6,255,423 of which £1,937,162 (30 June 2021: £1,463,898; 31 December 2020: £572,000) is included in trade and other payables in the consolidated statement of financial position.

The Investment Adviser is also entitled to an annual accounting and administration service fee equal to: £51,500; plus (i) £4,175 for any indirect subsidiary of the Company and (ii) £1,620 for each direct subsidiary of the Company.

For the period to 31 December 2021 the total accounting and administration service fee payable to the Investment Adviser was £111,497 (six months to 31 December 2020: £nil, year to 30 June 2021: £64,920) of which £111,497 (six months to December 2020: £Nil; year to 30 June 2021: £52,646) 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:

- 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 2021 the total introducer fees payable to the affiliate of the Investment Adviser were £92,805 (six months to 31 December 2020: £104,947; year to 30 June 2021: £269,172)

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 2021 were as follows:

- Ben Green: 1,199,938 shares
- Steve Windsor: 1,319,486 shares

Carried interest held in the Group's joint venture

Under the terms of the Horner (Jersey) LP (the "JV") Limited Partnership Agreement ("LPA"), an affiliate of the Investment Adviser, Atrato Halliwell Limited (the "Carry Partner"), has a carried interest entitlement over the investment returns from the JV's investment in the Structure. Further details regarding the estimated value of the Carry Partner's interest in the JV are included in note 13.

22. Transactions with related parties (continued)

The carried interest payments are only payable to the extent that distributions are made from the JV to the Group. To date there have been no cash distributions received by the Group and therefore no carried interest payment has yet become payable.

23. Net asset value per share

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

The Group uses EPRA Net Tangible Assets ("EPRA NTA") as the most meaningful measure of long term performance and the measure which is being adopted by the majority of UK REITs, establishing it as the industry standard benchmark. It excludes items that are considered to have no impact in the long term, such as the fair value of derivatives.

The EPRA NTA per share calculation are as follows:

	Unaudited 31 December 2021 £'000	Unaudited 31 December 2020 £'000	Audited 30 June 2021 £'000
Net assets per the consolidated statement of financial position	1,115,084	691,774	871,310
Intangibles	(85)	-	(85)
Fair value of interest rate derivatives	(1,780)	2,213	477
EPRA NTA	1,113,219	693,987	871,672
Ordinary shares in issue at 30 June	985,434,429	665,928,154	810,720,168
NAV per share - Basic and diluted (pence)	113p	104p	108p
EPRA NTA per share (pence)	113p	104p	108p

24. Subsequent events

On the 5 January 2022, the Group announced an increase of its revolving credit facility ("RCF") of £136.5 million with Barclays and Royal Bank of Canada. The total size of the facility increased to £250.2 million. This secured, interest-only, RCF has a remaining term of two years and two further one-year extension options with a margin of 150 basis points over SONIA. The RCF also includes a £49.8 million uncommitted accordion option which is exercisable at any time over the term of the facility.

On 5 January 2022, the Group announced the acquisition of a Sainsbury's store in Washington with non-food units and an Asda store in Cwmbran which was acquired for a combined value of £55.1 million (excluding acquisition costs) with an unexpired lease term of 34 and 10 years respectively. The Washington store has 7 yearly, upwards only, RPI-linked rent reviews and the Asda 5 yearly-upwards only open market rent reviews.

On 7 January 2022, the Group announced that Sainsbury's exercised its second purchase option to acquire 8 stores within the Sainsbury's Reversionary Portfolio, of which the Group has a 50:50 share of a 51% beneficial interest through its joint venture as detailed in note 13.

24. Subsequent events (continued)

On 10 January 2022, the Group completed the acquisition of a Tesco store in Sheffield, which was acquired for £73.2 million (excluding acquisition costs) with an unexpired lease term of 17 years with annual, upwards only, RPI-linked rent reviews.

On 10 January 2022, the Board declared a second interim dividend for the year ending 30 June 2022 of 1.485 pence per share, which was paid on 25 February 2022 to shareholders on the register on 21 January 2022. This has not been included as a liability as at 30 June 2021.

Notes to EPRA and other Key Performance Indicators (Unaudited)

1. EPRA Earnings per Share

	As at 31 December 2021 £'000	As at 31 December 2020 £'000	As at 30 June 2021 £'000
Net profit attributable to ordinary Shareholders	71,178	32,755	83,526
<i>Adjustments to remove:</i>			
Changes in fair value of interest rate derivatives	(2,232)	210	(1,570)
Changes in fair value of investment properties and associated rent guarantees	(10,967)	(15,462)	(36,288)
Group share of changes in fair value of joint venture investment properties	(31,048)	(1,975)	(5,619)
Negative Goodwill	-	-	(3,265)
Weighted average number of ordinary shares¹	878,171,925	561,413,104	652,828,945
EPRA EPS	3.1p	2.8p	5.6p

¹ Based on the weighted average number of ordinary shares in issue for the six months to 31 December 2021.

2. EPRA NTA per share

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 NTA £' 000	EPRA NRV £' 000	EPRA NDV £' 000
31 December 2021 (Unaudited)			
IFRS NAV attributable to ordinary shareholders	1,115,084	1,115,084	1,115,084
Fair value of interest rate derivatives	(1,780)	(1,780)	-
Intangibles	(85)	-	-
Purchasers' costs	-	103,131	-
Fair value of debt	-	-	(719)
Deferred tax	-	-	-
EPRA NAV	1,113,219	1,216,435	1,114,365
EPRA NAV per share	113p	123p	113p

Notes to EPRA and other Key Performance Indicators (Unaudited) continued

	EPRA NTA £' 000	EPRA NRV £' 000	EPRA NDV £' 000
30 June 2021 (Audited)			
IFRS NAV attributable to ordinary shareholders	871,310	871,310	871,310
Fair value of interest rate derivatives	447	447	-
Intangibles	(85)	-	-
Purchasers' costs	-	83,787	-
Fair value of debt	-	-	(2,111)
Deferred tax	-	-	-
EPRA NAV	871,672	955,544	869,199
EPRA NAV per share	108p	118p	107p

	EPRA NTA £' 000	EPRA NRV £' 000	EPRA NDV £' 000
31 December 2020 (Unaudited)			
IFRS NAV attributable to ordinary shareholders	691,774	691,774	691,774
Fair value of interest rate derivatives	2,213	2,213	-
Intangibles	-	-	-
Purchasers' costs	-	60,203	-
Fair value of debt	-	-	3,700
Deferred tax	-	-	-
EPRA NAV	693,987	754,190	695,474
EPRA NAV per share	104p	113p	104p

3. EPRA Net Initial Yield (NIY) and EPRA "topped up" NIY

	As at 31 December 2021 £'000	As at 31 December 2020 £'000	As at 30 June 2021 £'000
Investment Property - wholly owned (note 12)	1,413,500	885,333	1,148,380
Investment Property - share of joint ventures	265,325	229,125	233,125

Completed Property Portfolio	1,678,825	1,114,458	1,381,505
Allowance for estimated purchasers' costs	122,489	81,312	100,797
Grossed up completed property portfolio valuation (B)	1,801,314	1,195,770	1,482,302
Annualised passing rental income - wholly owned	70,161	46,075	57,754
Annualised passing rental income - share of joint venture	13,294	6,581	13,239
Annualised non-recoverable property outgoings	(344)	(482)	(482)
Less: contracted rent under rent free periods	-	-	-
Annualised net rents (A)	83,111	52,174	70,511
Rent expiration of rent-free periods and fixed uplifts	-	-	-
Topped up annualised net rents (C)	83,111	52,174	70,511
EPRA NIY (A/B)	4.61%	4.36%	4.76%
EPRA "topped up" NIY (C/B)	4.61%	4.36%	4.76%

Notes to EPRA and other Key Performance Indicators (Unaudited) continued

4. EPRA Vacancy Rate

	As at 31 December 2021 £'000	As at 31 December 2020 £'000	As at 30 June 2021 £'000
Estimated rental value of vacant space	155	-	238
Estimated rental value of the whole portfolio	70,161	46,075	57,754
EPRA Vacancy Rate	0.2%	0.0%	0.4%

5. EPRA Cost Ratio

	As at 31 December 2021 £'000	As at 31 December 2020 £'000	As at 30 June 2021 £'000
Administration expenses per IFRS	6,218	4,065	9,262
Service charge income	(906)	(200)	(830)
Service charge costs	1,008	204	1,044
Net Service charge costs	102	4	214
Share of joint venture expenses	50	-	292
Total costs (including direct vacant property costs) (A)	6,370	4,069	9,768
Vacant property costs	(80)	-	(187)
Total costs (excluding direct vacant property costs) (B)	6,290	4,069	9,581
Gross rental income per IFRS	32,746	20,412	48,156
Less: service charge components of gross rental income	-	-	-
Add: Share of Gross rental income from Joint Ventures	7,493	-	9,944
Gross rental income (C)	40,239	20,412	58,100
EPRA Cost ratio (including direct vacant property costs) (A/C)	15.83%	19.93%	16.81%
EPRA Cost ratio (excluding vacant property costs) (B/C)	15.63%	19.93%	16.49%

Notes to EPRA and other Key Performance Indicators (Unaudited) continued

6. Total Shareholder Return

Total Shareholder Return	Six months to 31 December 2021	Six months to 31 December 2020	Year to 30 June 2021
Share price at start of the period / year	117.5	111.4	111.4
Share price at the end of the period/ year	122.0	106.5	117.5
Increase/(decrease) in share price	4.5p	(4.9p)	6.1p
Dividends declared for the year	2.95p	2.93p	5.86p
Increase in share price plus dividends	7.45p	(1.97p)	11.96p
Share price at start of period	117.5p	111.4p	111.4p
Total Shareholder Return	6%	(2%)	11%

7. Net loan to value ratio

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

Net loan to value	As at	As at	As at
	31 December 2021	31 December 2020	30 June 2021
	£'000	£'000	£'000
Bank borrowings	478,031	301,163	409,684
Less cash and cash equivalents	(24,070)	(61,936)	(19,579)
Net borrowings	453,961	239,227	390,105
Investment properties valuation	1,413,500	885,333	1,148,380
Net loan to value ratio	32%	27%	34%

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)
Company Secretary	JTC (UK) Limited The Scalpel 52 Lime Street 18 th Floor London EC3M 7AF
Registrar	Link Asset Services The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
AIFM	JTC AIFM Services Ground floor Dorey Court Admiral Park St Peter Port Guernsey Channel Islands GY1 2HT
Investment Adviser	Atrato Capital Limited 36 Queen Street London EC4R 1BN
Financial adviser, Broker and Placing Agent	Stifel Nicolaus Europe Limited 150 Cheapside London EC2V 6ET
Auditors	BDO LLP 55 Baker Street London W1U 7EU
Property Valuers	Cushman & Wakefield 125 Old Broad Street London EC2N 1AR
Financial PR Advisers	FTI 200 Aldersgate Street London EC1A 4HD
Website	www.supermarketincomereit.com
Registered Office	The Scalpel 52 Lime Street 18 th Floor London EC3M 7AF

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

END

¹ Includes the Q2 2022 interim dividend paid on 25 February 2022

² Including post balance sheet acquisitions

³ Including post balance sheet acquisitions and lease regears

⁴ Based on Atrato Capital Limited estimates of store trading

⁵ Kantar data

⁶ Including post balance sheet acquisitions and lease regears

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