

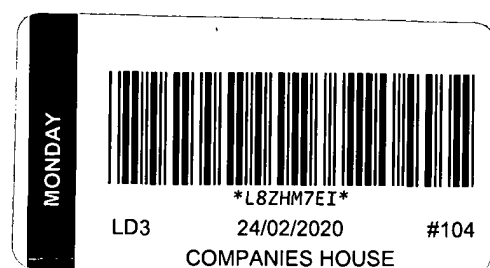
Registration number: 04104102

**RI SB Hereford Limited**

**(formerly BLSSP (PHC 35) Limited)**

Annual Report and Financial Statements

For the year ended 31 March 2019



## **RI SB Hereford Limited**

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## **RI SB Hereford Limited**

### **Directors' Report for the Year Ended 31 March 2019**

The directors present their report and the financial statements for the year ended 31 March 2019.

#### **Business review and principal activities**

On 23 May 2019, Realty Income Corporation acquired RI SB Hereford Limited (previously called BLSSP (PHC 35) Limited) (the "Company") from BLSSP Property Holdings Limited (the "Acquisition"). Prior to the Acquisition the Company was a wholly owned subsidiary of BLSSP Property Holdings Limited and operated as a constituent of BL Sainsbury Superstores Group.

The Company changed its name from BLSSP (PHC 35) Limited on 3 June 2019.

Following the Acquisition, the Company became a wholly owned subsidiary of RI SB Limited and now operates as a constituent of the Realty Income Corporation group (the "Group"). The Company's principal activity is property investment in the United Kingdom (the "UK").

As shown in the Company's Profit and Loss Account on page 7, the Company's turnover has remained consistent with the prior year. Profit on ordinary activities before taxation is £2,943,456, due to the revaluation of investment property, compared to a profit on ordinary activities before taxation of £1,184,933 in the prior year.

Dividends of £nil were paid in the year (2018: £nil).

#### **Directors of the Company**

The directors, who held office during the year and up to the date of signing the financial statements, were as follows:

P Windsor (appointed 23 May 2019)

B Obasi (appointed 23 May 2019)

M Mire (appointed 4 July 2019)

M Pfeiffer (appointed 23 May 2019)

N Townson (appointed 23 May 2019)

W Atkinson (resigned 3 July 2018)

M Burke (resigned 23 May 2019)

D Clegg (resigned 23 May 2019)

C Cohen (appointed 3 July 2018, resigned 16 July 2018)

G Cowen (resigned 23 May 2019)

J Honeyman (resigned 23 May 2019)

S Nelson (resigned 14 January 2019)

J Pinkstone (resigned 23 May 2019)

H Shah (resigned 23 May 2019)

J Watson (appointed 18 July 2018, resigned 23 May 2019)

D Wheeler (appointed 14 January 2019, resigned 23 May 2019)

W Patterson (appointed 23 May 2019, resigned 3 July 2019, reappointed 28 January 2020, resigned 28 January 2020)

## **RI SB Hereford Limited**

### **Directors' Report for the Year Ended 31 March 2019 (continued)**

#### **Environmental matters**

The Company recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any damage that might be caused by the Company's activities. The Company operates in accordance with best practice policies and initiatives designed to minimise the Company's impact on the environment including the safe disposal of manufacturing waste, recycling and reducing energy consumption.

#### **Brexit**

The 'Brexit' process by which the United Kingdom is due to leave the European Union, continues to create economic and other consequence which are risks that affect the real estate industry, particularly market values of investment property. Although there is no evidence post the balance sheet date that Brexit has adversely affected the Company's activities, the consequences in relation to the impact on the UK and EU economics may impact the valuation of the Company's investments in the coming years.

#### **Going concern**

The directors believe the Company has adequate resources to continue in operational existence for the foreseeable future. Following on from this assessment, the directors have adopted the going concern basis in preparing the financial statements. Further details are disclosed in note 1 of these financial statements.

#### **Subsequent Events**

Details of significant events since the Balance Sheet date are contained in note 20.

#### **Disclosure of information to the auditors**

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditors are unaware.

#### **Appointment of independent auditors**

The auditor, KPMG LLP, was appointed on 15 October 2019. Pursuant to Section 487 of the Companies Act 2006, KPMG LLP will be deemed to be appointed and will therefore continue in office. The registered office of KPMG LLP is 15 Canada Square, Canary Wharf, London, E14 5GL.

## RI SB Hereford Limited

### Directors' Report for the Year Ended 31 March 2019 (continued)

#### Statement of Director's Responsibilities in respect of the Director's Report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

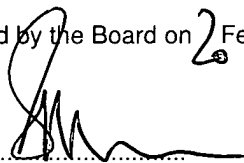
Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Approved by the Board on 2 February 2020 and signed on its behalf by:



P Windsor

## **RI SB Hereford Limited**

### **Independent Auditors' Report to the Members of RI SB Hereford Limited**

#### **Opinion**

We have audited the financial statements of RI SB Hereford Limited ("the Company") for the year ended 31 March 2019 which comprise the Profit and Loss Account and other Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and related notes, including the accounting policies in note 1. In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework* and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

#### **The impact of uncertainties due to the UK exiting the European Union on our audit**

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as valuation of investment property and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and its effects are subject to unprecedented levels of uncertainty of consequences, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the Company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a Company and this is particularly the case in relation to Brexit.

#### **Going concern**

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model, including the impact of Brexit, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

## **RI SB Hereford Limited**

### **Independent Auditors' Report to the Members of RI SB Hereford Limited (continued)**

#### **Directors' report**

The directors are responsible for the directors' report. Our opinion on the financial statements does not cover that report and we do not express an audit opinion thereon.

Our responsibility is to read the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the directors' report;
- in our opinion the information given in that report for the financial year is consistent with the financial statements; and
- in our opinion that report has been prepared in accordance with the Companies Act 2006.

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

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small Companies exemption from the requirement to prepare a strategic report.

We have nothing to report in these respects.

#### **Directors' responsibilities**

As explained more fully in their statement set out on page 3, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

#### **Auditor's responsibilities**

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

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditors-responsibilities](http://www.frc.org.uk/auditors-responsibilities).

**RI SB Hereford Limited**

**Independent Auditors' Report to the Members of RI SB Hereford Limited (continued)**

**The purpose of our audit work and to whom we owe our responsibilities**

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



Richard Kelly  
(Senior Statutory Auditor)  
For and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
KPMG UK LLP,  
15 Canada Square,  
Canary Wharf, London,  
E14 5GL

24 February 2020

RI SB Hereford Limited

Profit and Loss Account and Other Comprehensive Income for the year ended 31 March 2019

	Note	2019 £	2018 £
Turnover	2	2,156,277	2,156,277
Costs of sales		(1,785)	(4,606)
<b>Gross Profit</b>		<b>2,154,492</b>	<b>2,151,671</b>
Administrative expense		(30,340)	(20,535)
Unrealised gain of investment properties	8	1,650,000	-
<b>Operating Profit</b>		<b>3,774,152</b>	<b>2,131,136</b>
<b>Profit before interest and taxation</b>		<b>3,774,152</b>	<b>2,131,136</b>
Interest income	3	312	40
Interest expense	4	(831,008)	(946,243)
<b>Profit before taxation</b>		<b>2,943,456</b>	<b>1,184,933</b>
Tax on profit	7	-	-
<b>Profit for the year</b>		<b>2,943,456</b>	<b>1,184,933</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		<b>2,943,456</b>	<b>1,184,933</b>

The accompanying notes on pages 10 to 18 form an integral part of these financial statements

RI SB Hereford Limited

Balance Sheet as at 31 March 2019

Company Registration Number: 04104102

	Note	2019 £	2018 (Restated) (note 19) £
<b>Fixed assets</b>			
Investment properties	8	37,000,000	35,350,000
<b>Current assets</b>			
Debtors due within one year	9	943,491	632,724
<b>Non Current Assets</b>			
Debtors due after more than one year	10	470,860	1,042,686
		1,414,351	1,675,410
Creditors: amounts falling due within one year	11	(9,516,689)	(9,694,174)
<b>Net current liabilities</b>		(8,102,338)	(8,018,764)
<b>Total assets less current liabilities</b>		<b>28,897,662</b>	<b>27,331,236</b>
Creditors: amounts falling due after more than one year	12	(14,109,721)	(15,486,751)
<b>Net Assets</b>		<b>14,787,941</b>	<b>11,844,485</b>
<b>Capital and reserves</b>			
Shared capital	13	196,000	196,000
Profit and loss account		14,591,941	11,648,485
<b>Shareholders' funds</b>		<b>14,787,941</b>	<b>11,844,485</b>

Approved by the Board on 20 February 2020 and signed on its behalf by:

.....  
P Windsor  
Director

The accompanying notes on pages 10 to 18 form an integral part of these financial statements.

RI SB Hereford Limited

Statement of Changes in Equity for the year ended 31 March 2019

	Share Capital £	Profit and Loss Account £	Total Equity £
<b>Balance at 1 April 2017</b>	196,000	10,463,552	10,659,552
Total comprehensive income for the period	-	1,184,933	1,184,933
<b>Balance as at 31 March 2018</b>	<b>196,000</b>	<b>11,648,485</b>	<b>11,844,485</b>
<b>Balance at 1 April 2018</b>	196,000	11,648,485	11,844,485
Total comprehensive income for the period	-	2,943,456	2,943,456
<b>Balance as at 31 March 2019</b>	<b>196,000</b>	<b>14,591,941</b>	<b>14,787,941</b>

The accompanying notes on pages 10 to 18 form an integral part of these financial statements.

Notes to the Financial Statements for the Year Ended 31 March 2019

**1. Accounting policies**

The Company is a private Company limited by share capital, incorporated and domiciled in England, United Kingdom.

The address of its registered office is 8 Sackville Street, London, England, W1S 3DG. Its registered number is 04104102.

**Summary of significant accounting policies and key accounting estimates**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**Basis of preparation**

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs") but makes amendments where necessary, in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of investments properties. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

**Summary of disclosure exemptions**

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- (a) The requirements of IAS 1 to provide a Statement of Cash Flows for the year and related notes;
- (b) The requirements of IAS 1 to provide a statement of compliance with IFRS;
- (c) The requirements of IAS 1 to disclose information on the management of capital;
- (d) The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to disclose new IFRS's that have been issued but are not yet effective;
- (e) The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- (f) The requirements of paragraph 17 of IAS 24 Related Party Disclosures to disclose key management personnel compensation;
- (g) The requirements of IFRS 7 to disclose financial instruments; and
- (h) The requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement to disclose information of fair value valuation techniques and inputs.

Disclosure exemptions for subsidiaries are permitted where the relevant disclosure requirements are met in the consolidated financial statements. Where required, equivalent disclosures are given in the group accounts of BL Sainsbury Superstores Limited. The group accounts of BL Sainsbury Superstores Limited are available to the public and can be obtained as set out in note 18.

Notes to the Financial Statements for the Year Ended 31 March 2019 (continued)

**1. Accounting policies (continued)**

**Going concern**

Notwithstanding net current liabilities of £8,102,338 as at 31 March 2019, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons:

On 23 May 2019 the Company was sold to Realty Income Corporation. Amounts due to entities within the BL Sainsbury Superstores Limited group, totalling £17,617,968 at 31 March 2019 were repaid on 23 May 2019, and replaced with a loan between the Company and Realty Income Corporation. This is a 15-year loan of £31,408,773 with a nominal annual interest rate of 2.98%. There are no contractual repayments of the principal until 20 May 2034.

The directors have performed a going concern assessment for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the company will have sufficient funds to meet its liabilities as they fall due for that period.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

**Turnover**

Rental income is recognised on an accruals basis. A rent adjustment based on open market estimated rental value is recognised from the rent review date in relation to unsettled rent reviews. Where a rent-free period is included in a lease, the rental income foregone is allocated evenly over the period from the date of lease commencement to the end of the lease term.

Rental income from fixed and minimum guaranteed rent reviews is recognised on a straight-line basis over the entire lease term. Where such rental income is recognised ahead of the related cash flow, an adjustment is made to ensure that the carrying value of the related property including the accrued rent does not exceed the external valuation. Initial direct costs incurred in negotiating and arranging a new lease are amortised on a straight-line basis over the period from the date of lease commencement to the end of the lease term.

Where a lease incentive payment, including any surrender premia paid, does not enhance the value of a property, it is amortised on a straight-line basis over the period from the date of lease commencement to the end of the lease term. Upon receipt of a surrender premium for the early determination of a lease, the profit, net of dilapidations and non-recoverable outgoings relating to the lease concerned, is immediately reflected in income.

**Taxation**

Current tax is based on taxable profit for the year and is calculated using tax rates that have been enacted or substantively enacted. Taxable profit differs from net profit as reported in the Profit and Loss Account because it excludes items of income or expense that are not taxable (or tax deductible). BLSSP Property Holdings Limited (including this Company) became a REIT on 1 January 2007 where income and gains on qualifying assets are exempt from taxation. On 26 March 2008, the sale of 50% of the group to a non-REIT entity resulted in now only 50% of the income and gains on qualifying assets being exempt from taxation.

As at 23 May 2019, the Company ceased to be a member of BLSSP Property Holdings Limited. As at the sale date, the Company will be unable to utilise BLSSP group tax relief.

Deferred tax is provided on items that may become taxable at a later date, on the difference between the balance sheet value and tax base value, on an undiscounted basis.

**Notes to the Financial Statements for the Year Ended 31 March 2019 (continued)**

**1. Accounting policies (continued)**

**Investment properties**

Investment properties are measured initially at cost, including transaction costs. Subsequently to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Any surplus or deficit arising on revaluing investment properties is recognised in the Profit and Loss Account as a fair value movement.

Where properties held for investment are appropriated to trading stock, they are transferred at market value. If properties held for trading are appropriated to investment, they are transferred at book value

**Financial assets**

Basic financial assets, including amounts due from related parties and prepayments are initially recognised at transaction price.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

**Financial liabilities**

Basic financial liabilities, including accrued expenses, amounts due to related parties and social security and other taxes are initially recognised at transaction price.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

**Borrowings**

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

**Significant accounting judgements and key sources of estimation uncertainty**

The key source of estimation uncertainty relates to the valuation of the property portfolio where an external valuation is obtained. In accounting for net rental income, the group is required to judge the recoverability of any income accrued and provides against the credit risk on these amounts. The potential for management to make judgements or estimates relating to those items which would have a significant impact on the financial statements is considered, by the nature of the group's business, to be limited.

# RI SB Hereford Limited

## Notes to the Financial Statements for the Year Ended 31 March 2019 (continued)

### 2. Turnover

The analysis of the Company's turnover for the year is as follows:

	2019 £	2018 £
Rental income (UK Property)	2,156,277	2,156,277
	<u>2,156,277</u>	<u>2,156,277</u>

### 3. Interest income

	2019 £	2018 £
Interest received on cash held by another company within the group	312	40
	<u>312</u>	<u>40</u>

### 4. Interest expense

	2019 £	2018 £
Interest payable on amounts owed to group companies (notes 11 and 12)	827,256	941,424
Amortisation of issue costs	3,752	4,819
	<u>831,008</u>	<u>946,243</u>

Interest payable on amounts owed to group companies relates to the subordinated loan with BL Superstores (Funding) Limited, further details of which are disclosed in notes 11 and 12.

### 5. Auditors' remuneration

A charge of £10,416 (2018: £1,810 notional) is deemed payable to KPMG LLP in respect of the audit of the financial statements for the year ended 31 March 2019.

No non-audit fees (2018: £nil) were paid to KPMG LLP.

### 6. Staff costs

No director received any remuneration for services to the Company in either year. The remuneration of the directors was borne by another company, for which no apportionment or recharges were made. The value of this service was negligible.

Average number of employees, excluding directors, of the Company during the year was nil (2018: nil).

# RI SB Hereford Limited

## Notes to the Financial Statements for the Year Ended 31 March 2019 (continued)

### 7. Tax on profit on ordinary activities

Tax charged/(credited) in the profit and loss account

	2019 £	2018 £
Current taxation		
UK corporation tax	-	-
Tax charge/(credit) in the profit and loss account	-	-

	2019 £	2018 £
<b>Tax reconciliation</b>		
Profit/(loss) on ordinary activities	2,943,456	1,184,933
Tax on profit on ordinary activities at UK corporation tax rate of 19% (2018: 19%)	559,257	225,137
<b>Effects of:</b>		
REIT exempt income and gains	(135,628)	(124,586)
Movement in fair value of property & investments	(313,500)	-
Group Relief	(110,129)	(100,551)
<b>Total tax charge/(credit)</b>	-	-

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantially enacted on 6 September 2016. This rate reduction has been reflected in the calculation of deferred tax on the Balance Sheet date, where relevant.

### 8. Investment property

	£
<b>Fair value</b>	
1 April 2018	35,350,000
Revaluation	1,650,000
31 March 2019	37,000,000
<b>Fair Value</b>	
1 April 2017	35,350,000
Revaluation	-
31 March 2018	35,350,000

# RI SB Hereford Limited

## Notes to the Financial Statements for the Year Ended 31 March 2019 (continued)

### 8. Investment property (continued)

#### Analysis of cost and valuation

##### 31 March 2019

Cost	27,100,179
Valuation	<u>9,899,821</u>
<b>Net book value</b>	<u><b>37,000,000</b></u>

##### 31 March 2018

Cost	27,100,179
Valuation	<u>8,249,821</u>
<b>Net book value</b>	<u><b>35,350,000</b></u>

At 31 March 2019 the book value of freehold investment properties owned by the Company was £37,000,000 (2018: £35,350,000).

Investment properties are valued by adopting the "investment method" of valuation. This approach involves applying capitalisation yields to current and estimated future rental streams net of income voids arising from vacancies or rent-free periods and associated running costs. These capitalisation yields and rental values are based on comparable property and leasing transactions in the market, using the valuers' professional judgement and market observation. Other factors taken into account in the valuations include the tenure of the property, tenancy details and ground and structural conditions.

Properties were valued to fair value at 31 March 2019 by Knight Frank LLP, independent valuers not connected with the Company, in accordance with the RICS Valuation - Professional Standards 2014, Ninth Edition, published by The Royal Institutions of Chartered Surveyors.

Properties valued at £37,000,000 (2018: £35,350,000) were charged to secure borrowings of the intermediate holding Company.

All investment properties have been categorised as a level 3 fair value.

The Company leases out all of its investment properties under operating leases. The future aggregate minimum rentals receivable under non-cancellable operating leases are as follows:

	<b>2019</b> <b>£</b>	<b>2018</b> <b>£</b>
Leases less than one year	2,156,277	2,156,277
Leases between one and five years	8,625,108	8,625,108
Leases greater than five years	21,899,504	6,232,527
	<u><b>32,680,889</b></u>	<u><b>17,013,912</b></u>

# RI SB Hereford Limited

## Notes to the Financial Statements for the Year Ended 31 March 2019 (continued)

### 9. Debtors due within one year

	2019 £	2018 £
Amounts due from related parties	940,653	629,147
Prepayments	<u>2,838</u>	<u>3,577</u>
	<u>943,491</u>	<u>632,724</u>

### 10. Debtors due after more than one year

	2019 £	2018 £
Amounts owed by group companies – Long term loans	<u>470,860</u>	<u>1,042,686</u>

Debtors from related parties relate to amounts due from group companies which are repayable on demand; the Company has no intention to seek repayment within the next 12 months and has therefore classified the debt as due after more than one year.

There is no interest charged on these balances.

### 11. Creditors: amounts falling due within one year

	2019 £	2018 (Restated) (note 19) £
Trade creditors	-	470
Accrued expenses	703,809	720,154
Amounts due to related parties	8,704,596	8,866,727
Social security and other taxes	<u>108,284</u>	<u>106,823</u>
	<u>9,516,689</u>	<u>9,694,174</u>

Amounts owed to related parties include loans owed to group companies which are repayable on demand and the Company's expenses paid by the group companies on behalf of the Company. The latter is excluded from the analysis of Borrowings on note 12.

The subordinated loan from BLSSP Property Holdings Limited ranks behind subordinated loans from BL Superstores (Funding) Limited. There is no interest charged on the loan from BLSSP Property Holdings Limited (2018: nil).

RI SB Hereford Limited

Notes to the Financial Statements for the Year Ended 31 March 2019 (continued)

12. Creditors: amounts falling due after more than one year

	2019 £	2018 (Restated) (note 19) £
Long term loans - amounts owed to group companies	<u>14,109,721</u>	<u>15,486,751</u>

**Borrowings analysis**

Creditors due within one year

- subordinated loans from BL Superstores (Funding) Limited	1,371,366	1,560,971
- subordinated loans from BLSSP Property Holdings Limited	<u>2,136,881</u>	<u>2,116,096</u>
Total loans due within one year	<u>3,508,247</u>	<u>3,677,067</u>

Creditors due after one year

- subordinated loans from BL Superstores (Funding) Limited	<u>14,109,721</u>	<u>15,486,751</u>
<b>Total borrowings</b>	<u>17,617,968</u>	<u>19,163,818</u>

	2019 £	2018 (Restated) (note 19) £
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**Borrowings repayment analysis**

Repayments due:

Within one year	3,508,247	3,677,067
1-2 years	1,028,553	1,034,790
2-5 years	<u>3,483,437</u>	<u>3,583,282</u>

	8,020,237	8,295,139
After 5 years	<u>9,597,731</u>	<u>10,868,679</u>

Total borrowings	17,617,968	19,163,818
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Amounts included in creditors: amounts falling due within one year	<u>(3,508,247)</u>	<u>(3,677,067)</u>
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Amounts included in creditors: amounts falling due after one year	<u>14,109,721</u>	<u>15,486,751</u>
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The subordinated loans from BL Superstores (Funding) Limited are being repaid from October 2006 to October 2025, with the average interest rate of these subordinated loans being 4.97% per annum (2018: 4.96%).

On 23 May 2019 the Company was sold to Realty Income Corporation. Amounts due to entities within the BL Sainsbury Superstores Limited group, totalling £17,617,968 at 31 March 2019 were repaid on 23 May 2019, and replaced with a loan between the Company and Realty Income Corporation. This is a 15-year loan of £31,408,773 with a nominal annual interest rate of 2.98%. There are no contractual repayments of the principal until 20 May 2034.

## RI SB Hereford Limited

### Notes to the Financial Statements for the Year Ended 31 March 2019 (continued)

#### 13. Share capital

##### Allotted, called up and fully paid shares

	No.	2019 £	No.	2018 £
Ordinary shares of £1 each	196,000	196,000	196,000	196,000

#### 14. Capital commitments

The Company had capital commitments contracted as at 31 March 2019 of £nil (2018: £nil).

#### 15. Contingent liabilities

The Company was part of the same VAT group as BL Superstores (Funding) Limited, BLSSP (Lending) Limited, BL Superstores Finance PLC, BLSSP (Cash Management) Limited and the other property holding companies and was jointly liable for all monies falling due under this registration.

#### 16. Related party transactions

Related party disclosures noted below are in respect of transactions between the Company and its related parties as defined by International Accounting Standards 24.

Rental income as shown in the Profit and Loss Account (see page 7) represents rent received from Sainsbury Supermarkets Limited. The amount of rental income received in the year was £2,156,277 (2018: £2,156,277). As at 31 March 2019, the amount due to the Company was £nil (2018: £nil).

#### 17. Market considerations - Brexit

The 'Brexit' process by which the United Kingdom is due to leave the European Union, continues to create economic and other consequence which are risks that affect the real estate industry, particularly market values of investment property. Although there is no evidence post the balance sheet date that Brexit has adversely affected the Company's activities, the consequences in relation to the impact on the UK and EU economics may impact the valuation of the Company's investments in the coming years.

#### 18. Parent and ultimate parent undertaking

At year end the immediate parent company was BLSSP Property Holdings Limited, and the ultimate holding company was BL Sainsbury Superstores Limited, a joint venture between Linestair Limited, which is a wholly owned subsidiary of The British Land Company PLC and Sainsbury Property Investments Limited, which is a wholly owned subsidiary of J Sainsbury PLC.

From 23 May 2019, the immediate parent company is RI SB Limited, and the ultimate holding company is Realty Income Corporation.

#### 19. Prior year restatement

During the year, it was identified that interest free subordinated loans from the Company's immediate parent company (BLSSP Property Holdings Limited) of £2,116,096 that were repayable on demand had been incorrectly recognised within 'Creditors: amounts falling due after more than one year' in the prior year. This has been corrected in these financial statements by restating 'Creditors: amounts falling due after more than year', for the prior period, from £17,602,847 to £15,486,751; and 'Creditors: amounts falling due within one year' from £7,578,078 to £9,694,174.

#### 20. Subsequent events

On 23 May 2019 the Company was sold to Realty Income Corporation, and hence ceased to be part of the British Land Group.