

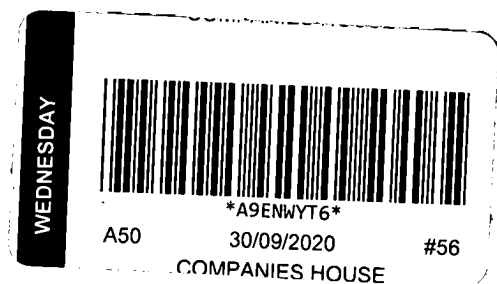
Registration number: 04104102

RI SB Hereford Limited

(formerly BLSSP (PHC 35) Limited)

Directors Report and Financial Statements

For the nine month period ended 31 December 2019



RI SB Hereford Limited

Contents

Directors' Report	1 to 3
Directors' Responsibility Statement	4
Independent Auditors' Report to the members of the RI SB Hereford Limited	5 to 6
Profit and Loss Account and Other Comprehensive Income	7
Balance Sheet	8
Statement of Changes in Equity	9
Notes to the Financial Statements	10 to 19

RI SB Hereford Limited

Directors' Report for the Period Ended 31 December 2019

The Directors present their report and the financial statements for the period ended 31 December 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").

RI SB Hereford Limited changed their year end from March to December in 2019 and therefore the accounts are for a period of 9 months.

As shown in the Company's Profit and Loss Account on page 7, the profit on ordinary activities before taxation is £172,252, (March 2019: £2,943,456).

Dividends of £4,612,000 were paid in the period (31 March 2019: £nil).

Directors of the Company

The Directors, who held office during the period 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)

M Burke (resigned 23 May 2019)

D Clegg (resigned 23 May 2019)

G Cowen (resigned 23 May 2019)

J Honeyman (resigned 23 May 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 Period Ended 31 December 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 United Kingdom has officially left the European Union on 31 January 2020 ("Brexit"); however, under the agreed transitional arrangements, all relevant rules and regulations will currently remain in place until 31 December 2020. It is currently not practicable to forecast with certainty how the value of, or the cash flows arising from, assumption involved in the Company's assets might be affected by Brexit. Consequently, it is currently not possible to accurately quantify the possible effect of Brexit on the Company.

Going concern

The directors have prepared the cash flow forecasts of the Company for at least 12 months from the date of approval of the financial statements. In this forecast, the Directors have taken account of the implications of COVID-19 which would impact the cash inflows and outflows. The Directors have modelled a severe but plausible downside scenario in respect of the Company's cash flows and incorporating mitigating actions. The result of this forecast indicate that in this scenario the Company cash needs are still within the available financial resources.

The directors have considered the ability and intent of the immediate parent company to provide continuous financial support and concluded that the parent company has the ability and intention to provide the necessary financial support for a period of at least 12 months from the date of approval of the financial statements should it be required. Based on the above, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

COVID-19

In early 2020, the existence of a new coronavirus (COVID-19) was confirmed and since this time COVID-19 has spread across the world. COVID-19 has caused disruption to businesses and economic activity which has been reflected in recent fluctuations in global stock markets. The Company considers the emergence and spread of COVID-19 to be a non-adjusting post balance sheet event. Given the inherent uncertainties, it is not practicable at this time to determine the impact of COVID-19 on the Company or to provide a quantitative estimate of this impact.

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

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office.

RI SB Hereford Limited

Directors' Report for the Period Ended 31 December 2019 (continued)

Small companies note

In preparing this report, the directors have taken advantage of the small companies exemptions provided by section 415A of the Companies Act 2006.

RI SB Hereford Limited

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;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 21 September 2020 and signed on its behalf by:

DocuSigned by:
Paul Windsor
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P Windsor
Director
8 Sackville Street
London
W1S 3DG

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 period ended 31 December 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 December 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.

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 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.

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.

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

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 4, 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/auditorsresponsibilities.

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

15 Canada Square,
Canary Wharf, London,
E14 5GL

25 September 2020

RI SB Hereford Limited

Profit and Loss Account and Other Comprehensive Income for period ended 31 December 2019

	Note	Nine months ended 31 December 2019 £	Year Ended 31 March 2019 £
Turnover	2	1,573,345	2,156,277
Costs of sales		(14,813)	(1,785)
Gross Profit		1,558,532	2,154,492
Administrative expense		(48,575)	(30,340)
Unrealised (loss)/gain of investment properties	8	(630,410)	1,650,000
Operating Profit		879,547	3,774,152
Profit before interest and taxation		879,547	3,774,152
Interest income	3	-	312
Interest expense	4	(707,295)	(831,008)
Profit before taxation		172,252	2,943,456
Tax on profit	7	(210,492)	-
(Loss)/Profit for the period		(38,240)	2,943,456
Other comprehensive income		-	-
Total comprehensive (loss)/income for the period		(38,240)	2,943,456

The accompanying notes on pages 10 to 19 form an integral part of these financial statements

RI SB Hereford Limited

Balance Sheet as at 31 December 2019

Company Registration Number: 04104102

	Note	31 December 2019	31 March 2019
		£	£
Fixed assets			
Investment properties	8	36,369,590	37,000,000
Lease incentives	9	4,493,405	-
		<u>40,862,995</u>	<u>37,000,000</u>
Current assets			
Debtors due within one year	10	1,504,248	943,491
Lease incentives	9	337,005	-
		<u>1,841,253</u>	<u>943,491</u>
Creditors: amounts falling due within one year	12	<u>(1,157,774)</u>	<u>(9,516,689)</u>
Net current assets/(liabilities)		<u>683,479</u>	<u>(8,573,198)</u>
Total assets less current liabilities		<u>41,546,474</u>	<u>28,426,802</u>
Debtors due after more than one year	11	-	470,860
Loans and borrowings	13	(31,408,773)	(14,109,721)
Net Assets		<u>10,137,701</u>	<u>14,787,941</u>
Capital and reserves			
Share capital	14	196,000	196,000
Profit and loss account		9,941,701	14,591,941
Shareholders' funds		<u>10,137,701</u>	<u>14,787,941</u>

Approved by the Board on 21 September 2020 and signed on its behalf by:

DocuSigned by:

Paul Windsor

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P Windsor

Director

The accompanying notes on pages 10 to 19 form an integral part of these financial statements.

RI SB Hereford Limited

Statement of Changes in Equity for the period ended 31 December 2019

	Share Capital £	Profit and Loss Account £	Total Equity £
Balance at 1 April 2018	196,000	11,648,485	11,844,485
Total comprehensive income for the year	-	2,943,456	2,943,456
Balance as at 31 March 2019	196,000	14,591,941	14,787,941
Balance at 1 April 2019	196,000	14,591,941	14,787,941
Total comprehensive income for the period	-	(38,240)	(38,240)
Dividends paid	-	(4,612,000)	(4,612,000)
Balance as at 31 December 2019	196,000	9,941,701	10,137,701

The accompanying notes on pages 10 to 19 form an integral part of these financial statements.

RI SB Hereford Limited

Notes to the Financial Statements for the Period Ended 31 December 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.

RI SB Hereford Limited changed its year end from March to December in 2019 and therefore the accounts are for a period of 9 months ended 31 December 2019.

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.
- (i) The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers.
- (j) The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases. The requirements of paragraph 58 of IFRS 16, provided that the disclosure of details of indebtedness required by paragraph 61(1) of Schedule 1 to the Regulations is presented separately for lease liabilities and other liabilities, and in total.

Disclosure exemptions for subsidiaries are permitted where the relevant disclosure requirements are met in the consolidated financial statements.

RI SB Hereford Limited

Notes to the Financial Statements for the Period Ended 31 December 2019

1. Accounting policies (continued)

New standards, amendments and IFRIC interpretations

IFRS 16 is a new accounting standard that is effective for the period starting 1 January 2019 and has had no material impact on the Company's financial statement. There are no other amendments to accounting standards, or IFRIC interpretations that are applicable for the period ended 31 December 2019 that have had a material impact on the Company's financial statements.

IFRS 16, Leases ("IFRS 16") was issued in January 2016 and require lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17. The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17. Lessor accounting is substantially unchanged from previous accounting. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. The standard requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019, however early adoption is permitted. The Company is a Lessor and expects the impact of adopting this standard to be minimal.

Going concern

The financial statements have been prepared under the going concern basis which the directors consider to be appropriate on basis of the assessment below. The assessment as to whether the going concern basis is appropriate considered events after the end of the reporting period.

The directors have prepared the cash flow forecasts of the Company for at least 12 months from the date of approval of the financial statements. In this forecast, the Directors have taken account of the implications of COVID-19 which would impact the cash inflows and outflows. The Directors have modelled a severe but plausible downside scenario in respect of the Company's cash flows and the result of this forecast indicate that in this scenario the Company cash needs are still within the available financial resources.

The directors have considered the ability and intent of the immediate parent company to provide continuous financial support and concluded that the parent company has the ability and intention to provide the necessary financial support for a period of at least 12 months from the date of approval of the financial statements should it be required.

Based on the above, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

Turnover

Rental income is recognised on a straight-line basis. 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.

RI SB Hereford Limited

Notes to the Financial Statements for the Period Ended 31 December 2019

1. Accounting policies (continued)

Taxation

Current tax is based on taxable profit for the period 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 or have REIT exemption. At this date the company was sold to Realty Income and was able to utilise Realty Income group relief tax. Group relief includes two separate groups - the first is related to the seller (British Land/Sainsbury's) that owned the entities from April 1st through May 23, 2019. The second is related to the ownership period after sale belonging to Realty Income.

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.

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

Recognition, classification and measurement

A financial instrument is recognised when the Company becomes a party to the contractual provisions of the instrument in accordance with IFRS 9. Financial assets are derecognised when the contractual rights to the cash flows from those assets expire or when the assets are transferred to another party without retaining control or substantially all risks and rewards of ownership. Regular way purchases and sales of financial assets are accounted for at trade date.

Non-derivative financial instruments

Non-derivative financial instruments are recognised initially at fair value plus, for those instruments not designated at fair value through profit or loss, any directly attributable transaction costs. Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. The Company does not hold financial assets that meet the criteria of fair value through other comprehensive income and therefore, assets that do not meet the definition of amortised cost are measured at fair value through profit or loss. Non-derivative financial instruments comprise trade and other receivables, loans receivable from related parties and, cash and cash equivalents which the Company holds with the objective to collect or settle the contractual cash flows. Loan receivables are subsequently measured at amortised cost, using the effective interest rate method.

Impairment of financial assets

The Company assesses the expected credit losses associated with its financial assets carried at amortised cost on a forward-looking basis. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Financial assets are specifically impaired when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, among others, the probability of insolvency or significant financial difficulties of the debtor. Impaired debts are derecognised when they are assessed as uncollectible. For general provisioning, the Company considers impairment of financial assets under the expected credit loss model as required under IFRS 9. For accounts receivable, the Company applies the simplified approach which requires expected lifetime losses to be recognised from initial recognition of the receivables. Expected loss rates are considered with reference to the historic payment profiles of tenants and credit losses incurred over a corresponding period. The resulting loss rates are then adjusted to reflect current and forward-looking information on macroeconomic factors: namely economic, regulatory, technological and environmental factors; external market indicators; and the current tenant base. Impairment losses and reversals are recognised in the income statement.

RI SB Hereford Limited**Notes to the Financial Statements for the Period Ended 31 December 2019****1. Accounting policies (continued)****Financial liabilities**

Liabilities are classified as financial liabilities at fair value through the Statement of Comprehensive Income or liabilities at amortised cost, as appropriate. All loans and borrowings are classified as other liabilities. Initial recognition is at fair value less directly attributable transaction costs incurred. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

Financial liabilities included in trade and other payables are recognised initially at fair value and subsequently at amortised cost. The fair value of a non-interest bearing liability is its discounted repayment amount. If the due date of the liability is less than one year, discounting is omitted.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. The Company's financial liabilities consist of liabilities at amortised cost. For instruments carried at amortised cost, their carrying value approximates their fair value.

Leases**Lessor accounting**

Lease income from operating leases where the Company is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. There were no material adjustments after adoption of the IFRS 16.

Lease incentives

Lease incentives are amortised over the life of the lease in accordance with IFRS16.

Significant accounting judgements and key sources of estimation uncertainty

The preparation of the financial statements under FRS 101 requires the Directors to make judgements, estimates and assumptions that affect the application of accounting policies, the reported amounts of assets and liabilities as at the date of the financial statements and the reported amount of revenue and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements that are not readily apparent from other sources. However, the actual results may differ from these estimates. The key area where management has made significant judgements is around estimates regarding the valuation of properties on the balance sheet.

The key assumptions made in the valuation of the Company's investment properties are:

- the amount and timing of future income streams;
- anticipated maintenance costs and other landlord's liabilities; and
- an appropriate yield.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

2. Turnover

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

	31 December 2019	31 March 2019
	£	£
Rental income (UK Property)	1,798,015	2,156,277
Lease Incentive Amortisation	(224,670)	-
	<u>1,573,345</u>	<u>2,156,277</u>

RI SB Hereford Limited

Notes to the Financial Statements for the Period Ended 31 December 2019

3. Interest income

	31 December 2019	31 March 2019
	£	£
Interest received on cash held by another company within the group	-	312
	<u>-</u>	<u>312</u>

4. Interest expense

	31 December 2019	31 March 2019
	£	£
Interest payable on amounts owed to group companies (notes 11 and 12)	707,295	827,256
Amortisation of issue costs	-	3,752
	<u>707,295</u>	<u>831,008</u>

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

5. Auditors' remuneration

A charge of £10,000 (31 March 2019: £10,416) is deemed payable to KPMG LLP in respect of the audit of the financial statements.

No non-audit fees (31 March 2019: £nil) were paid to KPMG LLP.

6. Staff costs

No Director received any remuneration for services to the Company in the current period or prior 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 period was nil (31 March 2019: nil).

RI SB Hereford Limited

Notes to the Financial Statements for the Period Ended 31 December 2019

7. Tax on profit on ordinary activities

Tax charged in the profit and loss account

	31 December 2019 £	31 March 2019 £
Current taxation		
UK corporation tax	210,492	-
Tax charge in the profit and loss account	210,492	-

	31 December 2019 £	31 March 2019 £
Tax reconciliation		
Profit before tax	172,252	2,943,456
Add: Unrealised loss/(gain) of investment properties	630,410	(1,650,000)
Add: Lease incentive amortisation	224,670	-
Profit on ordinary activities	1,027,332	1,293,456

Tax on profit on ordinary activities at UK corporation tax rate of 19% (31 March 2019: 19%)

195,193 559,257

Effects of:

REIT exempt income and gains	(17,612)	(135,628)
Movement in fair value of investment property	-	(313,500)
Corporate interest restriction	35,924	-
Group Relief	(3,013)	(110,129)

Total tax charge

210,492 -

On 16 March 2016 the chancellor announced a reduction in the Corporation Tax rate to 17% effective from 1 April 2020. This was substantively enacted on 6 September 2016 and the deferred tax has been calculated using this rate. The chancellor announced in the 2020 budget that the tax rate will remain at 19% rather than fall to 17% as previously stated. The tax rate is yet to be substantively enacted.

The fair value of the investment property as of December 31, 2019 is below the unindexed basis. A sale of the property could give rise to a tax loss that shelters tax income elsewhere in the group, however, there is no current plan of selling the property, therefore deferred tax asset is not recognized.

RI SB Hereford Limited

Notes to the Financial Statements for the Period Ended 31 December 2019

8. Investment property

	31 December 2019 £	31 March 2019 £
Fair value		
At beginning of period / year	37,000,000	35,350,000
(Less)/Add: Revaluation (loss)/profit	(630,410)	1,650,000
Closing balance, net of lease incentives	<u>36,369,590</u>	<u>37,000,000</u>
 Reconciliation of the fair value of investment property:		
Closing balance, net of lease incentives	36,369,590	37,000,000
Add: Lease Incentives net	4,830,410	-
Fair value of the property per the valuation report	<u>41,200,000</u>	<u>37,000,000</u>
 Analysis of cost and valuation		
Cost	27,100,179	27,100,179
Accumulated Valuation on Investment Properties	14,099,821	9,899,821
Net book value	<u>41,200,000</u>	<u>37,000,000</u>

At 31 December 2019 the value of investment properties owned by the Company was £41,200,000 (31 March 2019: £37,000,000).

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.

The properties were independently valued to fair value as at 31 December 2019 by CBRE Limited (31 March 2019 valuations were performed by Knight Frank LLP) in accordance with the RICS Valuation - Professional Standards 2014, Ninth Edition, published by The Royal Institutions of Chartered Surveyors.

Properties valued at £41,200,000 (31 March 2019: £37,000,000) 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:

	31 December 2019 £	31 March 2019 £
Leases less than one year	2,179,268	2,156,277
Leases between one and five years	-	8,625,108
Leases between one to two years	2,221,132	-
Leases between two to three years	2,256,275	-
Leases between three to four years	2,295,760	-
Leases between four to five years	2,342,268	-
Leases greater than five years	24,021,008	21,899,504
	<u>35,315,711</u>	<u>32,680,889</u>

RI SB Hereford Limited

Notes to the Financial Statements for the Period Ended 31 December 2019

9. Lease incentives

	31 December 2019 £	31 March 2019 £
Lease incentives	5,055,080	-
Less: Amortisation	(224,670)	-
Lease incentives net	4,830,410	-
	31 December 2019 £	31 March 2019 £
Non current lease incentives	4,493,405	-
Current lease incentives	337,305	-
Lease incentives net	4,830,410	-

The lease incentive is amortised over the life of the lease in accordance with IFRS16, the adjusted lease start date is the transaction date 23rd May 2019 and the end date is 23rd May 2034.

10. Debtors due within one year

	31 December 2019 £	31 March 2019 £
Amounts due from related parties	1,328,560	940,653
Prepayments	175,075	2,838
VAT	613	-
	1,504,248	943,491

Debtors from related parties relate to amounts due from group companies which are repayable on demand, there are no interest charged on these balances. The amounts due from related parties were cleared at transaction date under BLSSP (PHC 35) Limited, the Company then had a balance of amounts due from related parties of £1,328,560 as at 31st December 2019.

11. Debtors due after more than one year

	31 December 2019 £	31 March 2019 £
Amounts owed by group companies – Long term loans	-	470,860

Debtors from related parties relate to amounts due from group companies which were repayable on demand; these were cleared at transaction date under BLSSP (PHC 35) Limited.

There was no interest charged on these balances.

RI SB Hereford Limited

Notes to the Financial Statements for the Period Ended 31 December 2019

12. Creditors: amounts falling due within one year

	31 December 2019 £	31 March 2019 £
Accrued expenses	839,120	703,809
Amounts due to related parties	103,026	8,704,596
Social security and other taxes	215,628	108,284
	<u>1,157,774</u>	<u>9,516,689</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 11.

The subordinated loan from BLSSP Property Holdings Limited ranked behind subordinated loans from BL Superstores (Funding) Limited. There was no interest charged on the loan from BLSSP Property Holdings Limited (March 2019: nil). The balance was cleared at transaction date.

13. Loans and borrowings

	31 December 2019 £	31 March 2019 £
Long term loans - amounts owed to group companies	<u>31,408,773</u>	<u>14,109,721</u>
Borrowings analysis		
Creditors due within one year		
- subordinated loans from BL Superstores (Funding) Limited	-	1,371,366
- subordinated loans from BLSSP Property Holdings Limited	-	2,136,881
		<u>3,508,247</u>
Total loans due within one year	-	3,508,247
Loans due after one year		
- subordinated loans from BL Superstores (Funding) Limited	-	14,109,721
- subordinated loans from Tau Operating Partnership	31,408,773	-
	<u>31,408,773</u>	<u>17,617,968</u>
Total borrowings	<u>31,408,773</u>	<u>17,617,968</u>

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 Period Ended 31 December 2019

14. Share capital

On 23 May 2019, Realty Income Corporation acquired the shares of 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.

Allotted, called up and fully paid shares

		31 December 2019		31 March 2019
	No.	£	No.	£
Ordinary shares of £1 each	196,000	196,000	196,000	196,000

15. Capital commitments

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

16. Parent and ultimate parent undertaking

The largest group in which the results of the Company are consolidated is that headed by Realty Income Corporation. The consolidated financial statements of these groups are available to the public and may be obtained from 11995 El Camino Real, San Diego, CA 92130.

17. Subsequent events

In early 2020, the existence of COVID-19 was confirmed and since this time COVID-19 has spread across the world. COVID-19 has caused disruption to businesses and economic activity which has been reflected in recent fluctuations in global stock and real estate markets. The Company considers the emergence and spread of COVID-19 to be a non-adjusting post balance sheet event. Given the inherent uncertainties, it is not practical at this time to determine the impact of COVID-19 on the Company or to provide a quantitative estimate of this impact.

The United Kingdom has officially left the European Union on 31 January 2020 ("Brexit"); however, under the agreed transitional arrangements, all relevant rules and regulations will currently remain in place until 31 December 2020. It is currently not practicable to forecast with certainty how the value of, or the cash flows arising from, assumption involved in the Company's assets might be affected by Brexit. Consequently, it is currently not possible to accurately quantify the possible effect of Brexit on the Company.