Performance summary

Despite the challenges of inflation and higher interest rates, we have maintained both our EPRA earnings and our long-term track record of outperformance.

We are continuing to upgrade and adapt our assets, ensuring they remain relevant and attractive to our occupiers, providing income sustainability.

As a business, we are in a resilient position. We have a strong capital structure with attractive long-term fixed rate debt. Our portfolio offers significant income upside, and we are already starting to see stability in asset values.

Lena Wilson CBE
Chair

EPRA earnings per share
3.9p

Dividends paid per share
3.5p

Dividend cover
112%

NAV per share
100p

Read more in our Chair's Introduction to the Governance Report on pages **80–81**

Highlights 2022/23

Financial performance

£21m
Stable EPRA earnings

£766m
Portfolio valuation

£548m
Net asset value

£19m
Dividends paid
4% higher than preceding year

112%
Dividend cover

Defensive capital structure

27%
Loan to value

95%
Of borrowings fixed, with 2031/2032 maturities

3.8%
Weighted average interest rate

£571m
EPRA Net Disposal Value
£23m higher than net assets reflecting fair value of debt

£38m
Undrawn debt facilities

Resilient operational performance

Outperforming property portfolio relative to MSCI UK Quarterly Property Index

99%

Rent collection

91%

Occupancy

Capturing rental growth through:

39

Lettings
25% ahead of March 2022 ERV

37

Lease extensions/regears
6% ahead of March 2022 ERV

20

Rent reviews
7% ahead of March 2022 ERV

Like-for-like increase in passing rent of 10% and contracted rent of 3%

9% like-for-like increase in estimated rental value

Increased investment with sustainability focus

£6m

Invested into upgrading
over 15 assets

£21m

Invested in new acquisitions

100%

Compliance
with 2023 EPC minimum standards

76%

EPC ratings A-C
Improved from 71%

Net zero carbon pathway progress

including installation of solar arrays

24%

Reduction in Scope 1 & 2 emissions
compared to 2019 baseline

85%

Energy data coverage
Improved from 75%

The Financial Statements are prepared under IFRS. We use a number of alternative performance measures (APMs) when reporting on the performance of the business and its financial position. In common with many other listed property companies we report the EPRA performance measures. In the Additional Information section of this report on pages 155-158 we provide more detailed information and reconciliations to IFRS where appropriate.

Our purpose

Our purpose is to be a responsible owner of commercial real estate, helping our occupiers succeed and being valued by all our stakeholders.

Our values

Principled

We are professional, diligent and strategic.

Demonstrated through our transparent reporting, occupier focused approach, alignment with shareholders, delivery of our Picton Promise, our commitment to sustainability and positive environmental initiatives.

Perceptive

We are insightful, thoughtful and intuitive.

Demonstrated through our long-term track record, our gearing strategy, our dynamic positioning of the portfolio, and engagement with our occupiers.

Progressive

We are forward-thinking, enterprising, and continually advancing.

Demonstrated through our culture, work ethic, and proactive asset management.

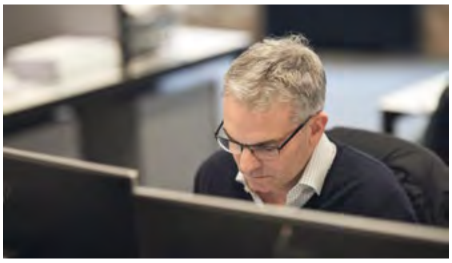
For more detailed information on our stakeholders, see our Section 172 statement on pages **90–91**

Creating stakeholder value

Shareholders

£19m

Dividends paid



Occupiers

£6m

Invested into upgrading properties

Communities

23

Charities supported

Our people

82%

Employee satisfaction score

The environment

76%

EPC ratings A-C

Our strategic priorities

Through our occupier focused, opportunity led approach, we aim to be one of the consistently best performing diversified UK REITS. Our strategic priorities guide the direction of our business and are reviewed annually.

Portfolio Performance

1 Creating and owning a portfolio which provides income and capital growth

2 Growing occupancy and income profile

3 Enhancing asset quality, providing space that exceeds occupier expectations

4 Outperforming the MSCI UK Quarterly Property Index

Operational Excellence

1 Maintaining an efficient operating platform, utilising technology as appropriate

2 Having an agile and flexible business model, adaptable to market trends

3 Delivering earnings growth

4 Having an appropriate capital structure for the market cycle

5 Growing to deliver economies of scale

Acting Responsibly

1 Progressing our environmental focus and reducing our emissions to become carbon net zero by 2040

2 Working closely and engaging with our occupiers, shareholders, communities and other stakeholders

3 Ensuring we maintain our company values, positive working culture and alignment of the team

4 Having strong governance and transparent reporting to ensure the long-term success of the business

For details on the associated risks see pages **42–46**

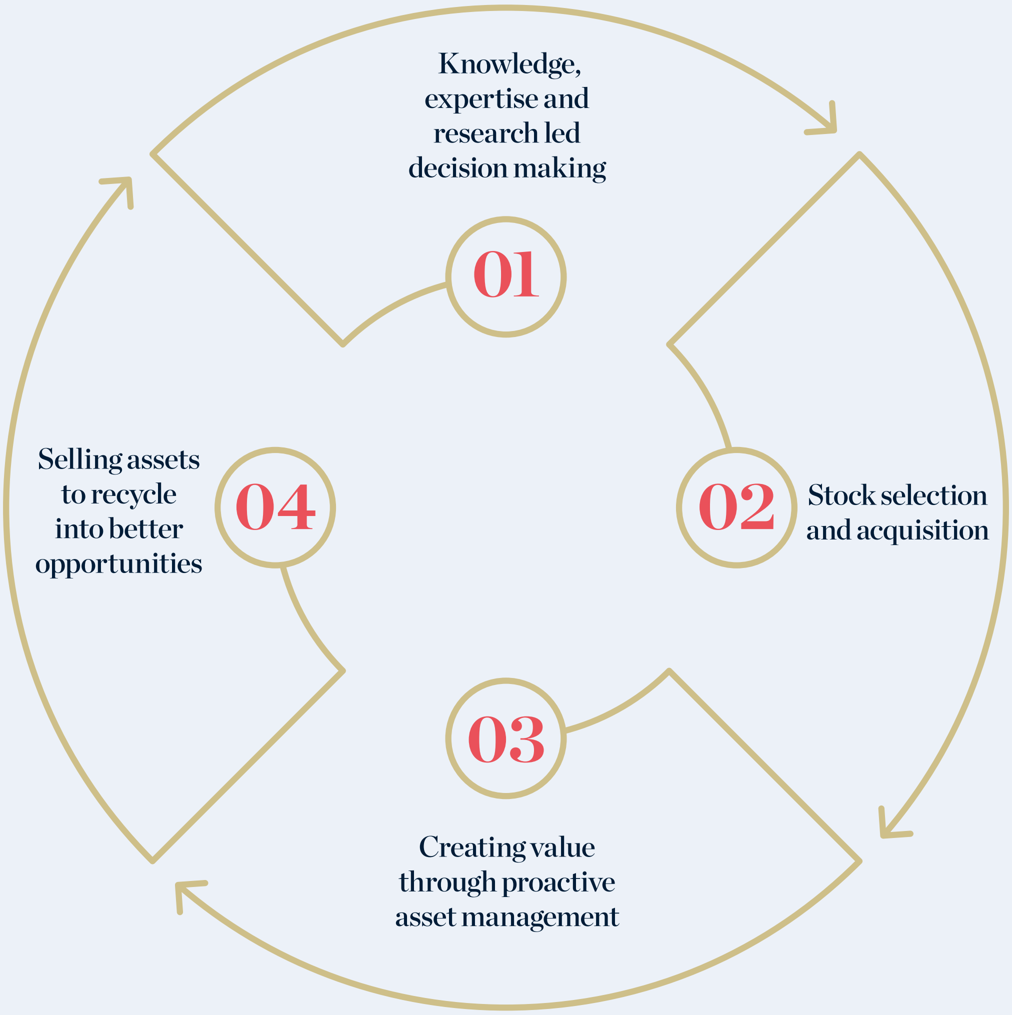
For details on connected KPIs see pages **22–25**

For details on our strategic progress see the Chief Executive's Review on pages **18–21**

Our business model

How we create value

Our business model creates value through owning a portfolio that generates a diversified and stable income stream. We have the flexibility to adapt to changing market conditions and so deliver value to our stakeholders through the property cycle.



This is underpinned by:

Risk management

Our diverse portfolio and occupier base spreads risk and generates a stable income stream throughout the property cycle. We adapt our capital structure and use debt effectively to achieve enhanced returns. We maintain a covered dividend policy, to generate a surplus which we can invest back into the portfolio.

Responsible stewardship

We have a responsible and ethical approach to business and sustainability is embedded within our corporate strategy. We understand the impact of our business on the environment and are committed to acting for the benefit of all our stakeholders.

What makes us different

01/

Knowledge, expertise and research led decision making

Our in-depth understanding of the UK commercial property market enables us to identify and source value across different sectors and reposition the portfolio through the property cycle.

02/

Stock selection and acquisition – buying into growth assets, locations or sectors

We have established a diversified UK property portfolio and while income focused, we will consider opportunities where we can enhance value and/or income.

03/

Creating value through proactive asset management

Our diverse occupier base generates a stable income stream, which we aim to grow through active management and capturing market rental uplifts. Our occupier focused, opportunity led approach ensures we create space that meets our occupiers' needs in order to maintain high levels of occupancy across the portfolio.

04/

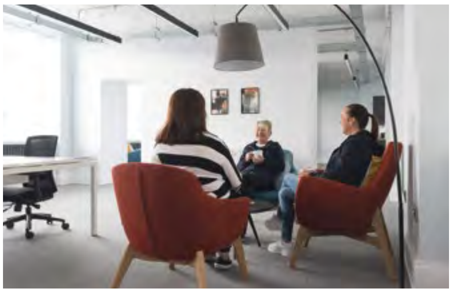
Selling assets to recycle into better opportunities

We identify assets for disposal to maximise value creation. Proceeds are invested into new opportunities, or used elsewhere within the Group.

Long-term outperformance through a diversified approach

We have a long-term performance track record, outperforming the MSCI UK Quarterly Property Index for ten consecutive years. We own a diverse range of assets which enables us to position the portfolio as market conditions dictate and have delivered upper quartile performance over three, five and ten years, and since launch in 2005.

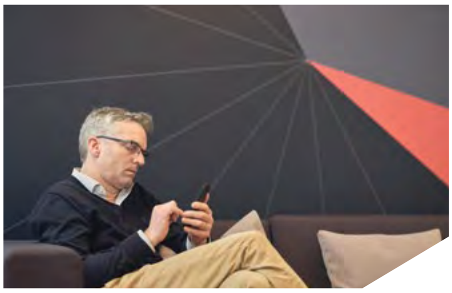
Read more on pages **10–11**



Aligned and high performing management team

Our experienced, knowledgeable and long-standing team has a proven track record of success since internalisation in 2012. Our internally managed and agile business model enables cost efficiencies and flexibility to adapt to changing property cycles.

Read more on pages **10–17**



Occupier focused, opportunity led

Our collaborative approach ensures we engage with our occupiers to create spaces to help them succeed. Our proactive asset management helps to maintain high occupancy across the portfolio.

Read more on pages **32–37**

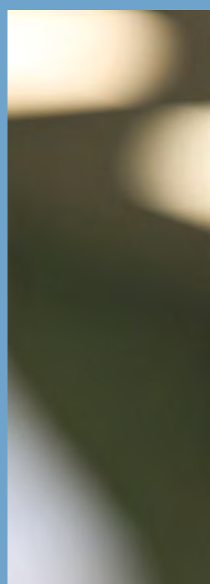
Sustainable thinking, responsible business

Our responsible approach to business with an increasing environmental focus is essential for the benefit of all our stakeholders and understanding the long-term impact of our decisions helps us to manage risk and continue to generate value.

Read more on pages **56–77**

Adapting & outperforming

As a diversified internally managed UK REIT, we acquire, create and manage buildings for around 400 occupiers across a wide range of businesses. By applying insight, agility and a personalised service, we provide attractive, well-located spaces to help our occupiers' businesses succeed.



Creating spaces for our occupiers to succeed

Responding to market uncertainty: adapting and outperforming

Portfolio at a glance

Industrial weighting	57%
Office weighting	32%
Retail and Leisure weighting	11%
Occupiers	400
Assets	49
Portfolio valuation	£766m

OUR CONSISTENT TRACK RECORD OF OUTPERFORMANCE

We have outperformed against the MSCI UK Quarterly Property Index again this year. We have a track record that includes ten consecutive years of outperformance and long-term upper quartile performance over three, five and ten years, and since launch in 2005.

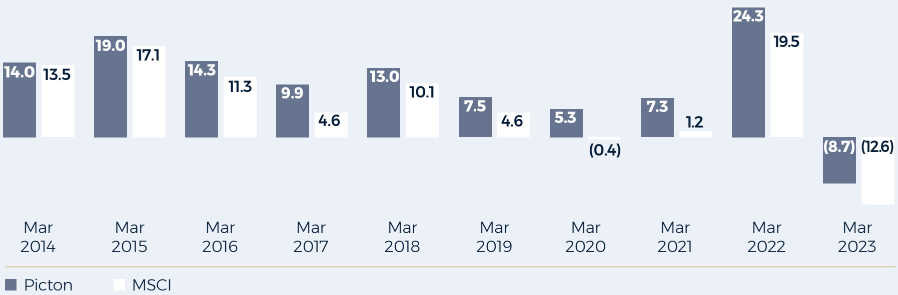
Our asset allocation, stock selection and asset management have delivered outperformance and a consistently higher income return than the Index over the long-term.

We are ranked fifth out of 141 portfolios over the last ten years and we have won 23 awards since 2015.

Our diversified portfolio exposure has been key to our sustained outperformance against the MSCI Index.

Michael Morris
Chief Executive

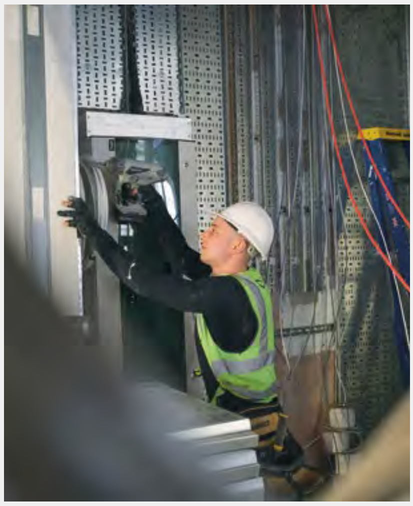
Annual total property return %



PROACTIVE ASSET MANAGEMENT

Occupational demand remains resilient and over the year we have successfully increased income through proactive asset management and investing in sustainable refurbishment upgrades across our portfolio.

Read more on pages **12–13**



CREATING SPACES FOR A NET ZERO FUTURE

We have committed to achieving net zero carbon by 2040 and this target covers the whole life carbon of our assets, including the energy use of our occupiers.

To meet our commitment, we have set targets for whole building energy efficiency for each asset type and embodied carbon related to major refurbishments, as well as reducing operational emissions as much as possible through energy efficiency measures and renewable energy.

Read more on pages **14–15**

ADAPTING TO CHANGING MARKET CONDITIONS

Recognising the changes in the office sector and a greater desire for flexible, short-term leases, our SwiftSpace offering provides small to medium-sized businesses with bespoke flexible leasing solutions. We are able to create fully fitted workspaces, to enable businesses to move straight in and be up and running in no time.

Read more on pages **16–17**

Proactive management: increasing income from our recent Gloucester acquisitions

> We have successfully increased income through proactive asset management and refurbishment.

Jay Cable
Head of Asset Management

Our combined ownership in Gloucester totals over 29 acres, having acquired two adjoining city centre industrial estates in 2021/2022: Madleaze Trading Estate, and Mill Place Trading Estate.

Since our acquisition of the estates, we have been focused on improving their appeal for our existing occupiers as well as to attract new businesses.

The two estates provide 670,000 sq ft of warehouse and ancillary accommodation, with a site coverage of 52%. The average contracted rent across leased property on purchase was £2.76 per sq ft and there was 100,000 sq ft of vacant accommodation in need of redevelopment and refurbishment. The combined consideration was £23.5 million or £35 per sq ft.

Over the year we have increased the average contracted rent across leased property by 23% to £3.43 per sq ft and reduced the amount of vacant space by 35%.

Increased contracted rent by 23%

In 2022/23

UPGRADING THE ESTATES

In line with our net zero carbon commitment to reduce operational emissions, we have recently completed the installation of solar on one unit. Across the estates we are aiming to improve the energy efficiency of units and we directly control the electricity supply at Mill Place Trading Estate, meaning we can ensure it is renewably sourced.

We have started our programme of refurbishment upgrades across the estates and have installed new signage, LED lighting, repaired roads and enhanced security though mobile patrols, security barriers and CCTV.

We have met in person with all of our occupiers and delivered welcome packs, ensuring everyone has a direct point of contact with us.

Key activity

– Letting of eight units and compounds for a combined £0.3 million per annum, 79% ahead of the March 2022 ERV
– Secured a 29% rental uplift at a review with our largest occupier (by income), to £0.3 million per annum, 23% ahead of ERV
– Refurbished a 21,000 sq ft unit, installing solar panels and improving its EPC from a D rating to an A rating
– Acquired an adjoining unit for £0.4 million to consolidate our ownership
– Successfully relocated an existing occupier to the newly acquired unit, enabling us to secure a new letting at a record rent

£1.4m
Invested into upgrading the estates

11
Businesses attracted or retained

Summary of management and leasing activities over the year

Activity	Number	Rent per annum (£m)	Ahead of March 2022 ERV (%)	Ahead of previous passing rent (%)
Letting	8	0.3	79%	–
Lease renewal	6	0.4	18%	64%
Rent review	4	0.4	23%	33%

Sustainable refurbishments: investing in our buildings

Occupiers are increasingly prioritising energy efficient and sustainable workspaces. We are committed to enhancing the environmental performance of our buildings to ensure their operational efficiency and that they meet occupier requirements.

In line with our sustainable refurbishment guidelines, when space becomes vacant, we seek to improve its sustainability credentials in terms of certification, services, structure and building resilience.

We aim to remove fossil fuels where possible and we are also further developing our plans for on-site solar array installation across the portfolio as we continue to identify energy efficiency measures.

Improved
EPC ratings

Removed
On-site fossil fuel burning systems

PARKBURY INDUSTRIAL ESTATE, RADLETT

As part of the full refurbishment works at Unit 16, we removed a gas fired heating system from the warehouse and added new rooflights for improved natural daylight. The office area, common areas and warehouse area have all been fitted with new LED lighting. We also installed solar on the roof to provide on-site generated energy and excess electricity will be fed back into the grid which will help to greatly reduce the operational emissions of the unit. These refurbishments have improved the EPC rating of the building to an A rating.

COLCHESTER BUSINESS PARK

At Colchester Business Park we have carried out an extensive refurbishment of an industrial unit including the installation of new LED lighting and removing the gas fired heating system from the warehouse, as well as installing EV charging points and new rooflights for improved natural daylight. These works improved the EPC from a C to a B rating. We also refurbished two office suites in the business park, installing LED lighting to reduce energy consumption. These works improved the EPCs, both a D rating, to a B and an A rating respectively.

UNITS 1 & 2, WESTERN INDUSTRIAL ESTATE, BRACKNELL

We commenced a full refurbishment of Unit 2 at Bracknell, including the addition of new LED lighting and the removal of the gas fired heating system from the warehouse. We also added new rooflights for improved natural daylight. We installed solar on the roof to improve the operational efficiency of the unit, with excess electricity to be fed back into the grid. Additionally, we installed EV charging points externally and refurbished the office area, adding new LED lighting and a new energy efficient heating and cooling system. These works are expected to improve the EPC rating of the unit to an A rating.

Installed

on-site solar energy generation

METRO, MANCHESTER

At our Metro office building, we recently carried out a full internal refurbishment and redecoration of the fifth floor office space, including installation of new LED lighting and occupier amenities, including new and improved kitchen facilities. These works improved the EPC rating from a D to a B rating.

> We are committed to improving the environmental credentials of our buildings, to future-proof these in terms of certification, structure and services.
>
> **Andy Lynch**
> Head of Building Surveying

Our new leasing solution: Flexible, Fitted, Inclusive

We moved in with a small team in the early days of our business. We've almost quadrupled in size over the past 18 months.

Picton have always been helpful and easy to work with so we decided to stay with them by upsizing our space. They kept it simple for us, managing the entire fit-out and moving process.

Daniel Ball
The Early Careers Group, Angel Gate, London

SwiftSpace

FLEXIBLE LEASING PROGRESS

Last year we launched SwiftSpace, our flexible leasing offering in response to both increased competition from serviced office providers and changes in occupier demand. This flexible lease structure enables occupiers to scale their businesses as their needs evolve and is particularly suited to smaller businesses looking to return to the office or move out of serviced accommodation, yet still wanting to retain flexibility of occupation.

Rental agreements include Flexible (short-lease terms), Fitted (ready to move in space, fitted out to occupier requirements) and Inclusive (ready to move in space with no service charges or insurance costs). All three options are intended to speed up the moving in process with quick and easy documentation and reduced upfront costs.

This new flexible proposition has succeeded in attracting new occupiers looking for a more bespoke solution and has helped to grow occupancy on our smaller units. Over the year, we have to date signed nine SwiftSpace lettings, nearly a quarter of our total lettings.

SwiftSpace is available at selected multi-let offices across our portfolio, including Angel Gate, London, Longcross, Cardiff, Queen's House, Glasgow, Charlotte Terrace, London, Colchester Business Park and Trident House, St Albans.

> Our suite has been finished to a high specification and is modern, bright and airy – perfect for our brand and will give a great impression to visitors and our team as we expand our new business.

Andy Tait
Sallyport, Queen's House, Glasgow

Resilient business performance

> Growing occupancy is a priority as there is significant upside income potential from our current position.
>
> **Michael Morris**
> Chief Executive

Against a challenging economic backdrop, we have been able to grow income through our proactive approach to asset management and have successfully continued our long-term track record of outperformance.

Following our record profit delivered a year ago, this period has been defined by a significant change in macroeconomic conditions evidenced by rising interest rates, inflationary pressures and lower economic growth.

Driven in part by rising food and energy costs, a consequence of the disruption caused by the war in Ukraine, UK inflation has been over 10% and in response base rates have quadrupled since this time last year. Asset pricing has been adversely impacted and commercial real estate has been no exception.

In October 2022, the MSCI Monthly Index recorded the worst month of capital decline on record and a 21% decline in values between July 2022 and February 2023. After eight months and a much sharper pricing correction than during the global financial crisis in 2008, markets finally appear to have stabilised, and positive overall monthly movements were recorded in the Index in March and April 2023.

In these conditions we have continued to focus on what we can control, undertaking nearly 40% more asset management activity than last year. This has enabled us to grow rental income and the overall rental value of the portfolio.

With the majority of our debt being fixed, we are insulated from rising financing costs and have been able to report EPRA earnings of £21.3 million, marginally ahead of last year. During the year, we paid dividends of £19.1 million, 4% higher than the preceding year with strong dividend cover of 112%.

Performance

Our net assets are £548 million or 100 pence per share, a 16.6% reduction from a year ago, principally driven by the revaluation of our property portfolio. Our accounting total return was -13.9% in the year to 31 March 2023.

Our total shareholder return, reflecting share price movement and dividends paid, was -26.4%. As markets have adjusted to a higher interest rate environment so too have share prices of UK REITs and discounts have widened in the sector. However, it is encouraging to see that these discounts have narrowed more recently as reported asset values have stabilised.

Outperforming property portfolio

For the tenth consecutive year we have outperformed the MSCI UK Quarterly Property Index. We have now delivered upper quartile returns over three, five, ten years and since inception in 2005 and we are ranked fifth out of 141 portfolios over the last ten years.

At a portfolio level, we delivered a total property return of -8.7% which reflects this marked change in the macroeconomic outlook. Asset management activity drove rental growth and helped offset some of the impact of rising yields.

Growing occupancy and income

We have seen a resilient occupational market, particularly in the industrial sector, and we have been able to increase income and rental growth through asset management and acquisition activity, leading to a 3% increase in contracted rent, a 10% increase in passing rent and a 9% increase in estimated rental value, all on a like-for-like basis. Although we have been able to grow net income there has also been a rise in property costs, primarily driven by void costs, including service charges, business rates and security.

Growing occupancy is a priority as the portfolio has significant upside income potential with more than £5.3 million of additional rent available from current vacancies. With the majority of our vacancy in the office sector, we are pursuing change of use strategies at a number of office assets to include residential, student and other uses to help to reduce this void.

Concerns over the health of the UK economy and political uncertainty have led to a more cautious approach from businesses taking new space during the year. Occupancy at 31 March 2023 was 91%, lower than the previous year but up from a low of 90% at September 2022.

100p
Net asset value per share

3.9p
EPRA earnings per share

One of the key advantages of having a diversified approach and a team with a proven track record of managing assets across sectors through the investment cycle, is that we can draw on this experience during more challenging markets.

Michael Morris
Chief Executive

£21m
Total acquisitions

27%
Loan to value

Enhancing asset quality

We have invested £6 million into the portfolio this year, across over 15 separate projects. This is partly a reflection of the current occupancy position but also reflects further upgrading of our assets from a sustainability perspective.

We are now reviewing on a project-by-project basis whether it is appropriate to install renewable energy, primarily in the form of solar panels on refurbishments. Three projects on industrial assets have already recently completed and whilst these incur additional costs, in due course they will generate a modest supplementary revenue stream, alongside rental income.

Operational excellence

There is significant work required to upgrade our assets as we seek to reduce emissions from the portfolio and progress on our net zero pathway. This year we have expanded the team and brought in a dedicated Head of Building Surveying to oversee the increasing number of refurbishment projects that we are undertaking. They are now training to become an in-house EPC assessor, which will enable us to better understand and improve our assets.

We have decided during the year to bring our company secretarial arrangements in house and have recently appointed a dedicated resource here in London. We will be transitioning these arrangements in the coming months, following this year's Annual General Meeting.

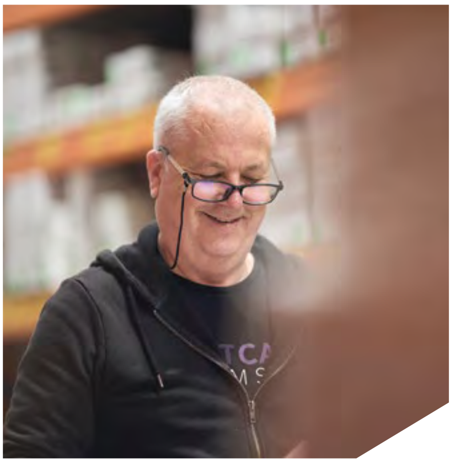
We have received positive feedback from recent occupier engagement surveys across our office and industrial assets and have started to roll out occupier apps at a number of our multi-let office assets to improve engagement.

Rent collection for the year stood at over 99%.

Capital structure

We are well placed in terms of our debt structure, with over 95% of borrowing fixed until 2031/32.

Our weighted average interest rate is 3.8% per annum, well below current market rates and as our longer-term facilities are fixed directly with our lenders, there is no mark-to-market pricing of our debt in our reported net asset value. This is reflected in our EPRA NDV being £23 million higher than our net asset value.



> This year, we have made significant progress, delivering rental growth and exploring and securing more valuable alternative uses at selected office assets. We have remained focused on sustainability, with further progress on our net zero carbon pathway.

Michael Morris
Chief Executive

Our loan to value ratio at the year-end was 27% and we have significant headroom against lending covenants on all our facilities.

In the current environment, in common with the wider real estate market, and with the share price trading at a discount to net asset value, it has not been possible to raise new equity.

Growth

Our internalised management model means that our costs are not linked to net asset value, so there is significant potential for earnings accretion that can be delivered through growth.

As discounts across the sector persist, the case for consolidation and the creation of larger diversified REITs remains compelling. We continue to believe that the combination of cost savings and earnings growth through economies of scale alongside greater relevance to an investor audience would be well received and there is already evidence of this being the case.

We have proactively considered opportunities during the year and we will continue to be an advocate for consolidation where it is beneficial to our shareholders.

At a portfolio level we made three acquisitions totalling £21 million during the year. The two principal acquisitions were both mixed-use assets with retail/leisure at the ground floor and offices above. One is fully leased and at the other we have applied for planning consent for residential conversion in respect of some of the vacant space.

Acting responsibly

As part of our further commitment to integrate sustainability into the business this year, we have included our sustainability reporting within our annual report rather than producing a separate report.

The team is increasing its efforts to ensure our assets are relevant and in demand in a net zero future. This year we have set up a Climate Action Working Group covering all areas of the business, ensuring that there is a cohesive approach to our net zero commitments, mitigating the risks of climate change and adapting our portfolio to reduce emissions.

Specifically, we have been able to reduce our Scope 1 and 2 emissions by 24% compared to our 2019 baseline year.

We have improved the overall EPC ratings of our assets, with 100% of the units within the portfolio being compliant with 2023 EPC minimum standards and 76% by rental value have an EPC rating A-C.

We have started to incorporate on-site renewable energy across larger refurbishments and provide greater engagement with occupiers on this issue, further embedding sustainability into our day-to-day activities.

Although progress is encouraging, we recognise that we must continue to maintain our focus to meet our 2040 net zero commitment.

Outlook

Despite macroeconomic conditions, the economy and indeed occupier markets have remained resilient. Equally, the interest rate environment, both in terms of short-term rates and longer-term gilt yields, needs to stabilise and be more supportive, which may be possible when inflationary pressures start to subside.

As we have seen this year, whilst occupational demand and tight supply have increased rents in some markets, rising costs have also impacted construction. This, combined with rising yields in the last few months, has started to impact development viability and is likely to be a constraint on supply and support rental levels.

Our predominately fixed rate debt with a long maturity profile will provide earnings stability during this more challenging period. Our key focus remains on growing net income further and gaining efficiencies through growth.

Michael Morris
Chief Executive
24 May 2023

Measuring the success of the business

We have a range of key performance indicators that we use to measure the performance and success of the business.

Strategic pillars

1 Portfolio Performance

2 Operational Excellence

3 Acting Responsibly

Financial KPIs

Total return (%) A

2023	-13.9
2022	28.3
2021	6.6

Why we use this indicator

The total return is the key measure of the overall performance of the Group. It is the change in the Group's net asset value, calculated in accordance with IFRS, over the year, plus dividends paid.

The Group's total return is used to assess whether our aim to be one of the consistently best performing diversified UK REITs is being achieved, and is a measure used to determine the annual bonus.

Our performance in 2023

Although the EPRA earnings component of total return was stable this year, the adverse valuation movements in the year resulted in a negative total return.

Total shareholder return (%) B

2023	-26.4
2022	18.7
2021	0.0

Why we use this indicator

The total shareholder return measures the change in our share price over the year plus dividends paid. We use this indicator because it is the return seen by investors on their shareholdings.

Our total shareholder return relative to a comparator group is a performance metric used in the Long-term Incentive Plan.

Our performance in 2023

In line with the property sector generally our share price has declined over the year, reflecting the rising interest rate environment.

Total property return (%) C

2023	-8.7
2022	24.3
2021	7.3

Why we use this indicator

The total property return is the combined income and capital return from our property portfolio for the year, as calculated by MSCI. We use this indicator because it shows the success of the portfolio strategy without the impact of gearing and corporate costs.

Our total property return relative to the MSCI UK Quarterly Property Index is a performance condition for both the annual bonus and the Long-term Incentive Plan.

Our performance in 2023

We have outperformed the MSCI UK Quarterly Property Index for the tenth consecutive year, delivering a return of -8.7% compared to the Index return of -12.6% for the year. We have also delivered upper quartile outperformance against MSCI over three, five and ten years, and since inception.

We consider that industry standard measures, such as those calculated by MSCI, are appropriate to use alongside certain EPRA measures and others that are relevant to us. In this regard, we consider that the EPRA net tangible asset per share (EPRA NTA), earnings per share and vacancy rate are the most appropriate measures to use in assessing our performance.

Key performance indicators are also used to determine variable remuneration rewards for the Executive Directors and the rest of the Picton team. The indicators used are total return, total shareholder return, total property return and EPRA earnings per share. This is set out more fully in the Remuneration Report.

For more information on **EPRA Best Practices Recommendations** see pages **155–158**

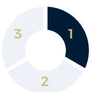
Remuneration Link

Property income return (%) D

2023	4.4
2022	4.5
2021	4.7

Why we use this indicator

The property income return, as calculated by MSCI, is the income return of the portfolio. Income is an important component of total return and our portfolio is biased towards income generation.



Our performance in 2023

The income return for the year of 4.4% was ahead of the MSCI UK Quarterly Property Index of 4.1%, and we have also outperformed over three, five and ten years, and since inception.

Loan to value ratio (%) E

2023	26.7
2022	21.2
2021	20.9

Why we use this indicator

The loan to value ratio is total Group borrowings, net of cash, as a percentage of the total portfolio value. This is a recognised measure of the Company's level of borrowings and is a measure of financing risk. See the Supplementary Disclosures section for further details.

Our performance in 2023

Although there was only a marginal increase in borrowings this year, the loan to value ratio has increased, reflecting adverse movements in property valuations.

Cost ratio (%) F

2023	1.0
2022	1.0
2021	1.0

Why we use this indicator

The cost ratio, recurring administration expenses as a proportion of the average net asset value, shows how efficiently the business is being run, and the extent to which economies of scale are being achieved. See the Supplementary Disclosures section for further details.

Our performance in 2023

The cost ratio has been maintained at 1.0%, despite the inflationary impact on costs and the lower valuations over the year.

EPRA KPIs

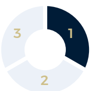
EPRA NTA per share (pence)

G

2023	100
2022	120
2021	97

Why we use this indicator

The EPRA net tangible assets (NTA) per share, calculated in accordance with EPRA, measures the value of shareholders' equity in the business. We use this to measure the growth of the business over time and regard this as the most relevant net asset metric for the business.



Our performance in 2023

The EPRA NTA per share has declined this year as a result of the adverse valuation movements.

EPRA earnings per share (pence)

H

2023	3.9
2022	3.9
2021	3.7

Why we use this indicator

The earnings per share, calculated in accordance with EPRA, represents the earnings from core operational activities and excludes investment property revaluations, gains/losses on asset disposals and any exceptional items. We use this because it measures the operating profit generated by the business from the core property rental business.

The growth in EPRA earnings per share is also a performance measure used for the annual bonus and the Long-term Incentive Plan.

Our performance in 2023

EPRA earnings per share has remained stable at 3.9 pence this year. Higher rental income has been largely offset by increased property costs.

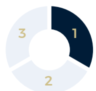
EPRA vacancy rate (%)

I

2023	9.5
2022	7.2
2021	8.8

Why we use this indicator

The vacancy rate measures the amount of vacant space in the portfolio at the end of each financial period, and over the long-term, is an indication of the success of asset management initiatives undertaken.



Our performance in 2023

Most of our vacancy is in the office sector which is currently a difficult market. We are holding some assets vacant as we progress alternative use strategies.

Non-financial KPIs

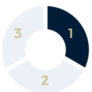
Retention rate (%)

J

2023	67
2022	37
2021	88

Why we use this indicator

This provides a measure of income at risk and the retention of that income during the year. This is achieved through lease extensions or removal of break options.



Our performance in 2023

Our higher retention rate principally reflects our active asset management approach to the portfolio.

Total ERV at risk due to lease expiries or break options totalled £5.5 million, in line with last year.

EPC rating A-C (%)

K

2023	76
2022	71
2021	64

Why we use this indicator

Energy Performance Certificates (EPCs) indicate how energy efficient a building could be by assigning a rating from A (very efficient) to G (very inefficient).

From 1 April 2023 Minimum Energy Efficiency Standards (MEES) regulations prohibit leasing space that is F or G rated, unless an exemption certificate applies. The minimum EPC rating is likely to be raised further, with the UK Government consulting in 2021 on proposals to require a minimum of C by 1 April 2027, and B by 1 April 2030. The outcome of this consultation is awaited.

Our performance in 2023

The proportion of EPC ratings between A to C has increased against the prior year and makes up 76% of the portfolio. The remaining 24% is rated D or E.

Employee satisfaction (%)

L

2023	82
2022	82
2021	85

Why we use this indicator

We use this indicator to assess our performance against one of our strategic objectives, to nurture a positive culture reflecting the values and alignment of the Picton team. The indicator is based on the employee survey carried out during the year.

Our performance in 2023

Our employee satisfaction score remains at a consistently high level.

Signs of economic stability

0.1%

Increase in UK GDP in the three months to March 2023

Economic backdrop

After a tumultuous year, there are signs that the economic backdrop is beginning to stabilise.

Geopolitical tension, the war in Ukraine, rising inflation, the cost of living crisis and the fall-out from the political events and Autumn mini-budget caused unprecedented volatility, high levels of market stress and economic headwinds.

Following the end of the pandemic and the war in Ukraine's impact on energy and commodity prices and supply chains, CPI inflation rose to a peak of 11.1% in October 2022.

As a shock reaction to the Autumn mini-budget, ten-year Government bond yields increased by approximately 200 basis points in a month to reach 4.5% in late September and the value of sterling fell to historic lows. The Bank of England's response was a series of interest rate hikes, with the base rate rising from 1.75% in August 2022 to 4.5% in May 2023.

The ramifications of the increased cost of debt and rise in the risk-free rate have been multifaceted, from the impact on pensions, investment markets and property yields, to house prices, retail sales and consumer and business confidence.

Households have been impacted by the cost of living crisis, soaring fuel and energy bills, lower real incomes and rising debt and mortgage costs. Retail sales volumes did rise by 0.6% in the three months to March 2023, however this is the first rolling three-month increase since August 2021. It is hoped that increased post-pandemic tourism will go some way to compensate for weak domestic consumer demand in 2023.

The Consumer Price Index (CPI) rose by 8.7% in the 12 months to April 2023. This is the first month that consumer price inflation has been below 10% since August 2022. As inflationary pressures start to reduce, households are expected to increase spending power, helping to drive the economic recovery.

In terms of business confidence, the S&P Global/CIPS UK Composite PMI saw the longest period of decline since the Global Financial Crisis of 2007/08, experiencing six consecutive months of contraction to January 2023. This is due largely to the elevated cost of materials and labour putting pressure on profit margins, and higher financing costs hampering expansion plans. A sharp rebound began in February, and the latest data for April shows the Composite PMI was 54.9.

Although job vacancies have declined from their recent peak, at 1.08 million, they remain elevated. The strong labour market has driven up average pay; however, in real terms, wages are not keeping up with inflation.

At 3.9%, unemployment is very low by historic standards, having risen only slightly from a 50-year low of 3.5% in August 2022.

The economic backdrop is now showing positive signs of stabilisation and even recovery. GDP growth has surprised on the upside, with the UK narrowly avoiding a recession in 2022. UK GDP is estimated to have increased 0.1% in the three months to March 2023.

Inflation has been more stubborn than expected, owing largely to persistent growth in food prices. There have been improvements in supply driven inflation, as some of the production difficulties and supply chain issues faced by businesses have started to ease, leading to a fall in the price of imported goods. In addition, higher interest rates and the fall in households' disposable incomes have dampened demand driven inflation and fuel prices have fallen significantly.

Interest rate expectations have moderated compared to what was predicted in late 2022. Reduced uncertainty and falling inflation have allowed bond yields to stabilise, with ten-year Government bonds now at around 4%.

UK property market

Due to the sharp rise in the risk-free rate and cost of debt, the MSCI UK Quarterly Property Index All Property equivalent yield moved out by 85 basis points in the three months to December 2022. MSCI reported capital growth of -12.6% for this period, the fastest quarterly correction since December 2008 at the height of the Global Financial Crisis. The situation appears to now be stabilising and the three months to March 2023 saw capital growth of -1.0%.

Looking at the year to March 2023, the MSCI UK Quarterly Property Index reported an All Property total return of -12.6%, comprising -16.1% capital growth and 4.1% income return. This is in sharp contrast to the previous year; the total return for the 12 months to March 2022 was 19.5%.

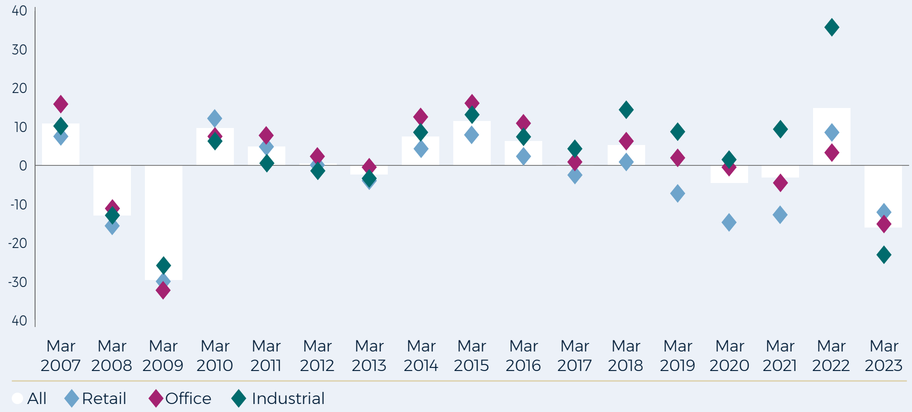
Despite the tribulations of the investment market, the occupier market saw a more encouraging performance, and All Property ERV growth for the year to March 2023 was 3.5%. This compares to 3.1% ERV growth for the year to March 2022.

Following an extraordinarily strong year of capital growth to March 2022, the low yielding industrial sector was disproportionately affected by the recent market correction. The MSCI All Industrial total return for the year to March 2023 was -20.4%, comprising capital growth of -23.2% and income return of 3.6%. Capital growth ranged from -18.7% to -27.1% between sub-sectors.

On a more positive note, due to ongoing supply constraints and healthy occupier demand, the industrial sector achieved strong rental growth for the year to March 2023 of 8.6%, ranging from 10.0% to 7.2% between sub-sectors.

In addition to the recent rise in yields experienced by all sectors, the office sector is still undergoing a structural change reflecting post-pandemic working patterns and sustainability-related costs. There is a growing trend of polarisation between prime, energy efficient space and secondary office stock and locations. MSCI reported an All Office total return of -12.3% for the year to March 2023, comprising -15.3% capital growth and 3.6% income return. Capital growth ranged from -10.3% to -22.7% between sub-sectors. ERV growth was 1.6%, ranging from 2.8% to 0.6% between sub-sectors.

MSCI UK Quarterly Property Index – Annual Capital Growth (%)



Following a prolonged phase of repricing, the retail sector suffered less of an impact from the recent correction than others. The MSCI All Retail total return for the year to March 2023 was -7.9%, comprising capital growth of -12.7% and income return of 5.4%. Capital growth ranged from -5.6% to -17.8% between sub-sectors. The wave of retailer liquidations and CVAs seems to have abated, and arguably retailers that survived the pandemic years should be better placed to weather the storm of weaker consumer demand owing to the cost of living crisis. Following four years of decline, All Retail ERV growth turned positive at 0.4%, ranging from 4.4% to -2.1% between sub-sectors.

According to analysis from Property Data, the total investment volume for the year to March 2023 was £50.6 billion, a 31% decrease on the year to March 2022. The slowdown in investment activity is only evident during the six months to March 2023, which is 58% down on the same period for the previous year.

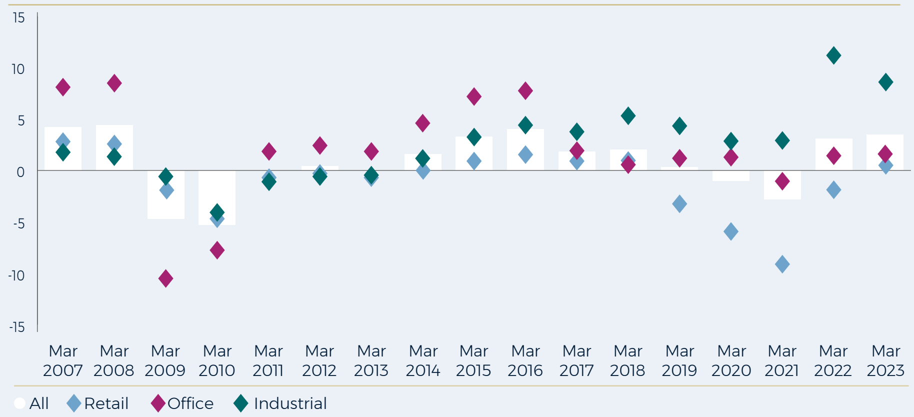
Investors have been waiting for greater stability in the macroenvironment, which has more recently been affected by concerns within the banking sector. The five-year swap rate currently stands at around 4%, placing the cost of debt just below the MSCI All Property equivalent yield.

The chart above shows the annual capital growth for All Property and the three main sectors. It illustrates the increased polarisation of sectors in more recent years, until the year to March 2023 which saw a return to a narrower range of capital growth.

The chart below shows the strength of industrial rental growth in comparison to other sectors, particularly in the last two years, and the significant rental value declines endured by the retail sector, particularly during the pandemic.

More recent data from the MSCI UK Monthly Property Index shows that property values have begun to stabilise with continued positive capital growth in the industrial and retail sectors in April.

MSCI UK Quarterly Property Index – Annual Estimated Rental Value Growth (%)



Our property portfolio consists of 49 assets. Our diverse exposure provides flexibility to adapt as market conditions dictate.

Industrial
57%

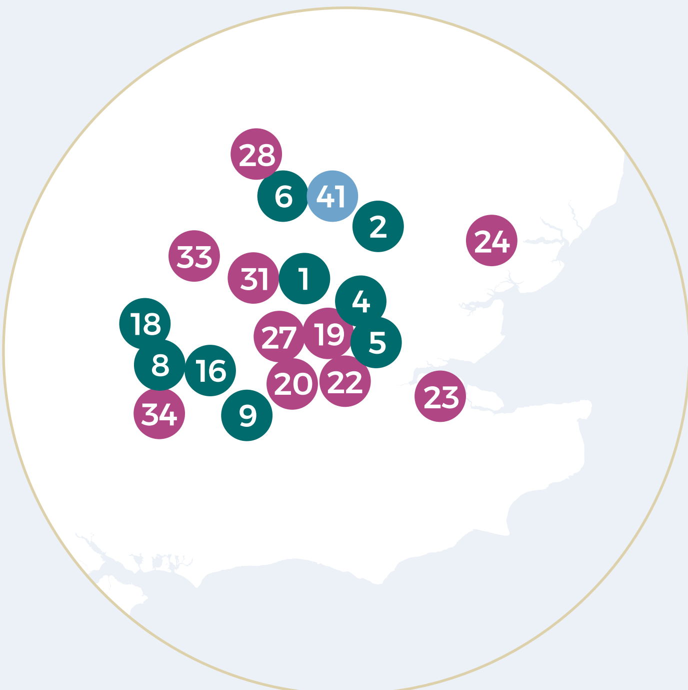
1. **Parkbury Industrial Estate** Radlett 343,700 sq ft – Freehold
2. **River Way Industrial Estate** Harlow 454,800 sq ft – Freehold
3. **Shipton Way** Rushden 312,900 sq ft – Freehold
4. **Datapoint** London E16 55,100 sq ft – Leasehold
5. **Lyon Business Park** Barking 99,400 sq ft – Freehold
6. **Sundon Business Park** Luton 127,800 sq ft – Freehold
7. **Trent Road** Grantham 336,100 sq ft – Leasehold
8. **The Business Centre** Wokingham 96,400 sq ft – Freehold
9. **Nonsuch Industrial Estate** Epsom 41,400 sq ft – Leasehold
10. **Madleaze Trading Estate** Gloucester 294,500 sq ft – Freehold
11. **Vigo 250** Washington 246,800 sq ft – Freehold
12. **Mill Place Trading Estate** Gloucester 376,800 sq ft – Leasehold
13. **Swiftbox** Rugby 99,500 sq ft – Freehold
14. **Easter Court** Warrington 81,800 sq ft – Freehold
15. **1 & 2 Kettlestring Lane** York 157,800 sq ft – Freehold
16. **Downmill Road** Bracknell 41,200 sq ft – Freehold
17. **Abbey Business Park** Belfast 61,500 sq ft – Freehold
18. **Magnet Trade Centre** Reading 13,700 sq ft – Freehold

Office
32%

19. **Angel Gate** London EC1 64,600 sq ft – Freehold
20. **Stanford Building** London WC2 20,100 sq ft – Freehold
21. **Tower Wharf** Bristol 70,600 sq ft – Freehold
22. **50 Farringdon Road** London EC1 31,300 sq ft – Leasehold
23. **30 & 50 Pembroke Court** Chatham 86,000 sq ft – Leasehold
24. **Colchester Business Park** Colchester 150,500 sq ft – Leasehold
25. **Metro** Manchester 71,000 sq ft – Freehold
26. **180 West George Street** Glasgow 52,200 sq ft – Freehold
27. **Charlotte Terrace** London W14 32,900 sq ft – Freehold
28. **401 Grafton Gate** Milton Keynes 57,500 sq ft – Freehold
29. **Queen's House** Glasgow 49,400 sq ft – Freehold
30. **Longcross** Cardiff 69,700 sq ft – Freehold
31. **Trident House** St Albans 19,000 sq ft – Freehold
32. **109-117 High Street** Cheltenham 16,800 sq ft – Freehold
33. **Atlas House** Marlow 24,800 sq ft – Freehold
34. **Sentinel House** Fleet 33,500 sq ft – Freehold
35. **Waterside House** Leeds 25,200 sq ft – Freehold

Retail and Leisure
11%

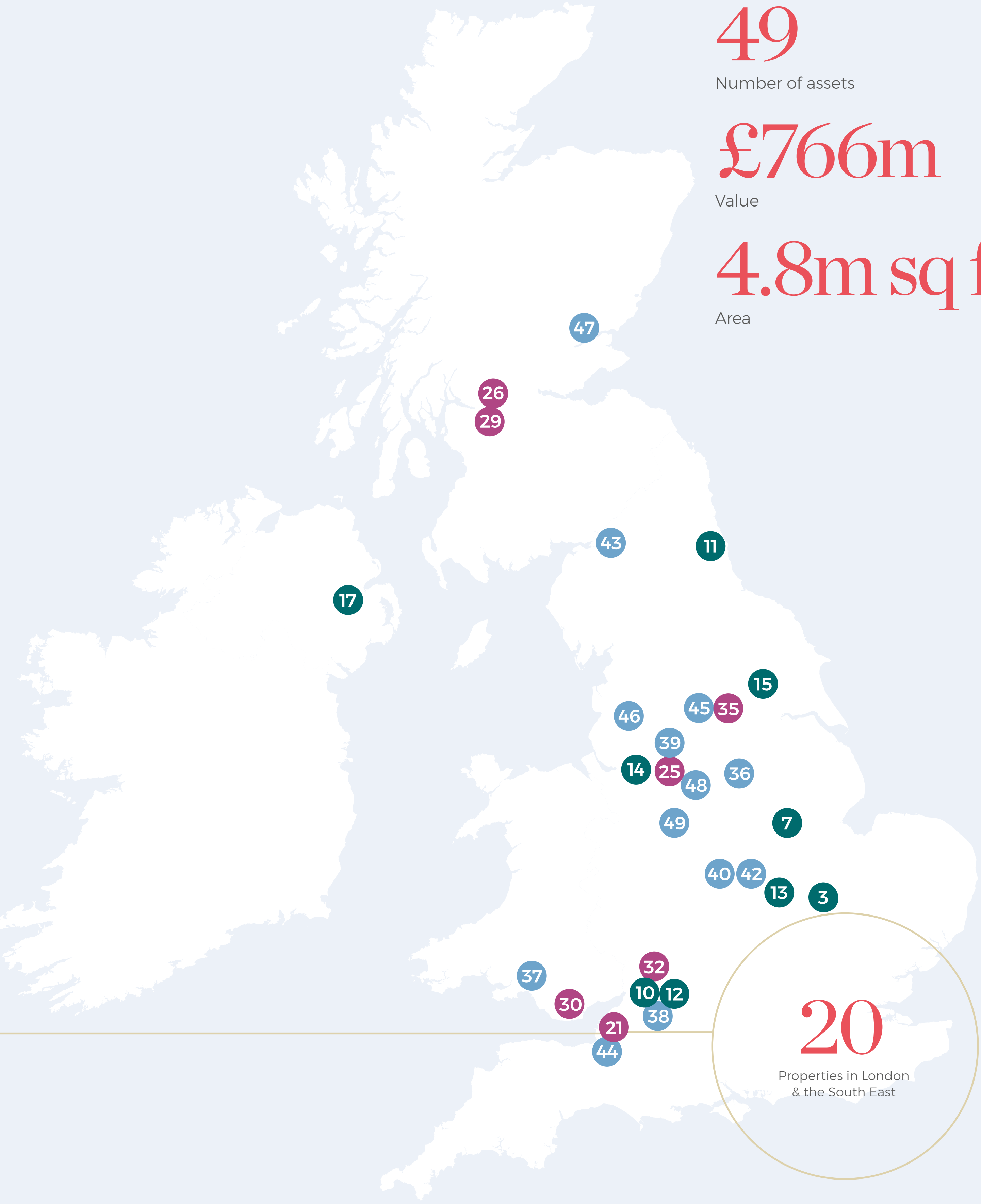
36. **Queens Road** Sheffield 105,600 sq ft – Freehold
37. **Parc Tawe North Retail Park** Swansea 116,700 sq ft – Leasehold
38. **Gloucester Retail Park** Gloucester 113,900 sq ft – Freehold
39. **Angouleme Retail Park** Bury 76,200 sq ft – Freehold
40. **Regency Wharf** Birmingham 41,000 sq ft – Leasehold
41. **Thistle Express** Luton 81,600 sq ft – Leasehold
42. **Scots Corner** Birmingham 25,500 sq ft – Freehold
43. **Crown & Mitre Building** Carlisle 25,200 sq ft – Freehold
44. **53-57 Broadmead** Bristol 13,200 sq ft – Leasehold
45. **78-80 Briggate** Leeds 7,700 sq ft – Freehold
46. **17-19 Fishergate** Preston 50,100 sq ft – Freehold
47. **72-78 Murraygate** Dundee 9,700 sq ft – Freehold
48. **7-9 Warren Street** Stockport 8,700 sq ft – Freehold
49. **6-12 Parliament Row** Hanley 17,300 sq ft – Freehold



49
Number of assets

£766m
Value

4.8m sq ft
Area



Top ten assets

1/

Parkbury Industrial Estate, Radlett

Property type
Industrial

Approximate area (sq ft)
343,700

Capital value (£m)
>100

No. of occupiers
21

Occupancy rate (%)
98

EPC rating
A–D

2/

River Way Industrial Estate, Harlow

Property type
Industrial

Approximate area (sq ft)
454,800

Capital value (£m)
50–75

No. of occupiers
10

Occupancy rate (%)
100

EPC rating
A–D

3/

Angel Gate, City Road, London EC1

Property type
Office

Approximate area (sq ft)
64,600

Capital value (£m)
30–50

No. of occupiers
16

Occupancy rate (%)
56

EPC rating
B–E

4/

Stanford Building, London WC2

Property type
Office

Approximate area (sq ft)
20,100

Capital value (£m)
30–50

No. of occupiers
5

Occupancy rate (%)
100

EPC rating
B–D

5/

Shipton Way, Rushden

Property type
Industrial

Approximate area (sq ft)
312,900

Capital value (£m)
30–50

No. of occupiers
1

Occupancy rate (%)
100

EPC rating
C

6/

Datapoint, Cody Road, London E16

Property type
Industrial

Approximate area (sq ft)
55,100

Capital value (£m)
20–30

No. of occupiers
6

Occupancy rate (%)
100

EPC rating
B–C

7/

Lyon Business Park, Barking

Property type
Industrial

Approximate area (sq ft)
99,400

Capital value (£m)
20–30

No. of occupiers
7

Occupancy rate (%)
76

EPC rating
B–E

8/

Tower Wharf, Cheese Lane, Bristol

Property type
Office

Approximate area (sq ft)
70,600

Capital value (£m)
20–30

No. of occupiers
6

Occupancy rate (%)
90

EPC rating
B–D

9/

50 Farringdon Road, London EC1

Property type
Office

Approximate area (sq ft)
31,300

Capital value (£m)
20–30

No. of occupiers
4

Occupancy rate (%)
100

EPC rating
B

10/

Sundon Business Park, Dencora Way, Luton

Property type
Industrial

Approximate area (sq ft)
127,800

Capital value (£m)
20–30

No. of occupiers
11

Occupancy rate (%)
93

EPC rating
B–D

Continued proactive management of our portfolio

> Our occupier focused approach and philosophy of working in collaboration with our occupiers are significant contributors to our long-term track record of outperformance.

Jay Cable
Head of Asset Management

The year has been characterised by significant active management activity, set against headwinds of repricing and occupier caution driven by a rising interest rate environment.

Top ten occupiers

The largest occupiers, based as a percentage of contracted rent, as at 31 March 2023, are as follows:

Occupier	Contracted rent (£m)	%
Public sector	2.3	4.8
Whistl UK Limited	1.6	3.5
B&Q Plc	1.2	2.6
The Random House Group Limited	1.2	2.5
Snorkel Europe Limited	1.2	2.5
XMA Limited	1.0	2.1
Portal Chatham LLP	1.0	2.0
DHL Supply Chain Limited	0.8	1.7
4 Aces Limited	0.7	1.5
Hi-Speed Services Limited	0.7	1.5
Total	**11.7**	**24.7**

Industrial weighting

57%

South East	**41%**
Rest of UK	**16%**

Office weighting

32%

Central London	**13%**
Rest of UK	**10%**
South East	**9%**

Retail and Leisure

11%

Retail Warehouse	**7%**
High Street Rest of UK	**2%**
Leisure	**2%**

We have continued to actively manage the portfolio, increasing passing rent and estimated rental value (ERV) by working with our occupiers, investing into our assets, and advancing our sustainability priorities.

The overall portfolio passing rent is £43.3 million, an increase from the prior year of £4.7 million. On a like-for-like basis this increased by 10% and the contracted rent, which is the gross rent receivable after lease incentives, increased by £1.1 million or 3%.

The March 2023 ERV of the portfolio is £55.8 million, a 9% increase on the prior year on a like-for-like basis. We had ERV growth of 18% in the industrial sector proven by new lettings and active management, whilst the office sector was up 2% and the retail and leisure sector reduced by 1%.

We have been able to offset some of the valuation re-rating through the completion of over 100 asset management transactions.

Inflationary pressures and rising energy costs have impacted all sectors but particularly the office sector, where service charges are highest.

Occupational demand remains resilient in the industrial sector and in the retail sector it has stabilised for good quality real estate, with the business rates' revaluation acting to reduce occupational costs. The office sector is still going through a period of transition following the pandemic, with a flight to quality and many occupiers still uncertain about working patterns and operating on a more flexible basis. We are adapting our portfolio and exploring alternative uses as we position our portfolio for the medium-term.

Our investment into assets has helped us to retain and secure new occupiers while improving our EPC ratings, with our refurbishment guidelines specifying a minimum B rating for most projects.

We continue to be occupier focused and this approach remains key to our active management of the portfolio. This philosophy of working in collaboration with our occupiers is a significant contributor to our long-term track record of outperformance.

10%

Like-for-like increase in passing rent

9%

Like-for-like increase in ERV

Portfolio overview

Performance

Our portfolio comprises 49 assets, with around 400 occupiers, and is valued at £766 million with a net initial yield of 5.0% and a reversionary yield of 6.7%. The average lot size of the portfolio is £15.6 million as at 31 March 2023.

Our asset allocation, with 57% in industrial, 32% in office and 11% in retail and leisure, combined with transactional activity, has enabled us to materially outperform the MSCI UK Quarterly Property Index over the year.

Overall, the like-for-like valuation decreased by 12%, after a 21% increase in the prior year. This compares with the MSCI UK Quarterly Property Index recording a capital value decrease of 16% over the period.

We believe that the portfolio remains well placed in respect of our overall sector allocations. Where demand is weaker, we are exploring higher value alternative use strategies.

Industrial

The recent economic turmoil has had a direct impact on property yields. Industrial property is the lowest yielding sector, and these yields have risen to maintain the margin above the risk-free rate.

Conversely, occupational demand in the sector remains resilient and we are capturing rental growth. A lack of supply, especially of multi-let estates, coupled with increasing build costs, means that occupiers have restricted choice when looking for a unit, which has driven strong rental growth across the country.

On a like-for-like basis, capital values decreased by 14%, or £70.7 million, and some of the significant gains over the past two years have been eroded. The passing rent increased by 13% and the ERV grew by 18%, or £4.1 million, on a like-for-like basis.

We remain committed to the sector over the medium-term, primarily due to the strength of occupational demand, lack of supply and low capital expenditure requirements.

Our UK-wide distribution warehouse assets total 1.2 million sq ft in five units, which are fully leased with a weighted average unexpired lease term of 4.4 years. Two of the units have rent reviews outstanding and we expect to secure significant uplifts.

The multi-let estates, of which 89% by value are in the South East, total 2.1 million sq ft and we only have eight vacant units out of 161, with one under offer and four currently undergoing refurbishment.

The industrial portfolio currently has £7.6 million of reversionary income potential, with £1.3 million relating to the void units.

Office

In respect of the office sector, it remains a story of Grade A versus everything else with the latter proving harder to lease. There is now a noticeably widening yield gap aligned to quality and increasing capital expenditure required for ongoing upgrades, including sustainability improvements.

The investment into our portfolio over the past few years means most of our buildings are good quality, future-proofed and increasingly sustainable with a focus on health and wellbeing – all of which are attractive attributes to occupiers.

Several of our properties have alternative use potential, and we have progressed this on three buildings with existing vacancies, further detailed within the portfolio activity section.

On a like-for-like basis, capital values decreased by 10%, or £24.4 million. The passing rent increased by 6% and the ERV grew by 2%, or £0.3 million.

91%
Occupancy

£766m
Portfolio valuation

The office portfolio currently has £5.6 million of reversionary income potential, with £3.6 million relating to the void units.

Retail and Leisure

The retail and leisure sector was already high yielding and has therefore been less affected by outward yield movement. The cost of living crisis is predicted to further affect the sector; however, our fully leased retail warehouse parks are underpinned by value led retailers.

The retail warehouse assets, which make up 7% of the total portfolio, total 0.4 million sq ft in 19 units across four parks and are fully leased, with a weighted average unexpired lease term of 5.2 years.

Our high yielding high street portfolio, which makes up 2% of the total portfolio, is fully leased with the exception of one unit in Carlisle which is under offer. We see opportunities in the sector for prime high street locations off rebased rents.

On a like-for-like basis, capital values decreased by 8%, or £7.1 million. The passing rent increased by 9% and the ERV declined by 1%, or £0.1 million.

The retail and leisure portfolio has negative reversion of £0.7 million per annum, primarily relating to the over renting of the high street retail assets.

> We believe the portfolio remains well placed in respect of our sector allocations.
>
> **Jay Cable**
> Head of Asset Management

Portfolio activity

Proactive management

It has been a very active year in respect of asset management transactions.

We completed:

- 39 lettings or agreements to lease, 25% ahead of ERV and securing a new contracted rent of £2.3 million
- 37 lease renewals or regears, 6% ahead of ERV, securing an uplift in contracted rent of £0.7 million
- 20 rent reviews, 7% ahead of ERV, securing an uplift in passing rent of £0.7 million
- Three lease variations to remove occupier break options, securing £0.4 million of income
- 11 lease surrenders to facilitate active management

Leasing and occupancy

Occupancy has decreased during the year from 93% to 91% with a total void ERV of £5.3 million, which compares to the MSCI UK Quarterly Property Index of 92% as at 31 March 2023.

Our industrial portfolio is 95% leased with demand remaining high across the country. We have only eight vacant industrial units, four of which are being refurbished.

The office portfolio occupancy is 83%. Our occupancy has reduced primarily due to three office properties where we are working through potential changes of use to residential and student accommodation. Excluding these three properties, the office occupancy rate would increase to 91%.

During the year our SwiftSpace offering has helped to grow occupancy in smaller units, with nearly a quarter of lettings by number being SwiftSpace lettings across four properties.

In terms of retail and leisure, occupancy is 94%. The retail warehouse portfolio is fully leased, and we have one vacant high street shop, which is under offer. At Regency Wharf, Birmingham, we have a small office element to lease.

Our largest voids are at:

- Angel Gate, London – accounting for 18% of the total portfolio void. We are in the process of securing change of use at the property to residential in respect of vacant units.
- Charlotte Terrace, London – accounting for 12% of the total void. We recently acquired this property and have submitted a planning application for change of use of part of the space to residential.
- Longcross, Cardiff – accounting for 9% of the total void. We are working through options for alternative uses.

Retention

Over the year, total ERV at risk due to lease expiries or break options totalled £5.5 million, in line with the year to March 2022.

We retained 67% of total ERV at risk in the year to March 2023. Of the ERV that was not retained, a further 8% or £0.5 million was re-let to new occupiers during the year.

In addition, a further £3.4 million of ERV was retained by either removing future breaks or extending future lease expiries ahead of the lease event.

Longevity of income

As at 31 March 2023, expressed as a percentage of contracted rent, the average length of leases to first termination was 4.6 years (2022: 4.8 years). This is summarised as follows:

	%
0 to 1 year	12.9
1 to 2 years	14.2
2 to 3 years	21.7
3 to 4 years	12.5
4 to 5 years	11.5
5 to 10 years	18.4
10 to 15 years	7.6
15 years or more	1.2
Total	**100**

Portfolio investment

We have invested into our portfolio to enhance space for our occupiers and improve the sustainability credentials of our buildings.

Jay Cable
Head of Asset Management

Refurbishment upgrades

Over the year we have invested £6.1 million into the portfolio across over 15 projects, with the top five projects accounting for 65% of the spend.

These have all been aimed at enhancing space to attract occupiers, improve sustainability credentials and grow income. All works undertaken are in line with our refurbishment guidelines, outlining best industry practice, which includes where appropriate, the removal of natural gas from buildings, installation of solar panels and insulation upgrades in line with our net zero carbon pathway.

We are continually focused on future-proofing assets from a sustainability perspective, which has resulted in an improvement in our EPC ratings with 76% of our properties (by rental value) now rated C and above.

Read more on pages **14–15**

£6.1m
Invested into the portfolio

76%
EPC ratings A-C

Investment activity

We acquired two new properties during the year, as well as the acquisition of a further unit at an existing holding.

109-117 High Street, Cheltenham – £5.3 million

This mixed-use property comprises 7,700 sq ft of ground floor retail space with 11,450 sq ft of office space over two upper floors, and is located in Cheltenham's pedestrianised town centre, adjacent to John Lewis.

Comprehensively refurbished in 2020, the property has good environmental credentials including EPC ratings of B on both the office and retail elements and no natural gas.

On purchase it was leased to four occupiers, with an average lease length of 12 years to expiry and eight years to break. We have since surrendered one of the retail leases and re-let the unit to a national retailer, securing a ten-year lease, subject to break.

The current contracted rent is £0.4 million, equating to £21 per sq ft, with most leases containing fixed rental uplifts that will increase income to £0.5 million per annum by 2026.

The purchase price reflected a net initial yield of 7.2%, rising to 9.0% by 2026. The low capital value of £277 per sq ft is below its estimated replacement cost.

Charlotte Terrace, Hammersmith Road, W14 –£13.7 million

This mixed-use asset comprises four adjoining buildings, which total 28,500 sq ft of office space and 4,400 sq ft of retail space, arranged over five floors. The property was redeveloped behind the façade in 1990 and is Grade II listed, meaning there are no business rates payable on void units.

The property is located close to Olympia, which is currently undergoing a £1 billion redevelopment to deliver a new creative district, with a new theatre, entertainment venue, hotel, office, retail and leisure space, which will enhance the surrounding area.

Since purchase we have leased a retail unit and an office suite. We are in the process of relocating an office occupier, to secure vacant possession of one of the office buildings so we can seek a change of use to residential and the planning application for this has been submitted.

The purchase price reflects a net initial yield of 3.3%, rising to over 8% once fully let and reflecting a low capital value of £417 per sq ft, which is below its estimated replacement cost. Residential values in the area are approximately £1,000 per sq ft.

Unit 7V Madleaze Trading Estate, Gloucester – £0.4 million

We acquired another unit on this industrial estate with vacant possession, and leased the space to an existing occupier. The acquisition helps to consolidate our ownership.

Read more on pages **12–13**

In addition, we acquired the freehold of our Rushden distribution asset for nil consideration, having previously owned a long leasehold interest.

Looking ahead

Outlook

The sharp yield correction in 2022 has caused a repricing of commercial property, but we are now seeing values stabilise, creating potential opportunities in some sectors.

The quality of our portfolio, which has benefited from significant investment in respect of refurbishments and sustainability upgrades in recent years, means that we have started to future-proof properties to ensure that they are attractive to occupiers. Our net zero carbon pathway is in place, and we will continue to invest in the improvement of our buildings.

Our occupiers remain our key focus and we have long-standing relationships with many of them, which enable us to work with and assist businesses as they grow and contract.

As at 31 March 2023 the portfolio had £12.5 million of reversionary income potential; £5.3 million from letting the vacant space, £4.2 million from expiring rent-free periods or stepped rents and £3.0 million where the rent is below market level. This is significant and is our focus for the coming year.

Demand for our industrial properties continues to be resilient as proven by our high occupancy and growing ERVs. With this sector accounting for 57% of the total portfolio by value, we believe it will contribute to our performance off rebased values that are now stable, with supply constraints and high building costs likely to lead to further rental growth.

Many of our office buildings have had investment into them in recent years, to upgrade space, create occupier amenities and improve their sustainability credentials. Our best-in-class offices are attracting and retaining occupiers; however, where we do have higher vacancy rates, we are exploring higher value alternative uses, including residential conversion at two central London properties. The sector is going through an adjustment, and we will look to reduce exposure through change of use and selective sales.

The retail and leisure sector has recovered following the pandemic, but there are still headwinds in respect of an oversupply of floor space and a cost of living crisis impacting disposable income. By virtue of the marked repricing in this sector in prior years we believe there are opportunities in the sector for selective acquisitions.

The portfolio is well placed and of a high quality, enabling us to maintain and enhance income through our proven occupier focused approach. Looking forward, our focus is on growing occupancy and improving the overall portfolio quality through selective disposals, reinvestment and refurbishments to improve the sustainability credentials of our assets.

Jay Cable
Head of Asset Management

A year marked by resilient income, despite valuation movements

> Rental income has increased by 7% compared to 2022.
>
> **Andrew Dewhirst**
> Finance Director

£570m
EPRA NDV
2022: £650m
2021: £507m

£548m
EPRA NTA
2022: £657m
2021: £528m

100p
Net assets per share
2022: 120p
2021: 97p

3.5p
Dividends per share
2022: 3.4p
2021: 2.8p

112%
Dividend cover
2022: 115%
2021: 134%

3.9p
EPRA earnings per share
2022: 3.9p
2021: 3.7p

27%
Loan to value
2022: 21%
2021: 21%

£21m
EPRA earnings
2022: £21m
2021: £20m

The early part of this financial year saw the UK economy continue to grow, and at 30 June 2022 our net asset value reached £670 million. However, the September mini-budget caused a significant shock to UK markets, with rising interest rates and bond yields impacting commercial property pricing. The negative capital growth between September and December was the largest ever quarterly movement recorded by MSCI.

Our overall loss for the year was £90.0 million, comprising a negative valuation movement of £111.3 million and EPRA earnings of £21.3 million. This year, we have seen the reversal of some of the record valuation gains recorded in 2021/22.

Our EPRA earnings, comprising the operating results and net interest expense were £21.3 million for the year, a small increase over the equivalent figure last year. As discussed below, rental income rose by 7.1% compared to 2022; however, this increase was largely offset by higher property operating and void costs.

Commercial property values fell in the latter half of 2022 as interest rates and bond yields rose rapidly. Although we have seen valuation movements moderating in the first quarter of 2023, further interest rate rises may still have an adverse impact this year.

Based on these results our total return for the year was -13.9%, compared to 28.3% for the year to 31 March 2022.

Net asset value

The net assets of the Group at 31 March 2023 were £547.6 million, or 100 pence per share, which was a fall of 16.7% over the year. The chart below shows the components of this decrease.

	£m
March 2022 net asset value	657.1
EPRA earnings	21.3
Valuation movement	(111.3)
Share-based awards	0.7
Purchase of shares	(1.1)
Dividends paid	(19.1)
March 2023 net asset value	**547.6**

The following table reconciles the net asset value calculated in accordance with International Financial Reporting Standards (IFRS) with that of the European Public Real Estate Association (EPRA).

	2023 £m	2022 £m	2021 £m
Net assets – IFRS and EPRA net tangible asset value	**547.6**	657.1	528.2
Fair value of debt	**22.8**	(6.7)	(21.0)
EPRA net disposal value	**570.4**	650.4	507.2
Net asset value per share (pence)	**100**	120	97
EPRA net tangible asset value per share (pence)	**100**	120	97
EPRA net disposal value per share (pence)	**105**	119	93

Income statement

The result for the year is dominated by the adverse valuation movement at the end of 2022 as property yields moved out. However, EPRA earnings were stable, with increased rental income largely offset by increased property costs.

Total revenue from the property portfolio for the year was £51.8 million, up from £46.5 million last year. Rental income has increased by 7.1% compared to 2022, as a result of the impact of new acquisitions over the full year, as well as rental growth.

Property operating and void costs have shown a marked increase this year, from £4.9 million to £7.1 million. This is partly the result of the higher vacancy rate, but also demonstrates the impact of inflation and higher costs over the past year. Administrative expenses, however, only increased by a small amount, £0.2 million, or 3.5%, to a little under £6.0 million. Staff costs were broadly in line with the previous year, while some one-off costs incurred this year increased other corporate expenses.

Interest and other finance costs have increased from £8.5 million to £9.0 million. This is partly due to the additional interest on the increased Canada Life facility, which completed in March 2022. This transaction also extended the facility to 2031, reduced the interest rate to 3.25% and enabled us to repay most of the revolving credit facility.

95% of our borrowings are at fixed rates and do not mature until 2031/32. This year we have drawn down further under our revolving credit facility to finance acquisitions. Although only a relatively small element of our total borrowings, the interest rate on our revolving credit facility has increased from 2.3% in March 2022 to its current rate of 5.8%.

The negative capital movement on the portfolio was £111.3 million for the year, including the movement on owner-occupied property. The industrial sector saw the largest movement, especially where yields were lowest.

Dividends

This year we have maintained our quarterly dividend rate of 0.875 pence per share, equating to an annual rate of 3.5 pence per share. Total dividends paid out were £19.1 million, an increase of 3.6% compared to 2022. Dividend cover for the year remained healthy at 112%.

Investment properties

The appraised value of our investment property portfolio was £766.2 million at 31 March 2023, lower than the £849.3 million reported a year ago. We have made acquisitions this year, for a total consideration of £20.6 million, including costs. These acquisitions are discussed in more detail in the Portfolio Review section. Also this year, we have invested £6.1 million of capital expenditure in the portfolio upgrading a number of assets, including Madleaze Trading Estate, Gloucester, Colchester Business Park, Lyon Business Park, Essex and Metro, Manchester.

In line with last year, the value of the floor that we occupy at Stanford Building, London, has been excluded from the value of Investment Properties and included separately with Property, Plant and Equipment. Any capital movements arising from the revaluation of this element of the property are shown within Other Comprehensive Income.

At 31 March 2023 the portfolio comprised 49 assets, with an average lot size of £15.6 million.

A further analysis of capital expenditure, in accordance with EPRA Best Practices Recommendations, is set out in the EPRA BPR and Supplementary Disclosures section.

	2023	2022	2021
Fixed rate loans (£m)	**212.6**	213.9	166.2
Drawn revolving facility (£m)	**11.9**	4.9	–
Total borrowings (£m)	**224.5**	218.8	166.2
Borrowings net of cash (£m)	**204.4**	180.3	142.8
Undrawn facilities (£m)	**38.1**	45.1	50.0
Loan to value ratio (%)	**26.7**	21.2	20.9
Weighted average interest rate (%)	**3.8**	3.7	4.2
Average duration (years)	**8.4**	9.6	8.9

Borrowings

Total borrowings are now £224.5 million at 31 March 2023, with the loan to value ratio at 26.7%. The weighted average interest rate on our borrowings is 3.8%, while the average loan duration is now 8.4 years.

Our loan facility with Aviva reduced by the regular amortisation, £1.4 million in the year.

The Group remained fully compliant with its loan covenants throughout the year. At 31 March 2023, we had £11.9 million drawn under the revolving credit facility, which matures in 2025. This year we drew down £7.0 million under this facility, largely to fund the acquisition of the new Cheltenham asset, as well as for ongoing capital expenditure projects.

The fair value of our drawn borrowings at 31 March 2023 was £201.7 million, lower than the book value by some £22.8 million. As a result, our EPRA NDV asset value was £570.4 million at 31 March 2023, higher than the reported net assets under IFRS. Both lending margins and gilt yields are currently higher relative to the rates set on our facilities.

A summary of our borrowings is set out in the table above.

Cash flow and liquidity

Our cash outflow for the year was £18.5 million. The cash flow from operating activities this year is £23.0 million, some 15% higher than the previous year. We invested £26.8 million during the year; £20.6 million being the consideration paid for two principal acquisitions, as well as £6.1 million of capital expenditure. Overall borrowings increased by £5.6 million. Dividends paid increased to £19.1 million. Our cash balance at the year-end stood at £20.1 million.

Share capital

No new ordinary shares were issued during the year.

The Company's Employee Benefit Trust acquired a further 1,250,000 shares, at a cost of £1.1 million, or 90 pence per share, during the year. This was to satisfy the future vesting of awards made under the Long-term Incentive Plan and Deferred Bonus Plan, and now holds a total of 2,388,694 shares. As the Trust is consolidated into the Group's results, these shares are effectively held in treasury and therefore have been excluded from the net asset value and earnings per share calculations, from the date of purchase.

Andrew Dewhirst
Finance Director
24 May 2023

EPRA Best Practices Recommendations (BPR)

The EPRA key performance measures for the year are set out here, with more detail provided in the EPRA BPR and Supplementary Disclosures section which starts on page 155. This year we have also included the EPRA loan to value measure (EPRA LTV).

Alternative performance measures (APMs)

We use a number of alternative performance measures (APMs) when reporting on the performance of the business and its financial position. These do not always have a standard meaning and may not be comparable to those used by other entities. However, we use industry standard measures and terminology where possible.

In common with many other listed property companies we report the EPRA performance measures. We have reported these for a number of years in order to provide a consistent comparison with similar companies. In the Additional Information section of this report we provide more detailed information and reconciliations to IFRS where appropriate.

Our key performance indicators include three of the key EPRA measures but also total return, total property return, property income return, total shareholder return, loan to value ratio, cost ratio, occupier retention rate, employee satisfaction and EPC ratings. The definition of these measures, and the rationale for their use, is set out in the Key Performance Indicators section.

EPRA's mission

The European Public Real Estate Association's (EPRA) mission is to promote, develop and represent the European public real estate sector. As an EPRA member, we fully support the EPRA Best Practices Recommendations which recognise the key performance indicator measures, as detailed here.

Specific EPRA metrics can also be found within the Key Performance Indicators section of this report with further disclosures and supporting calculations on pages 155 to 158.

EPRA measures

100p
EPRA NTA per share
2022: 120p
2021: 97p

105p
EPRA NDV per share
2022: 119p
2021: 93p

110p
EPRA NRV per share
2022: 131p
2021: 105p

£21.3m
EPRA earnings
2022: £21.2m
2021: £20.1m

3.9p
EPRA earnings per share
2022: 3.9p
2021: 3.7p

9.5%
EPRA vacancy rate
2022: 7.2%
2021: 8.8%

5.5%
EPRA 'topped-up' net initial yield
2022: 4.8%
2021: 5.5%

5.0%
EPRA net initial yield
2022: 4.1%
2021: 4.8%

29.9%
EPRA cost ratio[1]
2022: 26.0%
2021: 26.9%

21.3%
EPRA cost ratio[2]
2022: 19.9%
2021: 20.8%

27.0%
EPRA LTV
2022: 21.3%
2021: 21.0%

1 Including direct vacancy costs
2 Excluding direct vacancy costs

Managing risks

The Board recognises that there are risks and uncertainties that could have a material impact on the Group's results.

Risk management provides a structured approach to the decision-making process such that the identified risks can be mitigated and the uncertainty surrounding expected outcomes can be reduced. The Board has developed a Risk Management Policy which it reviews on a regular basis. The Audit and Risk Committee carries out a detailed assessment of all risks, whether investment or operational, and considers the effectiveness of the risk management and internal control processes. The Executive Committee is responsible for implementing strategy within the agreed Risk Management Policy, as well as identifying and assessing risk in day-to-day operational matters. The Management Committees support the Executive Committee in these matters.

The small number of employees and relatively flat management structure allow risks to be quickly identified and assessed. The Group's risk appetite will vary over time and during the course of the property cycle. The principal risks – those with potential to have a material impact on performance and results – are set out here, together with mitigating controls.

The UK Corporate Governance Code requires the Board to make a Viability Statement. This considers the Company's current position and principal and emerging risks and uncertainties combined with an assessment of the future prospects for the Company, in order that the Board can state that the Company will be able to continue its operations over the period of their assessment. The statement is set out in the Directors' Report.

Principal risks and trends

- Increasing
- No change/stable
- Decreasing

1	Political and economic	Increasing
2	Market cycle	Increasing
3	Regulatory and tax	No change/stable
4	Climate change resilience	Increasing
5	Portfolio strategy	Increasing
6	Investment	Increasing
7	Asset management	No change/stable
8	Valuation	Increasing
9	People	No change/stable
10	Finance strategy	No change/stable
11	Capital structure	Increasing

Climate-related risks

Last year the Board carried out an assessment of the physical and transition risks most relevant to the business, and undertook a review of its procedures for identifying and managing those risks. The recommendations arising from the review have been implemented this year. The mitigating actions that have been carried out in respect of climate-related risks are described in the Task Force on Climate-related Financial Disclosures section of the report, together with more detail on the risk assessment and modelling undertaken.

Read more on pages **47–55**

Emerging risks

During the year the Board has considered themes where emerging risks or disrupting events may impact the business. These may arise from behavioural changes, political or regulatory changes, advances in technology, environmental factors, economic conditions or demographic changes. All emerging risks are reviewed as part of the ongoing risk management process.

The principal emerging risks have been identified to be:

– high inflation remaining in the UK economy, causing further interest rate rises and an adverse impact on asset values;
– further political uncertainty in the lead-up to a general election in the UK;
– the increasing importance of sustainability issues to all stakeholders;
– changing demand for commercial space, as businesses reassess their requirements in the light of more flexible working, advances in AI technology and employee wellbeing;
– changes in regulations are increasing environmental standards and property owners must keep pace to avoid the risk of stranded assets; and
– cyber security, with an increased prevalence of ransomware attacks and greater vulnerability of systems with home working.

Risk management framework

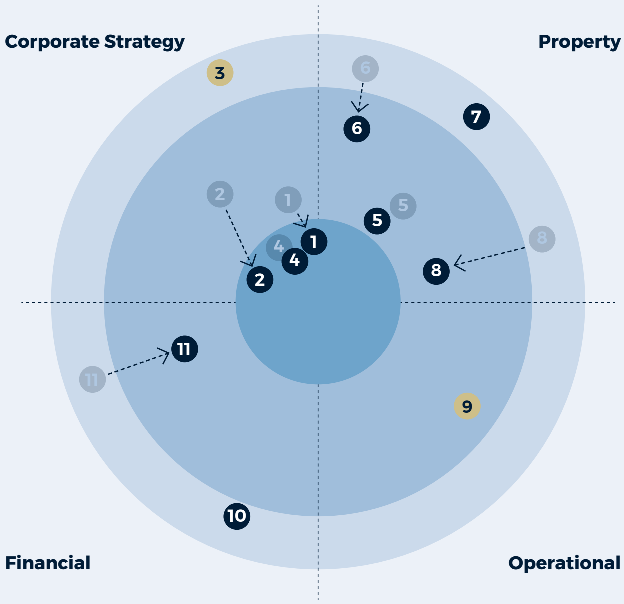
Board
- Has overall responsibility for risk management
- Determines business model
- Considers risk appetite

Executive Committee
- Implements strategy and risk policy
- Identifies and assesses risks
- Carries out risk mitigation

Audit and Risk Committee
- Recommends risk management policy
- Reviews internal controls
- Reviews detailed risk matrix
- Considers principal and emerging risks

Management Committees
- Review specific transaction risks
- Consider forthcoming legislation
- Review operational risk

The matrix below illustrates the assessment of the impact and likelihood of each of the principal risks.



Principal risk likelihood High ● Medium ● Low ●

Estimated risk of occurrence within next five years
0% to 10% ●
10% to 33% ●
Greater than 33% ●

Read more on pages **44–46**

Corporate Strategy

1

Political and economic

Risk	Mitigation	Commentary	Risk trend
Uncertainty in the UK economy, whether arising from political events or otherwise, brings risks to the property market and to occupiers' businesses. This can result in lower shareholder returns, lower asset liquidity and increased occupier failure.	The Board considers economic conditions and market uncertainty when setting strategy, considering the financial strategy of the business and in making investment decisions.	Economic uncertainty has risen over the year, although is less than in the immediate aftermath of the September mini-budget. Interest rates have risen significantly and inflation remains at a high level. The cost of living crisis is still evident and industrial disputes, particularly in the public sector, are causing further disruption. The UK economy is not forecast to grow by any meaningful amount over the next year. The war in Ukraine continues to impact global politics and economics.	

2

Market cycle

Risk	Mitigation	Commentary	Risk trend
The property market is cyclical and returns can be volatile. There is an ongoing risk that the Company fails to react appropriately to changing market conditions, resulting in an adverse impact on shareholder returns.	The Board reviews the Group's strategy and business objectives on a regular basis and considers whether any change is needed, in light of current and forecast market conditions.	Economic factors have caused more volatility in the property market this year. Interest rates and bond yields have risen, with a consequent adverse impact on property yields and valuations, particularly towards the end of 2022.	

3

Regulatory and tax

Risk	Mitigation	Commentary	Risk trend
The Group could fail to comply with legal, fiscal, health and safety or regulatory matters which could lead to financial loss, reputational damage or loss of REIT status.	The Board and senior management receive regular updates on relevant laws and regulations from the Group's professional advisers. The Group has a Health and Safety Committee which monitors all health and safety issues including oversight of the Property Manager. The Group is a member of the BPF and EPRA, and management attend industry briefings.	There are no significant changes expected to the regulatory environment in which the Group operates.	

4

Climate change resilience

Risk	Mitigation	Commentary	Risk trend
Failure to react to climate change could lead to reputational damage, loss of income and value and being unable to attract occupiers. Rising materials and energy costs as a result of climate change could give rise to asset obsolescence.	Sustainability is embedded within the Group's business model and strategy. We have published our pathway to net zero carbon and have reported on our progress this year. We have addressed the identification and assessment of climate-related risks as identified through the TCFD process.	Climate change resilience remains a key issue for property owners. The increasing cost of energy has raised the importance of building efficiency for occupiers. On-site renewables, such as solar panels, are increasingly being included in refurbishment projects.	

Property

5

Portfolio strategy

Risk	Mitigation	Commentary	Risk trend
The Group has an inappropriate portfolio strategy, as a result of poor sector or geographical allocations, or holding obsolete assets, leading to lower shareholder returns.	The Group maintains a diversified portfolio in order to minimise exposure to any one geographical area or market sector.	The industrial sector, having benefitted from strong investment demand leading to lower yields, saw a greater valuation movement in 2022. Demand for the office sector remains muted as businesses continue to reassess their requirements. The retail sector is showing some improvement, but from a low base.	

6

Investment

Risk	Mitigation	Commentary	Risk trend
Investment decisions may be flawed as a result of incorrect assumptions, poor research or incomplete due diligence, leading to financial loss.	The Executive Committee must approve all investment transactions over a threshold level, and significant transactions require Board approval. A formal appraisal and due diligence process is carried out for all potential purchases including environmental assessments. A review of each acquisition is performed within two years of completion.	Volatility in the investment market has increased over the year. There is more uncertainty in making investment decisions due to increasing costs, climate-related risks and recessionary pressures.	

7

Asset management

Risk	Mitigation	Commentary	Risk trend
Failure to properly execute asset business plans or poor asset management could lead to longer void periods, higher occupier defaults, higher arrears and low occupier retention, all having an adverse impact on earnings and cash flow.	Management prepare business plans for each asset which are reviewed regularly. The Executive Committee must approve all investment transactions over a threshold level, and significant transactions require Board approval. Management maintain close contact with occupiers to have early indication of intentions. Management regularly assess the performance of the Group's Property Manager.	Rent collection has remained high throughout the year, with limited occupier defaults.	

8

Valuation

Risk	Mitigation	Commentary	Risk trend
A fall in the valuation of the Group's property assets could lead to lower investment returns and a breach of loan covenants.	The Group's property assets are valued quarterly by an independent valuer with oversight by the Property Valuation Committee. Market commentary is provided regularly by the independent valuer. The Board reviews financial forecasts for the Group on a regular basis, including sensitivity and adequate headroom against financial covenants.	Following the mini-budget in September 2022, there were significant increases in interest rates and bond yields, causing commercial property valuations to decline. After a marked fall in December, valuations have subsequently stabilised to some extent. However, further interest rate rises may cause some further pressure on valuations. There remains good headroom against the Group's lending covenants.	

Operational

9 People

Risk	Mitigation	Commentary	Risk trend
The Group relies on a small team to implement the strategy and run the day-to-day operations. Failure to retain or recruit key individuals with the right blend of skills and experience may result in poor decision making and underperformance.	The Board has a remuneration policy in place which incentivises performance and is aligned with shareholders' interests. All employees receive an annual performance appraisal including training and development needs. There is a Non-Executive Director responsible for employee engagement who provides regular feedback to the Board.	The team has remained stable throughout the year with no leavers. Positive feedback was received from the employee engagement survey. Flexible working arrangements for the team have been maintained.	

Financial

10 Finance strategy

Risk	Mitigation	Commentary	Risk trend
The Group has a number of loan facilities to finance its activities. Failure to comply with covenants or to manage refinancing events could lead to a funding shortfall for operational activities.	The Board reviews financial forecasts for the Group on a regular basis, including sensitivity against financial covenants. The Group's property assets are valued quarterly by an independent valuer with oversight by the Property Valuation Committee. Market commentary is provided regularly by the independent valuer. The Audit and Risk Committee considers the going concern status of the Group biannually.	The Group has mainly fixed rate long-term borrowings in place. Covenants are monitored regularly and there is good headroom against these. The revolving credit facility has been extended for a further year until 2025.	

11 Capital structure

Risk	Mitigation	Commentary	Risk trend
The Group operates a geared capital structure, which magnifies returns from the portfolio, both positive and negative. An inappropriate level of gearing relative to the property cycle could lead to lower investment returns.	The Board regularly reviews its gearing strategy and debt maturity profile, at least annually, in light of changing market conditions. The Group has a revolving credit facility in place which can be repaid if required to reduce the level of gearing.	The use of gearing has amplified the valuation movements this year, resulting in lower returns. However, the Group's loan to value ratio remains low.	

Managing and reporting climate-related risks

We are committed to proactively managing our climate-related risks and reporting climate-related financial information publicly and transparently for our stakeholders. Here we disclose the climate-related risks and opportunities we have identified to the business and outline our overarching risk management approach in accordance with the Task Force on Climate-related Financial Disclosures' (TCFD) recommendations. Complying with the LSE Listing Rules published by the Financial Conduct Authority in 2022, all disclosures in this report comply with all 11 TCFD recommendations and recommended disclosures.

Recommendation	Commentary
Governance	
The Board's oversight of climate-related risks and opportunities	The Board has ultimate responsibility for climate-related risk oversight and management, including setting the Group's risk appetite that defines the limits of the Group's activities and reviewing the Group's risk matrix and risk radar. As climate-related risks have been identified as a principal risk to the business, they are directly overseen by the Board and actively monitored across all levels of the business. Our governance structure (see page 94) facilitates continuous oversight by the Board as its members also chair our Board and Management Committees, which have formalised climate-related responsibilities. The Audit and Risk Committee is responsible for updating the Board on the current and planned actions being taken to mitigate material climate-related risks to the Group. In adopting the Risk Management Policy, the Audit and Risk Committee is also formally responsible for identifying, managing and overseeing climate-related risks and wider sustainability issues facing the Group, using qualitative and quantitative metrics as appropriate, and for reviewing the Risk Management Policy at least annually, revising it as necessary to support our agile risk management approach. The Committee normally meets three times each year and the Chair, Mark Batten, is responsible for reporting the Committee's findings and recommendations to the Board after each meeting, including updates on the Group's overall risk appetite, risk profile and risk strategy, accounting for the current and prospective macroeconomic and financial environment, and appropriate climate-related scenarios.
Management's role in assessing and managing climate-related risks and opportunities A detailed overview of our Governance structure can be found on page **94**	The Responsibility Committee, chaired by Andrew Dewhirst, meets regularly to consider all aspects of sustainability and is formally responsible for identifying and reporting any emerging climate-related risks and opportunities. The Committee ensures compliance with all relevant ESG standards and legislation and provides regular updates to the Executive Committee. The Committee is also responsible for overseeing the Climate Action Working Group and our progress against the net zero carbon pathway. The Executive Committee, chaired by Michael Morris, is formally responsible for the day-to-day operational application of the Risk Management Policy, including identifying, managing and monitoring all climate-related risks. The Committee ensures that physical and transition climate-related risks are evaluated and recorded in the risk matrix and risk radar on a regular basis, and as appropriate, it escalates risks to the Audit and Risk Committee and Board. The Executive Committee maintains day-to-day management and oversight of all risks identified and their mitigating activities, and reports recommendations to the Audit and Risk Committee or the Board for the Risk Management Policy. In response to recommendations provided through a detailed climate risk governance gap analysis assessment, conducted in collaboration with third-party sustainability consultants, we updated and formalised climate-related issues into our governance structures and risk management procedures at all levels of the business. This will ensure that our governance, oversight and management of climate-related issues is robust, enhancing our ability to respond and adapt to climate change challenges. We have also established a Climate Action Working Group in response to the increasing environmental focus within our business. The two key areas of focus for the Climate Action Working Group are mitigating the impact of climate change on our portfolio and delivering against our commitment to net zero carbon. All members of the Responsibility Committee sit on the Climate Action Working Group, alongside other members of the team from across the business. The Responsibility Committee maintains oversight of the Climate Action Working Group and is responsible for progressing all of our sustainability priorities. The Climate Action Working Group meets at least bimonthly to discuss and agree actions and associated progress.

Recommendation	Commentary
Strategy	
Climate-related risks and opportunities identified over the short, medium and long-term	Many climate-related risks will materialise over the medium to long-term and the assets we acquire and hold will still be here far into the future. Therefore, without appropriate risk management, these risks could have severe financial and reputational implications as well as physical risks to those occupying them. We believe it is vitally important to consider climate risk from multiple angles and timeframes. Therefore, we conducted a rigorous climate risk assessment across the two climate scenarios RCP 4.5 (Representative Concentration Pathways) and RCP 8.5 by the Intergovernmental Panel on Climate Change (IPCC) to identify the top climate-related risks and opportunities to our business in the short term (2020–2029), medium-term (2030–2039) and long term (>2040) as well as to assess their implications and the necessary actions to manage them. Our in-depth understanding of our material climate risks has enabled informed decision making, allowing us to employ robust risk management processes to address our material climate risks. **Scenario analysis** The comprehensive climate risk assessment process covered all relevant climate-related risks, selected as appropriate to the geography of our assets and the asset types in scope, across the decades 2020–2029, 2030–2039 and 2040–2049 under scenarios RCP 4.5 and RCP 8.5. By conducting both qualitative and quantitative climate risk assessments at the business and portfolio level, respectively, we were able to identify the risk profiles of our assets and most at-risk assets, strengthening our ability to make sound strategic decisions on where to focus mitigation actions and harness opportunities. The portfolio modelling, in collaboration with a leading modelling provider, assessed our assets' susceptibility to climate-related risks, including physical risks, for example, flooding, heat stress and extreme weather events and transition risks, such as market risks and technology, in quantitative terms, exposing the potential financial losses and savings associated. The business level assessment qualitatively determined the likelihood and impact of a range of physical and transition climate-related risks on a scale of one to five, with consideration of the portfolio modelling results, by rigorously analysing the most up-to-date, peer-reviewed scientific literature. The impact assessment factored in the level of disruption, financial impact and ease/cost of mitigation of the risk, ranging from minimal or no impact (1) to catastrophic impact that threatens the business' future (5). Likelihood was based on the probability, frequency, duration of impact and speed at which the risks materialise, ranging from risks with a short duration that materialise gradually to risks that materialise rapidly and endure over a significant period. High impact opportunities were also identified in relation to our business strategy. We identified our top risks, which are included in the table below. **Time horizons** We have selected time horizons aligning with climate policy and available data. We have assessed our time horizons and current business strategy against climate risks over the short, medium and long-term.

Short-term 2020–2029

To mitigate the largest impacts in the current decade, plans and resilience measures must be implemented in the immediate term. We are investing in our resilience now and setting short-term targets.

Medium-term 2030–2039

We aim to achieve net zero carbon by 2040, ahead of the UK Government's 2050 target. Aligning this time horizon to our decarbonisation target supports clear stakeholder communications and asset planning, as net zero carbon and climate resilience measures can be executed in parallel.

Long-term 2040–2049

We recognise that long-term climate risks present near-term challenges, such as reputational damage or reduced asset values. Identifying these risks has guided our investment decision to embed climate resilience across our business and portfolio.

Recommendation	Commentary

Strategy continued

Physical and transition climate-related risks

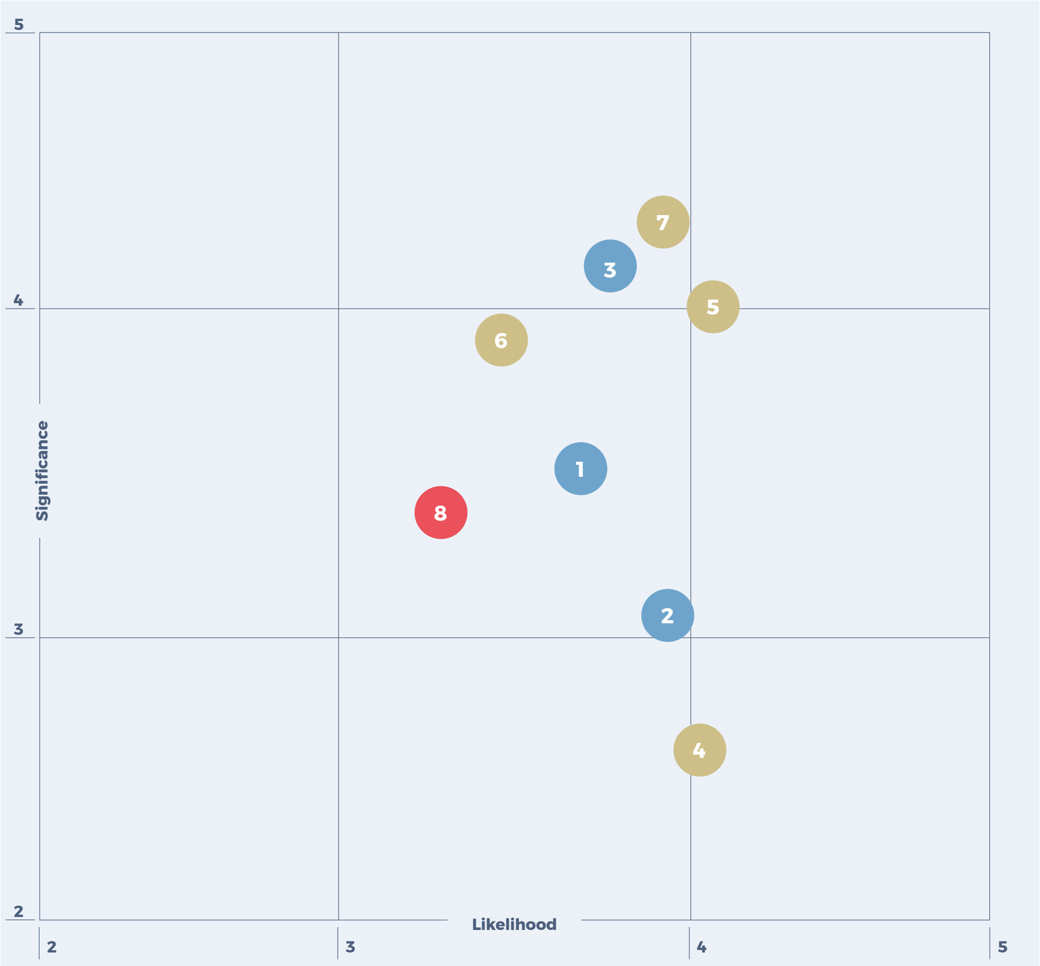
Time horizon	Risk	Risk description	Risk impacts	Risk mitigations
Short-term: 2020–2029	**Changes in market and occupier expectations and demand**	As markets shift to meet growing demand for low or zero carbon alternatives, climate resilient assets could achieve 'green premiums' by outperforming unsustainable assets. Failure to adapt could create competitive risk and occupier default risk, while demand also may shift away from certain geographies or sectors.	– Lower demand for inefficient assets, creating lower rental and asset values – Stranded asset risk in high-risk geographies – Occupier default risk for occupiers with carbon intensive operations	– Regularly review market and occupier demand – Regularly review regulation and building standards legislation – Monitor the macroeconomic and financial environment on an ongoing basis – Implement a policy of continual improvement – Implement our net zero carbon pathway – Implement refurbishment guidelines that incorporate transition risk mitigation measures – Conduct renewable energy feasibility studies across our portfolio
	Increased building standards requirements	Policy mandates buildings and developments to adhere to higher standards, to improve efficiencies and operational practice, and to embed climate resilience on-site. Non-compliant assets could experience reputational risk and reduced occupier demand.	– Capital expenditure cost to meet new standards – Stranded asset risk and increased void period for non-compliance	
	Financial market impacts	Macroeconomic instability could transpire as market preferences shifts towards low carbon solutions and climate resilience, or due to sustained damage from climate-related physical impacts, potentially affecting our ability to secure financial capital, acquisition activities and asset values.	– Rise in interest rates and a decrease in economic growth leading to higher financial capital costs – Economic downturn reducing rental income and asset value and increasing occupancy risk	
Medium-term: 2030–2039	**Decarbonisation and increased energy demand/cost**	Increasing the share of renewable energy sources and decarbonising energy-intensive industries could intensify other transition risks associated with reputation damage, financial impacts and litigation risk.	– Rise in energy prices due to support for low carbon generation and taxation – Increased operational costs, fuelled by price increases and rising demand for cooling – Increase in material and procurement costs due to supply chain disruptions and carbon tax on embodied carbon	
	Flooding	Increased duration and intensity of precipitation, snow melt and rising sea levels will exacerbate all types of flooding. Our current portfolio is exposed to fluvial and pluvial flooding risk, with limited exposure to coastal flooding.	– Repair costs and loss of access to asset – Capital expenditure to install mitigation measures – Reduced regional investment and footfall – Decline in asset value or stranded asset risk	– Annual asset business plans consider all material physical climate risks – Assess asset resilience to material climate risks – Implement resilience measures, prioritising our most at-risk assets – Implement our net zero carbon pathway, including installing on-site renewables and introducing software to track embodied carbon from 'in use' standing assets – Implement our refurbishment guidelines that incorporate physical risk mitigation measures
	Heat stress	Rising mean temperature and extreme temperature highs put pressure on both our assets and people. Our concentration of assets in Southern England increases our susceptibility to this risk and to associated costs.	– Degradation of plant and equipment leading to capex associated with replacement – Increased operational costs – Reduced occupier demand for spaces lacking sufficient cooling and/or ventilation	
	Extreme weather events	Extreme weather events, including storms, heavy winds, heavy precipitation, drought and snow could become more frequent and severe, exacerbated by shifting sea temperatures and seasonal patterns.	– Repair costs and loss of access to asset – Capital expenditure to install mitigation measures – Decline in asset value or stranded asset risk	
Long-term: (>2040)	**Drought and water stress**	Water becomes increasingly scarce, with supply unable to meet demand. As temperatures rise, average drought lengths could increase, with implications on water costs, supply chains and public health.	– Increased operational costs – Decline in asset value for water inefficient asset – Capital expenditure to improve efficiency	

Transition risk Physical risk

Recommendation	Commentary

Strategy continued

Climate-related risk matrix:



Short-term 2020-2029

1. Changes in market and occupier expectations and demand
2. Increased building standards/requirements
3. Financial market impacts

Medium-term 2030-2039

4. Decarbonisation and increased energy demand/cost
5. Flooding (fluvial and pluvial)
6. Heat stress
7. Extreme weather events

Long-term 2040-2049

8. Drought and water stress

Additionally, we have identified opportunities that we can leverage to deliver outstanding climate-related performance to our occupiers. These include investment into low-carbon technologies and climate adaptation measures to achieve our net zero carbon ambitions, secure premium occupiers, enhance asset values, enhance our reputation and future-proof our business.

Recommendation	Commentary
Strategy continued	
Impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning	We recognise that climate change will impact our business and that we must play our part in tackling this global challenge. Therefore, we integrate sustainable thinking in all our activities and accordingly, climate-related issues inform our business, strategy and financial planning decisions and processes. Our pathway to achieve net zero carbon by 2040 aligns with the Better Buildings Partnership (BBP) Net Zero Carbon Pathway Framework and the UK Green Building Council's (UKGBC) net zero carbon hierarchy. To achieve our ambitious sustainability targets, including net zero, and enhance our resilience to climate change impacts, climate-related risks have been embedded into our business strategy and planning processes at all stages of the property life cycle. During the acquisition process, we undertake environmental assessments to identify climate- and environmental-related risks associated with the property and ground conditions, including flooding. This year, we enhanced our acquisition due diligence by formally defining our risk appetite in respect to ESG and climate risk. For example, all acquisitions must consider our net zero carbon pathway, and how the acquisition could impact its aims and timeline, including financial implications. Additionally, we set minimum criteria addressing physical and transition climate risks such as flooding (fluvial and pluvial), building fabric and EPCs. This helps us identify and implement opportunities to strengthen our net zero readiness and make conscientious investment decisions. If an acquisition does not meet our minimum criteria, there has to be a clear financial rationale to proceed, which considers the size of the asset relative to the risk and portfolio. Refurbishments provide an opportunity to undertake climate resilience and net zero carbon upgrades therefore, we have created net zero carbon guides for all asset types (industrial, office, retail and leisure) in our portfolio, which outline best practice measures that should be assessed for installation to improve energy efficiency and enhance the asset's climate resilience. Measures include, for example, on-site renewable energy generation and low-carbon heating and lighting alternatives. As we recognise that industry knowledge, technology and mitigation interventions are constantly improving, these guides will evolve to reflect market innovations, as well as our changing net zero carbon goals. These guides support our existing sustainable refurbishment guidelines, which integrate a range of climate-related minimum criteria. For example, medium refurbishments must meet minimum EPC B standards or BREEAM Excellent (or equivalent), supporting our overall sustainability performance and resilience to climate-related risks. Additionally, we have appointed an in-house building surveyor to support our asset managers on all capital works projects to ensure they have access to sustainability expertise. Effective collaboration with our occupiers is essential if we are to achieve our net zero commitment. Therefore, we created occupier fit-out principles that outline a series of measures and criteria our occupiers should engage with during fit-out works to improve the asset's sustainability performance and climate resilience. Principles are established relating to, but not limited to, occupier engagement, low energy use, EPCs, minimising and omitting fossil fuels, embodied carbon and waste, aligning with our strategic sustainability goals. Our actions this year have further developed how we address climate-related issues and our commitment to future-proof our business and portfolio continues. Our sustainability action plan roadmap sets out key actions we intend to undertake in future to ensure we can continue to operate in a world with increasing climate change impacts. As a BBP member, underpinning our strategy are climate mitigation and climate adaptation , which we consider as equally necessary to achieve holistic climate resilience.

Recommendation	Commentary

Strategy continued

Resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

Our net zero carbon pathway is aligned with targets for a 1.5°C scenario. In achieving these targets, we will simultaneously be managing several transition and physical climate risks material to the business.

Having conducted comprehensive business and portfolio climate risk assessments across the IPCC's RCP 4.5 and RCP 8.5 scenarios, we have a clear understanding of our material climate-related risks and opportunities. This knowledge has enabled us to proactively implement management, mitigation and adaptation measures to improve our resilience and act early to harness opportunities.

Our chosen scenarios align with industry best practice and cover the most likely range of average global temperature rise in the coming decades. The RCP 4.5 climate scenario is characterised by significant policy action and market forces to decarbonise and meet the Paris Agreement. Our resilience to risks presented by the low-carbon transition is being secured by implementing our net zero carbon pathway and related activities described in this TCFD disclosure. The RCP 8.5 scenario is characterised by significant changes in weather patterns and severe physical hazards. Our resilience against risks associated with this high emissions scenario is being secured by embedding stringent mitigation measures to support climate adaptation and resilience across each stage of the property life cycle and our proactive approach to assessing and managing risks.

Analysing these distinct climate scenarios has enabled us to understand the wide scope of climate-related risks and opportunities and inform actions to support our resilience.

Our scenarios

RCP 4.5
Low emissions scenario

Transition
Lower emissions scenario where there is increasing policy action to meet the Paris Agreement. Transition risks dominate.

1.7–3.2°C
by 2100

Scenario impact

Economic
Substantial regulatory and market pressure to decarbonise and associated costs to meet these demands.

Environmental
Less physical risk, although a 2°C warming still presents substantial physical climate risks.

RCP 8.5
High emissions scenario

Transition
Higher emissions, business-as-usual scenario where policy action is negligible and warming rises drastically. Physical risks dominate.

3.2–5.4°C
by 2100

Scenario impact

Economic
Permanently stunted GDP growth and severe economic and social shifts.

Environmental
Chronic changes to weather patterns and ecosystems causing severe impacts on a global scale.

Recommendation	Commentary
Risk management	
Describe the organisation's processes for identifying and assessing climate-related risks	In recognition of the threat climate change poses to our business, sector and global economy, in early 2022 we conducted a rigorous climate risk assessment. At both the business and portfolio level, we identified our material climate-related risks and assessed their potential likelihood and significance, quantitatively and qualitatively, relative to each other. These results have been integrated into our risk matrix, containing all of our material corporate risks, and given probability, impact and residual impact ratings ranging from low to high to demonstrate the relative significance of climate-related risks to other risks. Furthermore, this year, we updated our emerging risk dashboard into a risk radar that identifies the principal and emerging risks to the business. Our risk radar recognises 'climate change' as a top principal risk to the business, and therefore embeds climate-related considerations into all our risk management and decision-making processes. Climate-related risks are reviewed on an ongoing basis by the Executive Committee and presented to the Board as part of the annual Risk Management Policy review, or as necessary. Results from the climate risk assessments highlighted that flooding is a key physical risk facing our existing portfolio. Therefore, this year we completed asset-level desktop assessments for our entire portfolio to understand our exposure to this climate risk at a more granular level, addressing flooding from rivers, surface water, reservoirs and sea. This helped us to assign a risk ranking to each asset, ranging from very low to high, whereby mitigation action is required at assets with a medium or high rank where flooding exposure is material. This exercise has and will continue to inform our investment into flood resilience measures, enabling us to prioritise our most at-risk assets. The initial assessments identified a number of properties where further investigation is required. This will take place during 2023/24.

Recommendation	Commentary
Risk management continued	
Describe the organisation's processes for managing climate-related risks	Our risk matrix and risk radar are reviewed and updated regularly by the Executive Committee to ensure that we remain attentive to the changing nature of these risks and to reflect evolving stakeholder requirements and the wider macroeconomic and geopolitical landscape. The risk matrix identifies individual climate-related risks with a residual risk ranking (low, medium and high) and mitigating controls and individual responsibility are determined to ensure risks are managed appropriately. Based on ranking, risks are communicated across relevant levels of our business. As we now have a comprehensive understanding of our material climate-related risks to our portfolio, this year we began undertaking asset resilience inspections to measure each asset's resilience to its material climate-related risks. Next year, we will continue inspections across our portfolio, helping us to understand our portfolio's baseline resilience to climate risk impacts and informing our asset resilience planning and capital expenditure requirements. This ensures that our most at-risk assets are prioritised, building our climate resilience where it matters most first. We have created a TCFD and net zero carbon action tracker that is utilised across the business to record the actions being taken to manage physical and transition climate-related risks at the portfolio level and asset level. This document is monitored centrally and reviewed by the Executive Committee to guarantee our climate resilience strategy is progressing as intended. To enhance our management of climate-related risks in occupier-controlled spaces, we have introduced green lease clauses and are proactively engaging with occupiers at an early stage around their operational behaviour, energy efficiency and data sharing. Conducting ESG audits has enabled us to identify opportunities to reduce energy consumption and improve efficiencies, supporting our ability to make informed decisions during our investment and capital allocation activities, as well as acquisition and divestment decisions to maximise the overall performance and resilience of our portfolio. We remain committed to achieving our 2040 net zero carbon target, which will be key to support our resilience against transition climate risk impacts, including increased carbon costs and shifting market demand towards low carbon buildings. Demonstrating our support for BBP, we have publicly published our net zero carbon pathway, which sets out our priority actions towards decarbonising the portfolio. In the coming year, we plan to transform how we collect and manage our climate-related data by moving from a third-party managed system to an internal system. This will enhance our ability to access data and real-time updates across the portfolio, assisting our management of climate-related issues.
Describe how the processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management	Our Risk Management Policy has enabled us to integrate the climate-related risks we have identified and assessed (see the Strategy section) into our overall risk management processes effectively such that sustainability and climate-related issues are considered across all our activities. We are committed to conducting business responsibly and in a way that creates a positive impact on society. Therefore, we will continue to ensure climate-related risks are identified, assessed and managed appropriately to fulfil our role in tackling climate change.

Recommendation	Commentary
Metrics and targets	
Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management processes	We report in line with EPRA Sustainability Best Practices Recommendations for sustainability reporting and publish our EPRA tables annually. We use a range of metrics to inform our stakeholders of our climate-related performance and activities, including: – Total and like-for-like Scope 1 and 2 emissions and total Scope 3 emissions – Total and like-for-like electricity consumed in kWh, including energy intensity in kWh/m^2 – Energy intensities for Scope 1 and 2 emissions using the metric tCO_2e/m^2 – Total and like-for-like water consumption, including occupier water consumption in absolute terms, for each asset type – Total and like-for-like waste disposal in tonnes, split into recycling, composting, recovery, incineration and landfill To supplement our qualitative measures, we also assess key quantitative measures, including EPC ratings and building certifications to build a holistic view of our portfolio's performance. Metrics included in our net zero carbon pathway include: – Portfolio on-site renewable energy capacity (MW) – Renewable energy procurement % – High quality renewable energy procurement % – Major refurbishment embodied carbon intensity (tCO_2e/m^2 GIA) – Minor development and fit-out embodied carbon intensity (tCO_2e/m^2 GIA) – Total portfolio embodied carbon development (tCO_2e) – Total carbon emissions offset (tCO_2e) In the coming year, we intend to track and publicly report additional metrics relating to our climate adaptation activities to support transparent communication of our progress to our stakeholders and investors. These will be included in our next TCFD report.
Disclose Scope 1, Scope 2 and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks	We disclose Scope 1, 2 and 3 greenhouse gas emissions in our Annual Report and Sustainability Data Performance Report. We provide trend analysis since 2019 to show progress and historical performance. We calculate and report our emissions in line with the GHG Protocol Corporate Accounting and Reporting Standard.
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	In recognition of the escalating concerns around climate change and our awareness that the real estate industry is a key contributor to global GHG emissions, we have developed a 1.5°C aligned net zero carbon pathway with a target year of 2040. Our Scope 3 emissions, attributed to landlord and occupier energy consumption, are a key source of our overall emissions. To support the net zero carbon guides we have created for all asset types in our portfolio, we intend to formulate targets per asset type based on the UKGBC's targets for offices and the Carbon Risk Real Estate Monitor (CRREM) 1.5°C Global Pathways' aligned targets for all other asset types. We are pursuing an embodied carbon target of 300 $kgCO_2e/m^2$ by 2040 for major refurbishments, aligning with the LETI 2030 Design Target for upfront embodied carbon (A1–A5). To increase our accountability and culturally embed climate risk management throughout the organisation, we have set remuneration-linked annual objectives applicable to Executive Directors' bonus opportunities for sustainability performance.

Sustainable thinking,

We are committed to integrating sustainability within all our business activities and in a way that makes a positive contribution to society, whilst minimising any negative impact on people, local communities and the environment.

responsible business

Our Sustainability Data Performance Report is available on our **website**

Sustainable thinking: our responsible approach to business

This year we have made significant progress on our sustainability priorities.

We have incorporated our sustainability reporting into this Annual Report, which better reflects our integrated approach. We will be publishing a Sustainability Data Performance Report, which will be made available on our website, including disclosures which are third party assured. We report our emissions data by calendar year.

Our focus has been to build on our net zero carbon pathway and climate risk assessment work undertaken last year.

We have established a Climate Action Working Group, involving members of the team from all areas of the business. Our priorities have been to implement the short-term recommendations identified and good progress has been made on these aspects.

I am pleased to report that we have reduced our Scope 1 and 2 emissions by 24% in absolute terms compared to our 2019 baseline.

As the majority of our emissions come from Scope 3 emissions, I am pleased to note that we have further improved the level of occupier data collection over the year. Continued engagement and collaboration with our occupiers on both data collection and reducing emissions will be a key area of focus looking forward.

Engagement with stakeholders has been key and we have held sustainability briefings for investors and occupiers alike.

We have continued to develop team training on sustainability issues and additionally recruited a Head of Building Surveying who will coordinate the building fabric related improvements that are required to improve our assets.

Acting responsibly is a key strategic priority and an integral part of our approach to business. While we are only at the start of our net zero carbon journey, I am confident we are moving in the right direction.

Michael Morris
Chief Executive

Global trends driving sustainability

Society is becoming increasingly aware that the prosperity of humanity and the planet are intrinsically interlinked, and not everything should be measured in terms of economic success.

For businesses, the need to look beyond economic success is gaining momentum. Short-term profitability to the long-term detriment of the planet's natural systems and wider society is no longer an acceptable or a viable business model. A more holistic approach is required, which incorporates stakeholder wellbeing, circular economy principles and nature-based solutions, whilst accounting for natural capital and carbon emissions, and recognising alternative drivers of value like energy efficiency and supply chain resilience.

In 2023 the World Economic Forum (WEF) released its eighteenth Global Risks Report, stating that eight out of the top ten most severe risks on a global scale over the next ten years, as perceived by world leaders, are environmental and social risks, with the top three being climate action failure, failure of climate change adaptation and natural disasters and extreme weather events.

The Intergovernmental Panel on Climate Change's (IPCC) sixth assessment report confirmed that global average temperatures are already 1.1˚C higher than pre-industrial levels. To keep irreversible tipping points from being reached, warming must be limited to 1.5˚C, which means that greenhouse gas emissions must be halved by 2030. At COP28 in 2023, we are expecting the results of the Paris Agreement's global stocktake, which will assess the current position and global progress made towards the 1.5˚C maximum target.

There are undoubtedly challenges to overcome and costs to incur, but also vast opportunities, cost savings and advantages to be gained. Those who do not engage and collaborate to drive change risk much higher costs in the future.

Our approach

A responsible and ethical approach to business is essential for the benefit of all our stakeholders and understanding the long-term impact of our decisions will help us to manage risk and continue to generate value.

Sustainable thinking is integrated within all our business activities. We are committed to making a positive contribution to society, whilst minimising any negative impact on people, local communities and the environment.

Our sustainability policy guides our long-term sustainability priorities.

We have in place a sustainability framework based on our key material issues and continue to review these key priorities annually.

Key highlights from this year

Environmental focus

24% reduction in absolute Scope 1 and 2 emissions compared to 2019 baseline

22% reduction in Scope 3 energy intensity compared to 2019 baseline

Commenced decarbonisation of assets

Commenced on-site renewable installation

76%
Improved portfolio EPCs rated A-C

64
Green leases completed

Stakeholder engagement

Carried out occupier surveys at office and industrial properties

Hosted sustainability webinars for investors and occupiers

Continued roll out of new supplier clauses addressing modern slavery

Helped develop new Better Buildings Partnership training modules

Carried out annual employee engagement survey

Provided further sustainability training for the team

£27,000
charitable donations, supporting 23 charities

Governance and advocacy

Climate Action Working Group established to oversee progress on net zero

Completed assessment of climate-related risks to the business

Reported in line with Task Force on Climate-related Financial Disclosures

Maintained EPRA Gold awards for both Annual Report and Sustainability Report

Improved GRESB rating to three green star status

Third party assurance of GRESB submission data

Implemented new sustainability data management system

85%
Improved overall energy data coverage

Key priorities for next year

Environmental focus

Continue net zero carbon pathway progress and focus on priority assets

Progress priorities identified within energy audits

Progress collaboration with occupiers to increase data collection coverage and reduce emissions

Continue to progress decarbonisation strategy across portfolio

Continue to progress solar installation across priority assets

Stakeholder engagement

Develop our occupier engagement strategy

Progress roll out of occupier apps across multi-let offices

Continue to improve the way in which we communicate with our occupiers on sustainability progress

Maintain our high level of health and safety compliance

Maintain our positive working culture and values

Governance and advocacy

Continue third party data assurance on sustainability reporting

Maintain high standards of sustainability governance and management

Maintain clear and transparent reporting standards

Continue to improve GRESB rating

Sustainable thinking, practical solutions: our progress on net zero carbon

Environmental focus

Sustainable thinking, practical solutions

Climate change is one of the most significant issues to be addressed globally and requires urgent action.

It is recognised that commercial buildings are a key source of emissions and that as a responsible landlord we must seek to reduce the environmental impact of our buildings. We continually assess the environmental performance of our portfolio and seek to implement improvements where we can.

Net zero carbon pathway
Our 2040 commitment

To ensure credibility and transparency in our approach, we have developed our net zero carbon pathway so that it aligns with the Better Buildings Partnership Net Zero Carbon Pathway Framework and The UK Green Building Council's (UKGBC) net zero carbon hierarchy.

We have committed to be net zero carbon for our operational and embodied emissions by 2040. By then, all operational emissions will be reduced as much as possible through energy efficiency measures and renewable energy, with any residual emissions offset.

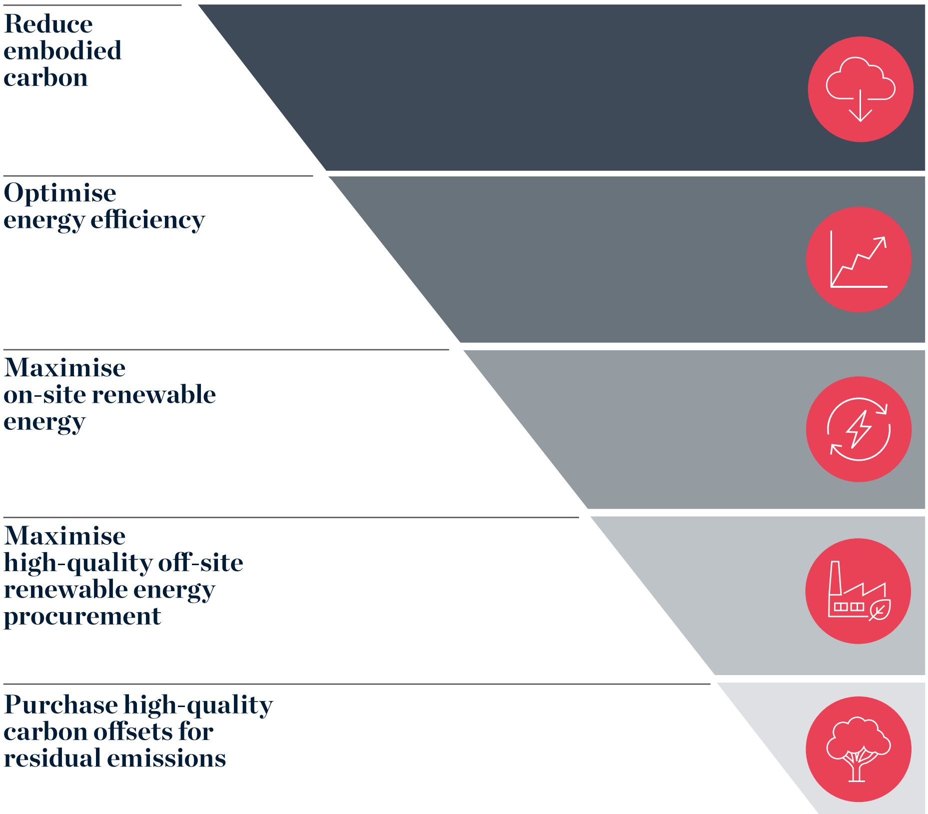
From 2040 onwards, all completed refurbishment projects will have reduced their embodied and operational carbon as much as possible, with any residual emissions offset upon practical completion.

We have defined our portfolio's baseline carbon footprint, using 2019 as the most representative recent year, to map the emissions' reductions required to meet our 2040 target. As with similar property companies, the majority of our emissions relate to the energy consumption of our occupiers.

Net zero governance

This year we have established a Climate Action Working Group, with members of the team across the business, to ensure we are progressing key actions and priorities on our pathway to net zero commitment, and reviewing and setting interim targets.

We have also embedded net zero carbon criteria into our acquisition due diligence process.



Our net zero carbon progress
Measuring and reducing embodied carbon

Our target for major refurbishment embodied carbon intensity is 300kgCO_2e/m² by 2040. The majority of our development activity comprises refurbishments and retrofit works, for which there are no industry benchmarks thus far. In due course, we will begin to conduct whole life carbon assessments for all major refurbishments (above £1.5 million) and fit-outs in pursuing an embodied carbon target for our major refurbishments.

To achieve the maximum embodied carbon savings, our sustainable refurbishment guidelines define our expectations for each project from the outset.

This year, our refurbishment activity across the portfolio has been carried out to improve and enhance the buildings' sustainability credentials through making alterations to structure, mechanical and electrical maintenance or landscaping.

As the contract value of each refurbishment has been under £1.5 million, in line with our refurbishment guidelines we did not carry out any embodied net zero carbon assessments, but we endeavoured to repurpose, recycle and reuse materials where possible, minimising site waste.

Read more on our GHG emissions on pages **66–67**

Net zero carbon progress

	Aims	Progress	Metrics
Embodied carbon	Minimise the embodied carbon cost of developments, major refurbishments and occupier fit-outs	No whole life carbon assessments were required during the year, as individual asset refurbishment activity did not exceed £1.5 million	Target embodied performance of less than 300kgCO_2e/m² for major renovations
Operational carbon	Ensure operational carbon performance and efficiency across the portfolio is improved	We have worked on improving our data accuracy and coverage and carried out five energy audits across a representative sample of asset types	24% reduction in operational carbon emissions for Scope 1 and 2, relative to our 2019 baseline 40% reduction in energy intensity of all Scopes, relative to our 2019 baseline
On-site generation	Maximise amount of on-site renewable generation	We have commenced solar panel installation on industrial asset refurbishments and have commissioned feasibility studies across key identified assets	Five operational PV systems totalling 0.176 MWp with a further three schemes under construction totalling 0.238 MWp. Considering a further six schemes which would provide a capacity of 7.625 MWp.
Renewables procurement	Procure high quality renewable energy	No existing energy contracts were due for renewal during the period	100% of our purchased electricity is from REGO backed renewable sources
Offsetting	Acquire high quality offsets to neutralise residual emissions	While not yet under consideration, we will develop our strategy for high quality offsets post net zero carbon target year of 2040	
Third party verification	Maintain credibility and transparency of our net zero carbon pathway	Annual independent third party assurance of energy data	Certification of energy, water, and waste data by third-party assurance

Reducing operational carbon

Over the year we have been introducing energy efficiency measures across the portfolio to help measure and reduce occupier energy consumption, including:

- Developing an occupier engagement plan to ensure actions take place in a timely manner and effective cost-sharing mechanisms are introduced
- Continuing to include green lease clauses within our leases, with 64 completed this year
- Increasing data collection coverage to 85% and implementing a new data management system
- Carrying out a complete audit of all electricity, gas and water meters or sub-meters under our control to ensure that they are all functioning properly and recording consumption accurately. We plan to replace a small number of meters in 2023, which are now obsolete

Maximising renewable opportunities

To reduce the carbon footprint of our operational emissions, we are focusing on increasing our on-site renewable energy opportunities across our assets.

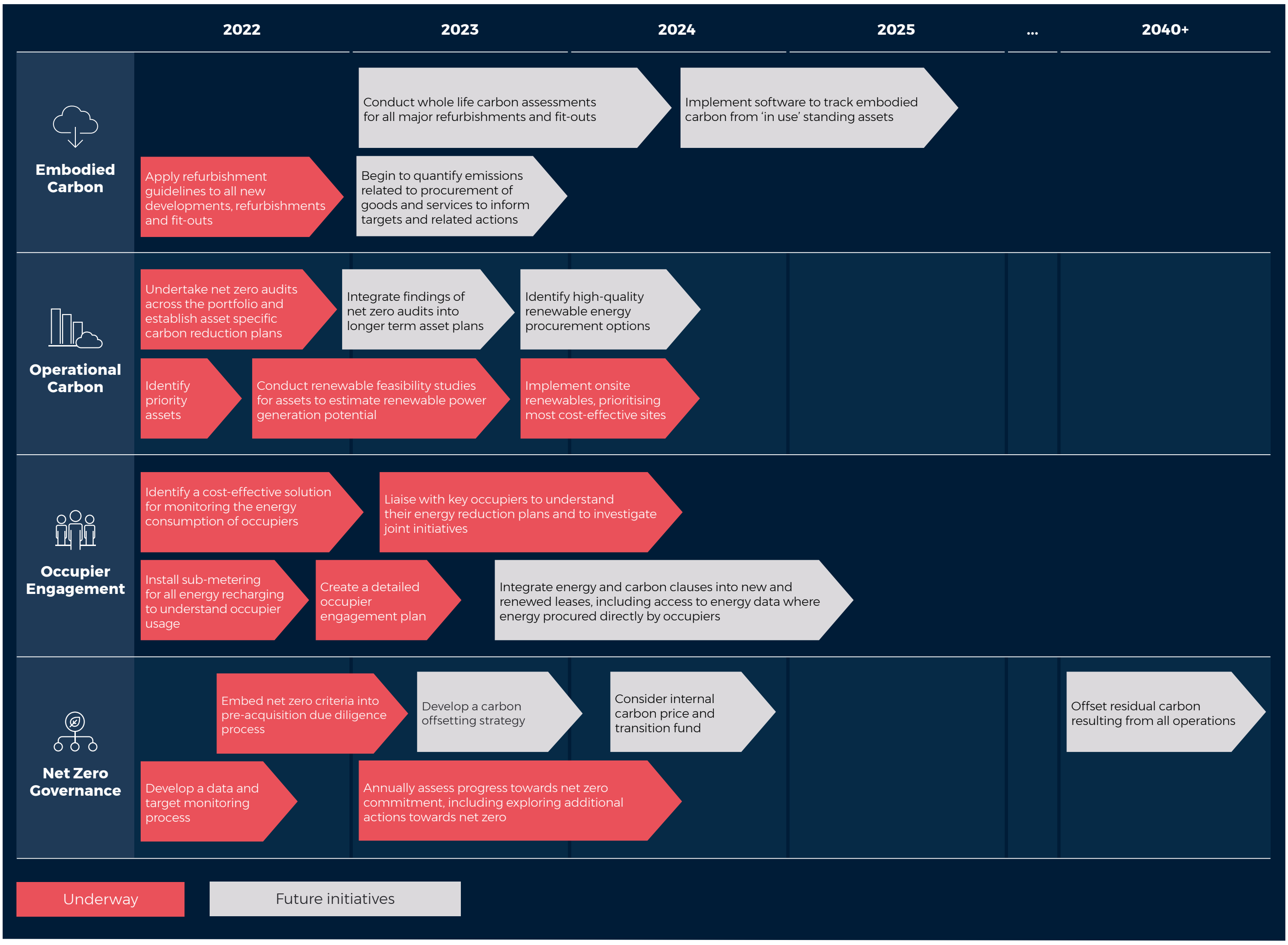
This year we have installed three schemes and undertaken six renewable energy feasibility studies to identify asset-specific opportunities across the portfolio.

Maximising off-site renewable procurement

Within our portfolio currently 100% of landlord procured electricity is REGO backed (Renewable Energy Guarantees of Origin).

When our electricity contracts expire, we will seek to procure high-quality renewables in line with the UKGBC guidance on renewable energy procurement.

We seek to follow three main criteria on renewable energy procurement. It must be from renewable non-fossil fuel energy sources; create additional capacity in the grid; and have exclusive ownership and claims of the energy attributes.



Energy usage

As part of our net zero carbon strategy, our focus on minimising landlord controlled gas heating in our assets has been reflected in the 3% absolute reduction in Scope 1 emissions over the period. This is despite increased building occupancy levels post-pandemic and property acquisitions over the period. On a like-for-like basis the reduction was 4% compared to the previous year.

As we continue to transition away from gas supplies, there is a corresponding increase in electricity consumption, which is up 7% on a like-for-like basis, but also impacted by increased occupancy post-pandemic.

Reflecting property acquisitions and in absolute terms, electricity consumption has increased by 25% over the year.

Greenhouse gas emissions

Scope 1

Overall, we have seen an absolute reduction in our Scope 1 emissions of 3% over the year to 989 tCO_2e (-4% on a like-for-like basis), which reflects the ongoing strategy to replace gas with electricity across our portfolio. For example, during the year we replaced the gas based air conditioning system at 50 Farringdon Road, London and we have also removed gas from a number of our industrial units in line with our refurbishment guidelines. From our baseline year of 2019 we have reduced Scope 1 emissions by 15%.

Our Scope 1 energy intensity has reduced by 12% over the year as we have acquired new assets with lower energy intensity levels. On a like-for-like basis the energy intensity has increased by 10% which reflects greater activity and use post-pandemic at our multi-let assets. Since our 2019 baseline, our Scope 1 intensity has reduced by 29% to 0.017 tCO_2e/m^2.

Scope 2

On an absolute basis, our Scope 2 emissions have increased over the year by 14% to 1,657 tCO_2e as we have acquired new assets and replaced gas with electrical systems. However, on a like-for-like basis our Scope 2 emissions have reduced by 3%, which reflects improved building energy efficiency and grid decarbonisation. From our 2019 baseline we have reduced absolute Scope 2 emissions by 28%.

Scope 3

Around 80% of our total GHG emissions are Scope 3 emissions from our occupiers, therefore accurately recording this data is key to our net zero carbon strategy. This year we have increased our Scope 3 data coverage to 67% of the portfolio. We have achieved this with direct meter readings as well as ongoing dialogue with our occupiers.

On an absolute basis, our Scope 3 emissions are 9,775 tCO_2e. We have restated our 2021 Scope 3 emissions as we collected more data subsequent to the publication of last year's Annual Report, making comparisons more meaningful. Our Scope 3 energy intensity has reduced by 19% over the year to 0.026 tCO_2e/m^2. This is a 22% reduction from our 2019 baseline.

Methodology

We collect all of our landlord controlled energy data via automatic meter readings, and following improvements in occupier data collection, we have increased our overall data coverage across the portfolio to 85% (from 75% in 2021). The aim to is reach 100% coverage of our portfolio and we continue to work with our occupiers and data providers to achieve this.

All our large supplies work from automatic meter reads, with any void unit meter data being aggregated to an asset level. This means that 100% of landlord controlled data is meter read and not estimated. We are working towards rolling out automatic meter reads across the whole portfolio to increase coverage and reliability of our data and reporting accuracy.

We have reported on all the emission sources required under the core requirements of EPRA Best Practices Recommendations and have voluntarily disclosed business

		2022		2021		2020	
Emission source	GHG Scope	**Absolute GHG emissions (tCO_2e)**	**GHG intensity (tCO_2e/m^2)**	Absolute GHG emissions (tCO_2e)	GHG intensity (tCO_2e/m^2)	Absolute GHG emissions (tCO_2e)	GHG intensity (tCO_2e/m^2)
Combustion of fuel and operation of facilities	1	**989**	**0.017**	1,020	0.019	940	0.020
Electricity, heat, steam and cooling purchased for own use	2	**1,649**	**0.019**	1,448	0.028	1,499	0.031
Office premises	2	**8**	**0.026**	5	0.018	8	N/A
Total Scope 1 and 2		**2,646**	**0.027**	2,473	0.044	2,447	0.043
Business travel	3	**3**	**N/A**	2	N/A	1	N/A
Occupier data	3	**9,735**	**0.033**	10,455	0.039	3,892	0.027
Landlord water and treatment	3	**21**	**0.000**	6	0.000	12	0.000
Landlord waste	3	**16**	**0.000**	8	0.000	7	0.000
Total Scope 3		**9,775**	**0.026**	10,471	0.032	3,912	0.019
Total all Scopes		**12,421**	**0.053**	12,944	0.076	6,358	0.062

travel, occupier, and own premises consumption emissions. An operational control approach has been adopted and all our properties are included. Figures presented are absolute for utility and waste consumption and relate only to landlord-obtained utilities and waste removal. Occupier-obtained consumption is included where possible. We have calculated and reported our emissions in line with the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and used emission factors from UK Government's GHG Conversion Factors for Company Reporting 2022. We continue to report on a calendar year basis to ensure there is sufficient time to collect occupier consumption data.

We have calculated our intensity measurements based on the area served by each meter, for example whole site, common area or a specific floor within an asset. External supplies have been excluded from the intensity calculations. So that an accurate comparison can be made between reporting years, this approach has been backdated to 2019 figures.

We have continued to voluntarily report on Scope 3 vehicle emissions. Vehicle emissions were calculated using our vehicle expenses reports and the vehicle emission factors from the UK Government GHG Conversion Factors for Company Reporting 2022. Year-on-year, we will continue to update previous reported figures if applicable to remove estimates and ensure actual data is captured and reported. We occupy a floor within one of our assets under management and as such, have apportioned out our consumption based on the floor area and this is reported as a separate line item.

24%

Reduction in Scope 1 and 2 emissions since 2019

67%

Scope 3 occupier energy data collection

Head office

We started collecting and reporting our head office data in 2016, and while it is only a small part of our overall footprint, we believe it is important to provide a holistic view where possible. Our head office is located on a floor within Stanford Building, London, which is one of our own assets. This is a recently refurbished space, providing the latest technology and energy efficiency measures. This switch has allowed us to obtain more reliable data and cut our office emissions significantly. In 2022 our energy usage did increase, but this reflects a greater return to office working, following the pandemic.

Business travel

We have seen a small increase in business travel emissions as our team have begun travelling more regularly to our assets. We continue to encourage sustainable forms of travel and virtual meetings where feasible.

> Over the year we are pleased to have increased Scope 3 data collection, achieving this in part via improved automated data collection.
>
> **Tim Hamlin**
> Director of Asset Management

Smart buildings

During the year we have seen a kWh reduction in four properties of between 16% and 34%, following the installation of Asset IQ. The system aims to help reduce energy consumption and is currently installed at 401 Grafton Gate, Milton Keynes, Pembroke Court, Chatham, 180 West George Street, Glasgow and 50 Farringdon Road, London.

The tool connects to the building management systems, providing live updates from each piece of plant equipment throughout the building and builds a holistic picture of each building's energy usage over a 24/7 period. The tool highlights any key inefficiencies and helps to:

– Identify issues with the operation of the equipment
– Pinpoint the reasons for anomalies
– Suggest the most suitable technical solutions
– Identify the improvement of the overall energy strategy

This information provides quarterly action plans and enables discussions with occupiers on how the building systems can be adjusted for optimum performance and help reduce energy costs.

We aim to increase the use of Asset IQ throughout our multi-let offices where feasible.

SOLAR

We currently have five operational solar array systems totalling 0.176 MWp and we have seen a 42% increase in energy generation over the year.

We have a further three schemes currently under construction totalling 0.238 MWp.

In addition we are establishing the feasibility of a further six schemes which would have a maximum output of 7.625 MWp.

We are also investigating a 'sleeving' arrangement which would enable us to export any excess electricity generated to other buildings in our portfolio. This would enable them to benefit from cost-effective on-site renewable energy.

Following our sustainability workshop engagement programme with key occupiers, we are currently engaged in a number of feasibility studies to identify the optimum delivery strategy to support them in installing solar panels.

Sustainable buildings

We are committed to monitoring and enhancing the environmental performance of our buildings and ensuring they are resilient to changes in both climate and the regulatory environment.

It is important that we ensure our buildings meet changes in occupier requirements, and our approach to our portfolio management adheres to best practice with respect to data collection, communication and implementation.

In line with our net zero carbon commitment, we aim to remove fossil fuel supplies where practical, introduce on-site renewable energy, increase the efficiency of existing equipment and support our occupiers with their own sustainability strategies.

Over the course of this year we have:

- Developed our strategy for on-site solar power generation
- Started to implement our strategy for the roll out of electric vehicle charging
- Improved the percentage of A-C rated EPCs in our portfolio from 71% to 76%
- Continued to implement green lease clauses
- Carried out five net zero audits across the portfolio

> Collaborating with our occupiers to understand their own sustainability strategies is key to delivering improved environmental initiatives across our buildings.

Mark Alder
Head of Occupier Services

Electric car charging points

Over the last 12 months we have gradually increased the number of charging points at our properties.

There are currently 41 car charging points across our portfolio, of which 26 we have installed ourselves and the remainder have been put in by our occupiers.

During 2022, we supported our occupiers with their own installations at Parkbury Industrial Estate, Radlett, Sundon Business Park, Luton and Atlas House, Marlow.

In conjunction with one of the major electric vehicle charging infrastructure operators, we have developed a plan to install a further 38 rapid and fast chargers across five further sites including our retail warehouse locations.

41

Charging points installed across seven of our sites

SUSTAINABILITY ACTION PLANS

Over the year we have implemented sustainability action plans at our multi-let properties.

These plans identify areas for improvement, including biodiversity measures and social amenities as well as the introduction of energy efficiency measures.

Energy efficiency measures introduced include new LED lighting at Colchester Business Park, Longcross, Cardiff, 180 West George Street, Glasgow, Gloucester Retail Park, Parkbury Industrial Estate, Radlett and Sundon Business Park, Luton. We have also installed motion sensor lighting at Trident House, St Albans and Parkbury Industrial Estate, Radlett.

We have also undertaken a metering survey across our service charge sites to ensure effective metering and improve energy reporting.

The use of the Asset IQ building management system to monitor and improve energy efficiency at 401 Grafton Gate, Milton Keynes, Pembroke Court, Chatham, 180 West George, Glasgow and 50 Farringdon Road, London has resulted in a significant kWh reduction in electricity usage across those assets.

Our sustainability action plans are reviewed annually and we plan to action further initiatives over the course of next year.

Sustainable refurbishments

Our sustainable refurbishment guidelines, introduced in 2021, form an integral part of the planning and execution stages of refurbishment and construction projects. The guidelines allow for discussion with consultants, designers and other stakeholders, and provide clarity in a changing market.

The guidelines are under constant review to ensure we evolve with markets, technology, and expertise enabling us to deliver against our targets.

Updates to our sustainable refurbishment guidelines will include:

- Ensuring clarity of metering and transparency of energy usage
- Incorporation of on-site renewable energy
- Incorporation of certification schemes, suitable for the different types of refurbishment
- Updated procurement, supply chain and waste policies
- Provision of building records
- Ensuring the end product meets all current and expected future legislative requirements

Our refurbishment guidelines aim to improve the sustainability credentials of our properties.

Andy Lynch
Head of Building Surveying

Building certifications

Whilst our net zero carbon pathway is focused on reducing carbon emissions, we also recognise the value of building certifications to provide third party validation.

We have three certified office buildings in our portfolio, at Metro, Manchester and Tower Wharf, Bristol which were both awarded BREEAM 'Excellent' when they were refurbished, and Angel Gate, London, which has ISO 14001 certification.

In line with our refurbishment guidelines and recognising the composition of the portfolio we are exploring alternative certifications that reflect the nature of our assets and on-site strategies.

Site type	Green building certification 2023
Office	29%
Retail, High Street	0%
Retail, Warehouse	0%
Industrial, Business Parks	0%
Industrial, Distribution Warehouse	0%
Hotel	0%
	6%

> Our bespoke set of green lease clauses continue to be successfully incorporated in new lettings and renewals.

Jay Cable
Head of Asset Management

76%

EPC ratings A-C

64

Green leases completed

Net zero carbon building audits

During the year we undertook net zero carbon building audits at five representative assets across our portfolio. These took place at our office assets at Pembroke Court, Chatham and 401 Grafton Gate, Milton Keynes, our retail warehouse asset in Bury and our industrial estates at Luton and Radlett.

In respect of the office assets, the reports assessed the energy performance of the assets using the UKGBC targets for reduction in Energy Use Intensity (EUI) required to meet the 1.5˚C global warming target for 2030 and 2050 and identified the interventions required to achieve these reductions. In respect of the retail and industrial assets the reports used the Carbon Real Estate Risk Monitor (CRREM) targets for the same years and same climate target.

In each case, the reports indicated the interventions required to deliver the reduction in EUI. These were principally to the internal building systems (for example, replacing gas based systems with electric systems), external fabric (for example, PV systems and improved solar shielding) as well as changes to the operation of the buildings (for example implementing smart building management systems).

Whilst the characteristics of every building differ, the output from the reports has been valuable in helping us refine our refurbishment guidelines, management regimes and begin the process of setting individual asset net zero carbon strategies.

Green lease clauses

Green leasing continues to be an important tool to enable us and our occupiers to improve the performance of a building.

The ideal green lease will help enhance the environmental performance of a building, mitigate any environmental legislative and market risk and foster improvements in data collection.

Our bespoke set of green lease clauses represent best practice and continue to be successfully incorporated in new leases and lease renewals. We continue to review and amend these clauses accordingly where appropriate.

Over the year, we completed 64 green leases. We will continue to use lease events and letting of vacant units to drive further take up.

Minimum Energy Efficiency Standards (MEES)

We continue to improve the EPC profile of the portfolio. Looking at the percentage of EPC ratings by estimated rental value (ERV) of our portfolio, 76% have an EPC rating of A-C and 24% are D or E. For the year to March 2022, 71% of the portfolio was rated A-C by ERV.

We continue to proactively manage our compliance with MEES, which, as of April 2023, prohibits leasing space that is F or G rated, unless an exemption certificate applies. We have one small non-compliant industrial unit, for which we are in the process of applying for an exemption due to its very basic construction.

Over the year we reassessed 38 EPCs. Using the same reporting basis as above, 79% have been reassessed to an A-C rating, 21% a D rating, and none were E, F or G rated. We continue to use lease events, common area works and EPC renewals to implement improvement works with the overall aim of continually improving our EPC score and ensuring compliance with MEES.

The minimum EPC rating is likely to be raised further, with the UK Government having consulted in 2021 on proposals to require a minimum rating of a C by 1 April 2027, and a B by 1 April 2030. The outcome of this consultation is awaited.

Notwithstanding the legislative position, we see alignment with MEES regulations as integral to our net zero carbon pathway, occupier engagement strategy, and environmental focus. We will continue to proactively manage the portfolio on this basis.

Biodiversity

We are committed to broadening the scope of biodiversity across our portfolio by introducing more measures at our offices and across a number of industrial estates where possible.

We take a collaborative approach to biodiversity, working with biodiversity advisers, our managing agents, landscapers and our occupiers to ensure we take on board ideas and suggestions.

In line with the Better Buildings Partnership's biodiversity checklist, we aim to:

- Set biodiversity targets at selected properties
- Plan the implementation of biodiversity improvements measures, alongside expert advice
- Ensure adequate funding is available to maintain these measures
- Monitor progress and adapt if necessary

During the year, we have installed additional beehives, bug hotels, bird and bat boxes as well as compost bins across several of our multi-let office buildings. We also have in place biodiversity plans to guide our approach to landscaping to promote wild vegetation at some of our larger locations — for example, at Colchester Business Park.

We have also introduced biodiversity measures successfully at appropriate industrial estates including in Epsom and Radlett.

Our plans for 2023 are to continue to use the Better Buildings Partnership's biodiversity checklist, and carefully manage the funding required to introduce and maintain our biodiversity measures as well as improve the way in which we communicate locally about the importance of biodiversity.

Water consumption

We collect the majority of our water data via actual manual meter reads (90% from actual reads). Due to the location of some water meters, achieving accurate and regular consumption measurements is not practical, therefore we rely on estimated data from the suppliers.

Reflecting increased occupancy post-pandemic and portfolio acquisitions, over the year we have seen an overall increase across the portfolio of 228% for absolute landlord purchased water consumption and a like-for-like increase of 60%. The large increase is due to the increased occupancy levels at our multi-let office buildings, property acquisitions and improved data capture.

We have begun works to install automatic water flow measuring devices across the portfolio. These will enable us to accurately measure water consumption and significantly improve our data collection.

Over the past year the largest increase in consumption in absolute terms occurred across our office portfolio, from 12,028m^3 to 29,003m^3 (a 241% increase). On a like-for-like basis, the increase was 169%.

Due to the nature of our retail portfolio and distribution warehouse portfolio (which have very few communal areas or utility supplies), the water consumption figures are insignificant at a portfolio level (comprising less than 0.1% of the total landlord controlled consumption).

Going forward, we will continue to follow our refurbishment guidelines by adopting water efficiency measures as we undertake refurbishment and maintenance projects across the portfolio.

100%

Waste diverted from landfill from property management activities

Materials and waste

We recognise the importance of sustainable waste disposal and therefore remain committed to eliminating landfill waste disposal across the landlord controlled portfolio. This year we have again successfully diverted 100% of waste from landfill across property management activities, using either recycling or heat recovery.

Following increased occupancy across the portfolio post-pandemic, this has led to an increase in absolute waste generation over the year of 102%. Of this, 83% was recycled and 17% recovered. On a like-for-like basis, the increase was 100% with 84% recycled and 16% recovered.

We continue to engage with our waste providers and occupiers with the aim of improving the sorting and filtering of waste at our properties. The benefit of this is to make the downstream sorting, recycling and recovery process more efficient.

Stakeholder engagement

Sustainable thinking, collaborative action

We have in place a framework for conducting business in a way that makes a positive contribution to society while minimising the impact on people and the environment. We are committed to engaging with our occupiers, shareholders, suppliers and the wider community and the Board acts to promote the long-term success of the business for the benefit of all our stakeholders.

Occupier engagement, wellbeing and satisfaction

Working with our occupiers is at the heart of what we do. Understanding their current and future requirements and working collaboratively to reduce our environmental impact is key for us.

We continue to look for ways to improve our occupiers' experience. Our Picton Promise was created to bring together the five main commitments to our occupiers: Action, Community, Technology, Support and Sustainability. These are at the core of our engagement strategy.

Building on the success of the launch of our apps at Angel Gate, London and Colchester Business Park in 2022, we have begun to roll out more of these apps at our other multi-let office buildings and by the Summer we expect to have a total of ten new apps in place. We see this as an important part of our engagement strategy to communicate effectively with our occupiers and their staff.

During the year, we undertook an occupier survey across all our multi-let offices and industrial estates.

The results of the survey indicated that:

- 85% of respondents would recommend us as a landlord to others
- 80% of respondents were happy with our communication
- 70% of respondents were happy with our responsiveness
- 80% of respondents were happy with the level of services we provided
- 75% of respondents were interested in increasing their awareness of sustainability

Where occupiers highlighted building specific issues, our managing agents have taken quick action to handle these and communicated with the occupiers concerned.

We will be using the valuable feedback we obtained from these surveys to help shape our engagement strategy over the next year.

In 2023, we will also broaden our collaboration with occupiers on sustainability matters either through direct dialogue with them or within the regular occupier meetings held at our multi-let offices. We will focus on working together to reduce energy costs and sharing utilities consumption data as well as ways to improve the effectiveness of waste removal.

Occupier health and safety

We are fully committed to making our buildings a healthy and safe environment for our occupiers and their visitors, our employees, contractors, and the public. We therefore ensure that they comply with the relevant health and safety legislation and guidelines.

Health and safety is embedded within our management culture of our organisation.

Our Health and Safety Committee meets every other month and reviews all aspects of health and safety across our portfolio and in our own office. The Committee reports directly to the Responsibility Committee and health and safety is a standing item on the Board's agenda.

Our health and safety record continued to be strong with no reportable accidents, near misses or other health and safety incidents during the year. We were 99% compliant in all critical and secondary health and safety documentation.

During the year, our team improved their health and safety knowledge by attending training courses in areas including the Building Safety Act, first aid and regulatory defensibility.

As part of our property management retender, we improved our managing agent's health and safety KPIs covering reporting and delivery times.

In 2023, we plan to undertake security and lighting improvements at some of our industrial and retail warehouse properties, as well as providing further training to our employees for example in asbestos management.

85%

Of occupiers surveyed would recommend us

Employee engagement

We have a strong and open company culture with shared values co-created by our employees. We value the contributions made by the whole team and aim to nurture a positive working environment.

We have once more this year carried out an employee engagement survey across the whole team, excluding the Directors. Overall, the scores were very positive, with over half of the questions receiving Agree or Strongly Agree responses.

The overall satisfaction score was 82%. Issues that were raised by the team included:

– The increasing demands to meet net zero carbon commitments
– The balancing of information flows against time and resource constraints
– Plans for growing the business in terms of assets and resources

This year we held a team off-site in Gloucester. We discussed many issues and challenges facing the business and what actions and improvements could be made. We were also able to visit the recent acquisitions made in that area.

Diversity and inclusion

We value the contributions made by all of our employees and believe that a diverse workforce is key to maximising business effectiveness. We aim to select, recruit, develop and promote the very best people and are committed to creating a workplace where everyone is treated with dignity and respect, and where individual difference is valued.

We recognise the benefits of diversity and the value this brings to the Group. We aim to maintain the right blend of skills, experience and knowledge within the Group.

The numbers of men and women employed by the Group are:

	Men	Women
Picton Board	4	2
Rest of team	5	4
Total	**9**	**6**

Wellbeing and benefits

We believe that having a happy and healthy team is important to the success of the business. Our commitment to providing a safe and healthy working environment for our employees is achieved by:

– Adhering to the appropriate health and safety standards
– Providing a working environment that enables employees to work effectively and free from unnecessary anxiety, stress and fear
– Ensuring employees can report inappropriate behaviour or concerns through the whistleblowing policy
– Having appropriate family friendly policies

We offer health benefits to all employees, and they also all participate in the Deferred Bonus and Long-term Incentive Plans, providing alignment with shareholders.

The absentee rate for the year was 0.5%. There were no fatalities or work-related injuries during the year.

The turnover of employees during the year was:

	Number	% of average number during year
Joiners	1	11
Leavers	0	0

The joiner during the year was Andy Lynch, our new Head of Building Surveying. Subsequent to the year-end, Kathy Thompson has joined as Company Secretary.

82%

Employee satisfaction score

Training and development

We want to encourage our employees to realise their full potential by giving them access to development and training opportunities.

Employee development is based on the following key principles.

– Development should be continuous; employees should always be actively seeking to improve performance
– Regular investment of time in learning is seen as an essential part of working life
– Development needs are met by a mix of activities, which include internal and external training courses, structured 'on-the-job' experience and through interaction with professional colleagues

All our employees have a formal performance appraisal on an annual basis, together with a mid-year review of their progress against objectives set at the start of the year.

This year the amount of training carried out by the team was 1.1%, based on the number of hours spent on training as a percentage of the total working hours of all employees. This year members of the team attended the new elective modules of the Better Buildings Partnership's ESG Training Course for Real Estate Professionals. Additionally, further training was carried out in respect of health and safety, sustainability and market regulations.

Next year we intend to implement a formal cyber security awareness training programme for the whole team.

Community and social value

As an owner of commercial property, we recognise our role in providing places which improve quality of life, enhance wellbeing and generate a positive social outcome, whilst minimising any negative impacts our buildings have on society and the environment. We are committed to understanding and supporting the needs of local communities where we own buildings.

Community engagement programme

Site type	Building coverage (assets)
Office	100%
Retail, High Street	100%
Retail, Warehouse	100%
Industrial, Business Parks	100%
Industrial, Distribution Warehouse	100%
Hotel	100%

Under the four key themes of employment, economic growth, health and wellbeing and promoting social innovation we have:

- Supported local economies through creating employment opportunities in our buildings and local communities
- Contributed to safer communities through investment in security and surveillance technology on our sites
- Procured goods and services locally where possible, through transparent, ethical and sustainable supply chains, and ensured that our suppliers adhere to our Supplier Code of Conduct
- Promoted health and wellness initiatives across our team and to our occupiers through occupier apps and various on-site events
- Provided training opportunities and career progression for our employees, remaining committed to evolving talent in our employees to help all reach their full potential and career goals
- Supported both national and local charities within our communities as set out in our charitable giving policy
- Conducted a series of investor and occupier sustainability briefings to share knowledge and drive change

Charitable giving and partnerships

This year we supported 23 charities and donated a total of £27,000. Our aim through our charitable giving and charity partnerships is to invest in our communities at grassroots level, seeking to make a positive difference to the local areas in which we hold property.

We seek to support charities which;

- Drive positive social change
- Respond to specific local needs
- Create a positive community impact
- Are committed to improving local areas

We have established partnerships with a number of nationwide charities and charities working in the local areas in which we operate. We have long-standing relationships with The Funding Network and Coram and this year were delighted to forge two new partnerships with The Fostering Network and Future Youth Zone, based near our industrial estate in Barking. We also regularly support LandAid each year.

In addition, this year we responded to the humanitarian crisis in Turkey and Syria through donating to the Disasters Emergency Committee appeal.

£27,000

Charitable donations

23

Charities supported

This year we were delighted to begin working with Coram and its Young Citizens programme for young people from migrant and refugee backgrounds, by offering work experience and career advice to those wishing to explore different career options within the real estate sector.

Working with The Fostering Network, we are currently in the process of joining their Fostering Friendly employers' scheme, which includes initiatives such as additional annual leave for foster carers to accommodate appropriate training, social worker visits and other fostering-related activities.

We continue to offer our occupier led charitable matched giving initiative, which supports occupiers within our portfolio in their local community-based fundraising efforts. Occupiers are invited to apply for a matched giving donation programme of up to £100 per year for a registered UK charity.

> We value our long-standing partnership with Coram and supporting its Young Citizen programme is an integral part of our community, social value and charitable giving commitment.
>
> Coram's work to support young trainers such as Aymen with their future progression is important in providing opportunities for all and empowering young people, particularly those from migrant or refugee backgrounds.
>
> **Mark Alder**
> Head of Occupier Services

Supplier and contractor responsibility

We are committed to conducting our business in a fair and honest manner and ensuring our suppliers operate in an ethical way and share our business principles in observing relevant laws and regulations. We seek to maintain productive and long-term relationships with our business partners.

We have in place a Supplier Code of Conduct. This is designed to promote safe and fair working conditions and the responsible management of social, ethical and environmental issues in our supply chain.

This year we have developed our approach to supplier responsibility and particularly the issue of modern slavery within our supply chain.

We have assessed the level of risk in our supplier base of exposure to modern slavery and human trafficking as low, as the vast majority of our suppliers are based in the UK.

However, we recognise that there are certain activities within the real estate sector that are more susceptible to modern slavery risks, including construction and maintenance.

New supplier terms now incorporate additional clauses reflecting the perceived level of risk. We are also using our supplier due diligence questionnaire for new suppliers.

Governance

Sustainable thinking, positive change

We aim to have in place high standards of sustainability governance and management and will undertake initiatives to promote greater environmental responsibility. This also includes a focus on business practices, which are activities relating to the way the business is run, including business ethics, compliance and tax principles.

Leadership

The Board has responsibility for the long-term success of the business, providing leadership and direction with due regard and consideration to all of our stakeholders. The Board comprises the Chair, two Executive Directors and three independent Non-Executive Directors. They have a range of skills and experience that are complementary and relevant to the business. The tables below set out the Board's composition, tenure and diversity characteristics.

Function	Number	%
Non-Executive Chair	1	17
Executive Directors	2	33
Independent Non-Executive Directors	3	50

Diversity	Number	%
Male	4	67
Female	2	33

Tenure	Number	%
0 to 3 years	2	33
3 to 6 years	3	50
6 to 9 years	1	17

Age	Number	%
50 to 54 years	1	17
55 to 59 years	1	17
60 to 64 years	3	50
65 to 69 years	1	16

The Board has full responsibility for the direction and control of the business, and sets and implements strategy within a framework of internal controls and risk management. The Board has established four Committees, comprising entirely Non-Executive Directors, to carry out specific functions on its behalf. In addition, there are three Management Committees with responsibility for certain operational matters, chaired by one of the Executive Directors and including other members of the Picton team. One of these Management Committees is the Responsibility Committee, which oversees all sustainability-related matters.

As a company listed on the London Stock Exchange, we apply the principles of the UK Corporate Governance Code and report against the Code each year.

More detail on the role and activities of the Board, including their biographies, and its Committees is set out in the Governance section.

Read more in the Governance section on pages **78–125**

Transparency and reporting

We recognise that it is important to be transparent on sustainability issues, so that our stakeholders can make informed decisions. Also we aim to ensure our data collection and management is in line with best practice to assist with our GRESB and EPRA reporting requirements.

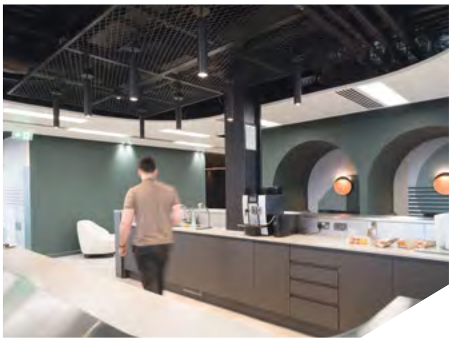
We have been reporting to GRESB since 2017. Our score for 2022 increased from 61 to 77, and from one green star to three. We improved our score in many areas, including improved data coverage and assurance, and were ranked second in our peer group. We were also ahead of the GRESB average for the first time.

We have maintained our GRESB Public Disclosure score at 91, which is at the highest possible A grade rating. We were ranked second in our peer group for disclosure methods, disclosure of sustainability implementation and disclosure of stakeholder engagement practices.

We have continued to report in line with the EPRA Sustainability Best Practices Recommendations and received a Gold award for our 2022 Sustainability Report.

Our Sustainability Data Performance Report is available on our **website**

GRESB
2022



Better Buildings Partnership

The Better Buildings Partnership (BBP) is a collaboration of the UK's leading commercial property owners. We joined the BBP in 2020 and are a signatory to the BBP Climate Commitment.

This year we have continued to participate in the working group for the ESG Training Course for Real Estate Professionals, developing new elective modules.

This year we have also reported our portfolio's energy data in the BBP Real Estate Environmental Benchmark for the first time.

Policies

We have in place an overriding sustainability policy. This sets out our approach to sustainability issues and how they are embedded into all of our activities. We believe that a responsible and ethical approach to business is essential for the benefit of all our stakeholders and within our policy we seek to:

- Meet the highest standards of corporate governance
- Tackle environmental challenges
- Provide safe and sustainable buildings for our occupiers
- Focus on our employees
- Engage with all our stakeholders

Our Responsibility Committee guides, defines and leads our focus on these priorities. Our sustainability policy is supported by specific sustainability strategies and initiatives including:

- Net zero carbon pathway
- Community and Social Value Policy
- Charitable Giving Policy
- Modern Slavery Statement
- Supplier Code of Conduct
- Sustainable Refurbishment Guidelines

All our ESG Policies are set out on our **website**

Data management

We are committed to the responsible and secure handling of data and our data management practices adhere to relevant regulatory requirements.

We strive to provide timely and accurate data to our stakeholders, in a format that is easily understandable. We continuously evaluate and enhance our data reporting processes to meet the evolving needs of our stakeholders.

Recognising how important being able to use accurate energy data is to achieve our sustainability objectives, we have taken steps during the year to broaden our understanding of energy use at our buildings.

We are now implementing a data management and monitoring system designed to help real estate stakeholders gain a better understanding of their sustainability performance and achieve their sustainability goals.

For Scope 3 data, we have increased our dialogue with our occupiers on sustainability and energy management and have improved the level of energy data sharing as part of this, either through obtaining data directly from occupiers or by installing a link to their meters to receive energy data automatically.