Custodian
PROPERTY INCOME REIT

Investing in our portfolio

ANNUAL REPORT AND ACCOUNTS 2023

Welcome to the Custodian Property Income REIT plc Annual Report and Accounts 2023

Custodian Property Income REIT plc ("Custodian Property Income REIT" or "the Company") is a UK real estate investment trust ("REIT") which seeks to deliver an enhanced income return by investing in a diversified portfolio of smaller, regional, core/core-plus properties let to predominantly institutional grade tenants across the UK.

Yield

An enhanced yield on acquisition – with no need to sacrifice quality of property/location/tenant or environmental performance for income and with a greater share of value in 'bricks and mortar'.

Diversification

Greater diversification – spreading risk across more assets, locations and tenants and offering more stable cash flows.

High income

A higher income component of total return – driving out-performance with predictable returns.

Our reporting

Annual Report 2022

https://www.custodianreit.com/wp-content/uploads/2022/07/5214_Custodian_REIT_Annual_Report_2022_Hyperlink.pdf

Interim Report 2022

https://custodianreit.com/2022/12/custodian-property-income-reit-reports-interim-results-for-the-six-months-ended-30-september-2022/

ESG Report 2023

https://custodianreit.com/wp-content/uploads/2023/03/ESG%20Report%202023.pdf

For more information, visit:
custodianreit.com

Birmingham

We are absolutely committed to achieving our challenging goals in relation to ESG and believe the real estate sector should be a leader in this field.

Adopting a sustainable focus

» Read more on pages 20 to 25

Our stakeholder relationships

» Read more on pages 36 to 41

Our business model and strategy

» Read more on pages 4 to 8

We were delighted to welcome Malcolm Cooper and David MacLellan to the Board this year. Their appointments bring a wealth of experience and skills including leadership, financial expertise, property and governance.

Strong governance culture

» Read more about our governance on pages 46 to 51

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HIGHLIGHTS

A year of defensive earnings performance

Property highlights	2023 £m
Portfolio value	613.6
Property valuation decreases[1]	(91.6)
Property acquisitions[2]	52.6
Capital investment	11.1
Profit on disposal[3]	4.4

Property valuation decreases

Market movements due to rising interest rates and inflation, largely reversing the £94.0m of gains in the prior year, explained further in the Investment Manager's report.

Property acquisitions

- £15.0m retail park in Nottingham
- £11.1m distribution unit near Glasgow
- £8.9m retail warehouses in Droitwich and Measham
- £7.5m industrial facility in Grangemouth
- £3.6m high street retail units in Winchester
- £3.5m industrial unit in Chesterfield
- £3.0m drive-through restaurants in York

Capital investment

Primarily comprising:

- £3.6m redeveloping an industrial site in Redditch
- £3.6m refurbishing industrial assets in Avonmouth and Winsford, offices in Manchester, a retail warehouse in Swindon and a leisure asset in Crewe
- £1.2m invested in electric vehicle chargers and photovoltaics at various sites

Profit on disposal

Sale proceeds of £28.8m at an aggregate 18% premium to valuation comprising:

- £9.3m shopping centre in Gosforth
- £8.5m industrial unit in Milton Keynes
- £5.6m Audi dealership in Derby
- £2.8m business park offices in Leicester
- £1.4m industrial unit in Kilmarnock
- £0.7m high street retail unit in Weston-super-Mare
- £0.5m high street retail unit in Bury St Edmunds

Current portfolio value

£613.6m

Capital investment

£11.1m

Capital investment

1. Before acquisition costs of £3.4m.
2. Before acquisition costs of £3.4m.
3. Net of disposal costs of £0.2m.

Financial highlights and performance summary	2023	2022	Comments
Returns			
EPRA[4] earnings per share[5]	**5.6p**	5.9p	Decreased due to increases in interest rates applicable to variable rate borrowing and professional fee inflation
Basic and diluted earnings per share[6]	**(14.9p)**	28.5p	Loss for the year a result of £91.6m valuation decreases caused by market sentiment around interest rate rises and inflation
(Loss)/profit before tax (£m)	**(65.8)**	122.3	
Dividends per share[7]	**5.5p**	5.25p	Target dividend per share for the year ended 31 March 2024 of not less than 5.5p
Dividend cover[8]*	**102.2%**	110.3%	In line with the Company's policy of paying fully covered dividends
NAV total return per share[9]*	**(12.5%)**	28.4%	4.6% dividends paid (2022: 5.8%) and a 17.1% capital decrease (2022: 22.6% capital increase)
Share price total return[10]*	**(7.0%)**	17.0%	Share price decreased from 101.8p to 89.2p during the year
Capital values			
NAV and EPRA NTA[11] (£m)	**437.6**	527.6	Decreased due to £91.6m of valuation decreases
NAV per share and NTA per share	**99.3p**	119.7p	
Net gearing[12]*	**27.4%**	19.1%	Broadly in line with the Company's 25% target
Weighted average cost of drawn debt facilities*	**3.8%**	3.0%	Base rate (SONIA) increased from 0.7% to 4.2% during the year
Costs			
Ongoing charges ratio[13] ("OCR")*	**1.96%**	1.94%	Increases in ESG compliance and professional fee inflation
OCR excluding direct property expenses[14]*	**1.23%**	1.20%	
Environmental			
Weighted average energy performance certificate ("EPC") rating[15]*	**C (58)**	C (61)	Continued improvements in the environmental performance of the portfolio

Dividend cover[8]*

102.2%

* *Alternative performance measures* – the Company reports alternative performance measures ("APMs") to assist stakeholders in assessing performance alongside the Company's results on a statutory basis, set out above. APMs are among the key performance indicators used by the Board to assess the Company's performance and are used by research analysts covering the Company. The Company uses APMs based upon the EPRA Best Practice Recommendations Reporting Framework which is widely recognised and used by public real estate companies. Certain other APMs may not be directly comparable with other companies' adjusted measures and APMs are not intended to be a substitute for, or superior to, any IFRS measures of performance. Supporting calculations for APMs and reconciliations between APMs and their IFRS equivalents are set out in Note 22.

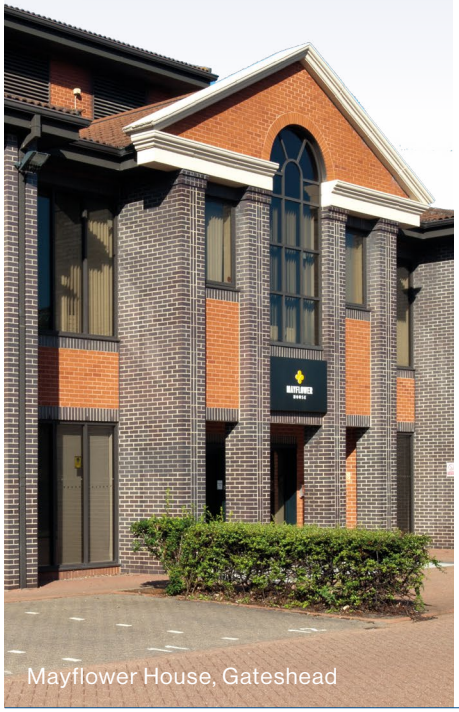
4. The European Public Real Estate Association ("EPRA").
5. Profit after tax, excluding net gains or losses on investment property, divided by weighted average number of shares in issue.
6. Profit after tax divided by weighted average number of shares in issue.
7. Dividends paid and approved for the year.
8. Profit after tax, excluding net gains or losses on investment property, divided by dividends paid and approved for the year.
9. Net Asset Value ("NAV") movement including dividends paid during the year on shares in issue at 31 March 2022.
10. Share price movement including dividends paid during the year.
11. EPRA net tangible assets ("NTA") does not differ from the Company's IFRS NAV or EPRA NAV.
12. Gross borrowings less cash (excluding rent deposits) divided by property portfolio value.
13. Expenses (excluding operating expenses of rental property recharged to tenants) divided by average quarterly NAV.
14. Expenses (excluding operating expenses of rental property) divided by average quarterly NAV.
15. Weighted by passing rent or ERV if vacant. For properties in Scotland, English equivalent EPC ratings have been obtained.

BUSINESS MODEL AND STRATEGY

Delivering an enhanced income return by investing in smaller, regional, core/core-plus properties

Purpose

Custodian Property Income REIT offers investors the opportunity to access a diversified portfolio of UK commercial real estate through a closed-ended fund. The Company seeks to provide investors with an attractive level of income and the potential for capital growth from a portfolio with strong environmental credentials, becoming the REIT of choice for private and institutional investors seeking high and stable dividends from well-diversified UK real estate.



Mayflower House, Gateshead

The Board also recognises the importance of stakeholder interests and keeps these at the forefront of business and strategic decisions, ensuring the Company:

- Understands and meets the needs of its occupiers, owning fit for purpose properties with strong environmental credentials in the right locations which comply with necessary safety regulations;
- Protects and improves its stable cash flows with long-term planning and decision making, implementing its policy of paying sustainable dividends fully covered by recurring earnings and securing the Company's future; and
- Adopts a responsible approach to communities and the environment, actively seeking ways to minimise the Company's impact on climate change and providing the real estate fabric of the economy, giving employers a place of business.

Investment policy

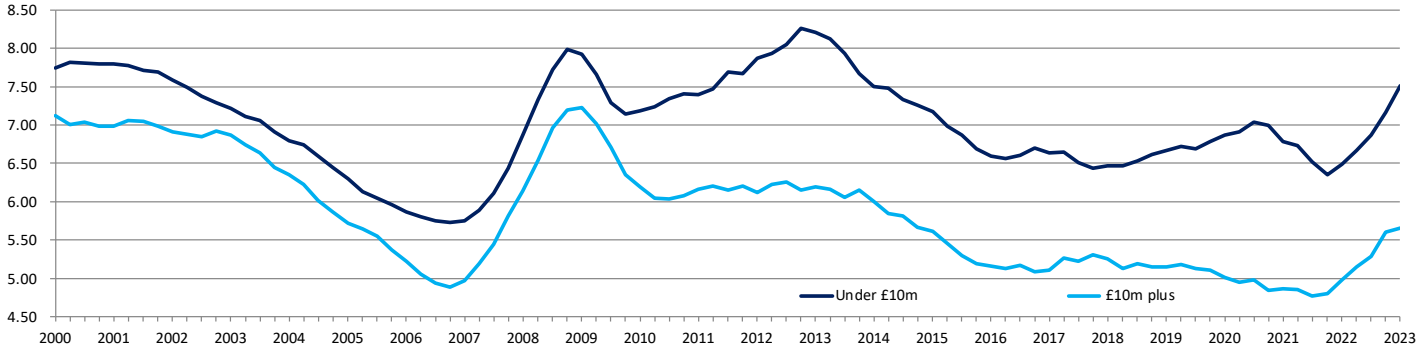
The Company's investment policy[16] is summarised below:

- To invest in a diverse portfolio of UK commercial real estate, principally characterised by individual property values of less than £15m at acquisition[17].
- The property portfolio should be diversified by sector, location, tenant and lease term, with a maximum weighting to any one property sector or geographic region of 50%.
- To acquire modern buildings or those considered fit for purpose by occupiers, focusing on areas with:
  - High residual values;
  - Strong local economies; and
  - An imbalance between supply and demand.
- No one tenant or property should account for more than 10% of the rent roll at the time of purchase, except for:
  - Governmental bodies or departments; or
  - Single tenants rated by Dun & Bradstreet as having a credit risk score worse than two[18], where exposure may not exceed 5% of the rent roll.
- The Company will not undertake speculative development, except for the refurbishment or redevelopment of existing holdings, but may invest in forward funding agreements where the Company may acquire pre-let development land and construct investment property with the intention of owning the completed development.
- The Company may use gearing provided that the maximum loan-to-value ("LTV") shall not exceed 35%, with a medium-term net gearing target of 25% LTV.

The Board reviews the Company's investment objectives at least annually to ensure they remain appropriate to the market in which the Company operates and in the best interests of shareholders.

16. A full version of the Company's Investment Policy is shown in the Investment Policy section of this Annual Report and available at custodianreit.com/wp-content/uploads/2022/09/CREIT Investment-policy-updated-31_8_22.pdf.
17. The Board proposes removing this upper lot-size limit at the Company's forthcoming AGM, subject to FCA approval.
18. A risk score of two represents "lower than average risk".

1 year rolling average transaction yield%

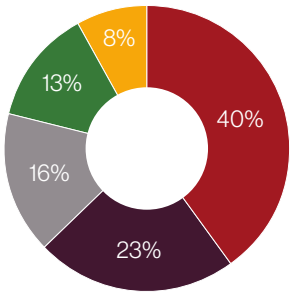


Diverse portfolio

Top 10 tenants	Asset locations	Annual passing rent (£m)	% portfolio income
Menzies Distribution	Aberdeen, Edinburgh, Glasgow, Ipswich, Norwich, Dundee, Swansea, York	1.5	3.7%
B&M Retail	Swindon, Ashton-under-Lyne, Plymouth, Carlisle	1.3	3.0%
Wickes Building Supplies	Winnersh, Burton upon Trent, Southport, Nottingham	1.2	2.8%
B&Q	Banbury, Weymouth	1.0	2.4%
Matalan	Leicester, Nottingham	1.0	2.3%
DFS	Droitwich, Measham	0.9	2.1%
First Title (t/a Enact Conveyancing)	Leeds	0.6	1.5%
Homebase	Leighton Buzzard, Cromer	0.6	1.5%
Regus (Maidstone West Malling)	West Malling	0.6	1.5%
Gist	Glasgow	0.6	1.5%

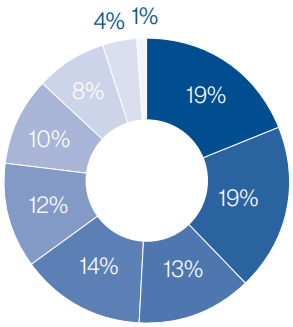
Our portfolio by sector

Weighting by income 31 March 2023



- Industrial
- Retail warehouse
- Office
- Other
- High street retail

Weighting by income 31 March 2023



- West Midlands
- North-West
- South-East
- East Midlands
- Scotland
- South-West
- North-East
- Eastern
- Wales

BUSINESS MODEL AND STRATEGY CONTINUED

The Company's portfolio is focused on smaller, regional, core/core-plus assets which helps achieve our target of high and stable dividends from well-diversified real estate by offering:

Differentiated property strategy

- An enhanced yield on acquisition – with no need to sacrifice quality of property/location/tenant or environmental performance for income and with a greater share of value in 'bricks and mortar';
- Greater diversification – spreading risk across more assets, locations and tenants and offering more stable cash flows; and
- A higher income component of total return – driving out-performance with forecastable and predictable returns.

Success in achieving the Company's performance and ESG objectives is, in part, measured by performance against key performance indicators set out in detail in the Financial review and ESG Committee report respectively. The Principal risks and uncertainties section of the Strategic Report sets out potential risks in achieving the Company's objectives.

Growth strategy

The Board is committed to seeking further growth in the Company to increase the liquidity of its shares and reduce ongoing charges. Our growth strategy involves:

- Organic growth through share issuance at a premium to NAV;
- Broadening the Company's shareholder base, particularly through further penetration into online platforms;
- Becoming the natural choice for private clients and wealth managers seeking to invest in UK real estate;
- Taking market share from failing open-ended funds; and
- Strategic property portfolio acquisitions and corporate consolidation.

The Board ensures that property fundamentals are central to all decisions.

Our environmental, social and governance ("ESG") objectives

1 Improving the energy performance of our buildings

Investing in carbon reducing technology, infrastructure and onsite renewables and ensuring redevelopments are completed to high environmental standards

2 Reducing energy usage and emissions

Liaising closely with our tenants to gather and analyse data on the environmental performance of our properties to identify areas for improvement

3 Achieving positive social outcomes and supporting local communities

Engaging constructively with tenants and local government to ensure we support the wider community through local economic and environmental plans and strategies and playing our part in providing the real estate fabric of the economy, giving employers safe places of business that promote tenant well-being

4 Understanding environmental risks and opportunities

Allowing the Board to maintain appropriate governance structures to ensure the Investment Manager is appropriately mitigating risks and maximising opportunities

5 Complying with all requirements and reporting in line with best practice where appropriate

Exposing the Company to public scrutiny and communicating our targets, activities and initiatives to stakeholders

Richard Shepherd-Cross
Investment Manager

> Our smaller-lot specialism has consistently delivered significantly higher yields without exposing shareholders to additional risk.

Investment Manager

Custodian Capital Limited ("the Investment Manager") is appointed under an investment management agreement ("IMA") to provide property management and administrative services to the Company. Richard Shepherd-Cross is Managing Director of the Investment Manager. Richard has over 25 years' experience in commercial property, qualifying as a Chartered Surveyor in 1996 and until 2008 worked for JLL, latterly running its national portfolio investment team.

Richard established Custodian Capital Limited as the Property Fund Management subsidiary of Mattioli Woods plc ("Mattioli Woods") and in 2014 was instrumental in the launch of Custodian Property Income REIT from Mattioli Woods' syndicated property portfolio and its 1,200 investors. Following the successful IPO of the Company, Richard has overseen the growth of the Company to its current property portfolio of over £600m.

Richard is supported by the Investment Manager's other key personnel: Ed Moore – Finance Director, Alex Nix – Assistant Investment Manager and Tom Donnachie – Portfolio Manager, along with a team of five other surveyors and four accountants.

Oxford

CHAIR'S STATEMENT

A year of change, challenge and opportunity

David Hunter
Chair

> We are beginning to see some optimism returning to real estate markets following six months of economic turbulence.

The year to 31 March 2023 was a year of two halves. In the six months to September a market driven by weight of incoming capital and cheap debt pushed market valuations to levels that swiftly became unsupportable in the face of rising interest rates in the second half of the year.

Custodian Property Income REIT's strategy of investing in smaller regional property demonstrated its relative resilience and defensive qualities as the market corrected to the new interest rate environment, with its portfolio experiencing an 11.8% like-for-like decline in valuations during the year of £91.6m (2022: increase of £94.0m) compared to a 17%[19] market decrease. However, since the year end we are beginning to see some optimism returning to real estate markets following six months of economic turbulence. Property pricing has reacted promptly to the new interest rate environment and to punishing refurbishment/build cost inflation, allowing the market to continue to function despite transaction levels remaining low.

Valuations appear to have largely stabilised and the Company saw a return to a positive quarterly NAV total return per share in Q4. NAV total return per share for the year was -12.5%, compared to +28.4% last year and these significant variations in the headline return demonstrate the extreme impact of volatile valuations which are driven by market sentiment.

This volatility reinforces our view that NAV is a poor measure of underlying performance, believing instead that we should follow the US approach of focusing on EPRA earnings per share ("EPRA EPS" or funds from operations). EPRA EPS was 5.6p for the year which compares to 5.9p in 2022 and 5.6p in 2021. While capital valuations have fluctuated, the underlying occupational property market has remained strong, maintaining relatively stable income returns.

Dividends

Acknowledging the importance of income for shareholders the Board was pleased to maintain the rate of quarterly dividends during the second half of the year taking the total dividends declared for the year to 5.5p per share (2022: 5.25p). This dividend was one of the highest fully covered dividends amongst the Company's peer group of listed property investment companies[20] for the year ended 31 March 2023 and, in line with the Company's policy, was 102% covered by EPRA earnings.

The Company is targeting a dividend per share of at least 5.5p per share for the year ending 31 March 2024.

Strategy for future growth

We continue to believe that there is a strong case for consolidation amongst the subscale listed REITs, with much of the market trading at persistently high discounts to NAV. In this respect, and given our low discount to NAV relative to much of the listed REIT sector, we intend to seek opportunities to purchase complementary portfolios via mergers or corporate acquisitions, similar to our acquisition of Drum Income Plus REIT plc ("DRUM") in 2021.

Net asset value

The NAV of the Company at 31 March 2023 was £437.6m, approximately 99.3p per share, a decrease of 20.4p or 17.0% since 31 March 2022 (2022: increase of 22.1p or 22.6%):

	Pence per share	£m
NAV at 31 March 2022	119.7	527.6
Valuation decrease before acquisition costs	(20.7)	(91.6)
Impact of asset acquisition costs	(0.8)	(3.4)
Valuation decrease including acquisition costs	(21.5)	(95.0)
Profit on disposal of investment property	1.0	4.4
Net loss on investment property	(20.5)	(90.6)
EPRA earnings	5.6	24.8
Dividends paid [21]	(5.5)	(24.2)
NAV at 31 March 2023	**99.3**	**437.6**

19. Source: Knight Frank LLP.
20. Source: Numis Securities Limited.
21. Dividends totalling 5.5p per share (1.375p relating to the prior year and 4.125p relating to the year) were paid on shares in issue throughout the year.

Net asset value

The valuation decrease before acquisition costs of £91.6m largely reversed the £94.0m gains in the year to 31 March 2022 despite improving prospects for rental growth across the portfolio. A property valuation commentary is detailed in the Investment Manager's report.

The market

Much of the optimism in real estate is due to the prospect of rental growth which is the key component of anticipated total returns. In an inflationary environment, real returns from real assets can be achieved when rents are growing. The Company's portfolio has an EPRA net initial yield[22] of 5.8% and an equivalent yield[23] of 7.3%, demonstrating the reversionary potential of the Company's properties, which we continue to capture.

Our asset management of the portfolio and the types of assets we own are focused on where occupational demand is strongest, allowing us to lease vacant space across all sectors and deliver rental growth. This has supported EPRA earnings per share and underpins the Company's long-term track record of paying a fully covered dividend.

Custodian Property Income REIT's balance sheet resilience, with low gearing and a longer-term fixed rate debt profile, has left the Company well insulated from the negative impact of interest rate rises. Rental growth feeding into the portfolio will create headroom for eventual refinancing.

Borrowings

In June 2022 the Company arranged a £25m tranche of 10 year debt with Aviva Real Estate Investors ("Aviva") at a fixed rate of interest of 4.10% per annum to refinance a £25m variable rate revolving credit facility with Royal Bank of Scotland ("RBS") which was due to expire in September 2022.

This refinancing mitigated interest rate risk and refinancing risk for shareholders and increased the proportion of the Company's drawn debt facilities that are at fixed rates of interest to 81% at 31 March 2023. The refinancing also maintained the accretive margin between the Company's 3.8% weighted average cost of debt and property portfolio EPRA topped-up net initial yield[24] of 6.2%.

Investment Manager

The performance of the Investment Manager is reviewed each year by the Management Engagement Committee. During the year the fees charged by the Investment Manager were £4.5m (2022: £4.4m) in respect of annual management, administrative and transaction fees.

Further details of fees payable to the Investment Manager are set out in Note 19.

The Board is pleased with the performance of the Investment Manager, particularly its effective communication programme with shareholders, continued successful asset management initiatives and capital improvements to the Company's portfolio, which mitigated decreases in valuations, enhanced the environmental performance and maintained occupancy and income. As a result the Board believes the continued appointment of the Investment Manager is in the interests of the shareholders as a whole.

In light of additional work required to achieve the Company's environmental objectives the Board has agreed, with effect from 1 April 2022, to amend the rates applicable in calculating administrative fees payable to the Investment Manager under the IMA (detailed in Note 19). A rate increase for NAV between £200m and £500m has resulted in administrative fees increasing by £95k for the year with a projected additional annual fee of £83k based on the year-end NAV of £437.6m. However, rate decreases applicable to NAV in excess of £500m mean that this fee differential decreases with growth in NAV beyond £500m and the rate changes, in aggregate, will decrease the overall administrative fee if NAV exceeds £950m. The Board believes this fee change is in the long-term interest of shareholders and is satisfied that the Investment Manager's performance remains aligned with the Company's purpose, values and strategy.

Board succession and tenure

In line with the Company's succession plan, Matthew Thorne retired as a Director at the 31 August 2022 AGM and I intend to retire as a Director at the 8 August 2023 AGM following our respective eight and nine years of service.

Where possible, the Board's policy is to recruit successors well ahead of the retirement of Directors. Responding pre-emptively to these departures we were delighted to welcome Malcolm Cooper and David MacLellan, who joined the Board on 6 June 2022 and 9 May 2023 respectively. Their appointments bring a wealth of experience and skills including leadership, financial expertise, property and governance.

The Company's independent Directors are appointed on an initial three-year term, with a typical expectation that two, three-year terms will be served, plus the potential to be invited to serve for an additional three-year period. The Company's succession policy allows for a Chair tenure of longer than nine years, in line with the 2019 AIC Corporate Governance Code for Investment Companies ("AIC Code"), but the Board acknowledges the benefits of ongoing Board refreshment.

22. Annualised cash rents at the year-end, less estimated non recoverable property operating expenses, divided by the gross property valuation plus estimated purchaser's costs. Considered an APM.
23. Weighted average of annualised cash rents at the year-end date and ERV, less estimated non-recoverable property operating expenses, divided by property valuation plus estimated purchaser's costs. Considered an APM.
24. Annualised cash rents at the year-end date, adjusted for the expiration of lease incentives, less estimated non-recoverable property operating expenses, divided by property valuation plus estimated purchaser's costs. Considered an APM.

Diversity

The Board is conscious of the importance stakeholders place on diversity and understands a diverse Board brings constructive challenge and fresh perspectives to discussions.

The Company follows the AIC Code which recommends:

- The Board has a combination of skills, experience and knowledge; and
- Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

The Board's positive approach to diversity means that, where possible, each time a director is recruited at least one of the shortlist candidates is female and at least one of the shortlist candidates is from a minority ethnic background. During both recruitment processes a number of female candidates and at least one candidate from a minority ethnic background wereinterviewed. Neither David MacLellan nor Malcolm Cooper are from minority ethnic backgrounds and the appointments were made based on skillset and experience, particularly having chaired the Board and Audit Committees of other listed or investment entities.

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (SID and Chair)
White British or other White (including minority-white groups)	6	100%	2
Female	2	33%	1
Male	4	67%	1

This information has been collected by self-disclosure directly from the individuals concerned who were asked to confirm their gender and ethnicity.

The Board supports the overall recommendations of the FTSE Women Leaders Review and Parker Reviews for appropriate gender and ethnic diversity. During the year the FCA has introduced 'comply or explain' targets of:

- At least 40% of the board should be women;
- At least one of the senior board positions (Chair, Chief Executive Officer, Chief Financial Officer or Senior Independent Director ("SID") should be a woman; and
- At least one member of the board should be from a minority ethnic background.

At the year end, the Company only meets one of the three criteria above, as Elizabeth McMeikan acts as the Senior Independent Director. In line with the requirements of listing rule LR 9.8.6, the Board's ethnicity and gender balance at the year-end is shown in tabular format below. No other categories of ethnicity are relevant for the Company and as the Company has no executive directors it has not reported the fields and the corresponding data relating to executive management in the table below as required by listing rule 15.4.29RB.

Custodian Property Income REIT is an investment company with no executive directors and a small board compared to equivalent size listed trading companies. As a result, the Company does not comply with the newly introduced diversity targets.

The Committee considers diversity in a broad sense, not limited to gender or ethnicity, including socio-economic background and education. 14% of the Board are from working class backgrounds[25] and 57% attended state-run schools.

The Board welcomes the diversity offered by the Investment Management team working with the Company, which has a 33% ethnic minority representation and is 33% female.

25. As defined by the Social Mobility Commission.

Environmental, social and governance

The Board recognises that its decisions have an impact on the environment, people and communities. The Board also believes that the Company's property strategy and ESG aspirations create a compelling rationale to make environmentally beneficial improvements to its property portfolio and incorporate ESG best practice into everything the Company does.

The Company's ESG Committee: develops the Company's environmental key performance indicators ("KPIs") and monitors its performance against them; ensures it complies with its environmental reporting requirements and best practice; assesses the engagement with the Company's environmental consultants; and assesses the level of social outcomes being achieved for its stakeholders and the communities in which it operates.

The Company's ESG policy outlines our approach to managing ESG impacts and provides the framework for setting and reviewing environmental and social objectives to ensure we are continuously improving our performance and setting a leadership direction.

As a result, the Board has committed to:

- Understanding environmental risks and opportunities;
- Improving the energy performance of our buildings;
- Reducing energy usage and emissions;
- Achieving positive social outcomes and supporting local communities; and
- Complying with all requirements and reporting in line with best practice where appropriate.

Case study – Winsford

The previous tenant at this site vacated in June 2022 and alongside the required dilapidations works we have recently completed an extensive refurbishment of the site including the following which have significantly improved the building's ESG credentials and futureproofed the site:

- LED lighting across the warehouse and office space;
- Decarbonisation of the site by removing the gas boiler and replacing with an air source heat pump system; and
- 12 EV charging points installed for the tenant's usage.

The site also benefits from the installation of photovoltaics ("PV") which will be utilised by the incoming tenant, with any surplus to be sold back to a distribution network operator to assist with the shortfall of green energy currently available in the UK. This assists with investment returns of the PV with providers offering between 5-20p/kWh for surplus energy produced.

Winsford

Progress towards these commitments during the year and details of the Company's environmental policy and performance against its targets are contained within the ESG Committee report within the Strategic report.

The Board is determined to ensure the Company's expected pathway towards net zero carbon fits with stakeholder expectations and the Company's property strategy. We see the careful implementation of a practical carbon reduction strategy as a crucial next step in the Company's ESG journey and during the course of the year ending 31 March 2024 we will publish a detailed plan to achieve this.

Company name

To better reflect the Company's focus on income and to facilitate retail investors more easily identifying the Company's shares via online platforms, the Board changed the Company's name from Custodian REIT plc to Custodian Property Income REIT plc at the 31 August 2022 AGM.

Investment policy

Since IPO the Company has sought to provide enhanced income returns from UK real estate by following a smaller lot-sized, regional property strategy, and we expect this approach to continue in the future.

As market demand has changed over time, the properties that provide the enhanced income characteristics the Company is targeting have also changed, and the Company's Investment Policy relating to maximum lot-size and weighted average unexpired lease term has been updated a number of times in response.

While smaller lot-size properties will continue to dominate the strategy, we believe their characteristics can be found in a wider range of properties that offer the same enhanced income characteristics, which are not purely defined by lot-size.

Commercial real estate equity investments are classified into three strategies:

- Core – generally lowest risk and target returns;
- Core-plus – generally low-to-moderate risk and target returns; and
- Value add – generally moderate-to-higher risk and target returns.

The Custodian Property Income REIT strategy is best defined as a balance between core and core-plus strategies. Its core strategy delivers stable, long-term income from predominantly smaller regional properties and the core-plus strategy provides enhanced income through asset management or differentiated location, lease length, tenant covenant or sector. We believe that 'core/core-plus' best describes Custodian Property Income REIT's strategy, providing no greater volatility in underlying values and a better risk and return reward than a pure core strategy.

Accordingly, to better align the Investment Policy with the Company's property strategy, and to provide more flexibility when considering future acquisitions, the Board recommends that shareholders approve changing the Company's Investment Policy, using this well-established terminology rather than lot-size, as follows (wording added or deleted is shown in underline and strikethrough respectively):

"To invest in a diversified portfolio of UK commercial real estate principally characterised by smaller, regional, core/core-plus properties that provide enhanced income returns. ~~individual values of less than £15 million at acquisition~~."

Outlook

The Company enjoys the support of a wide range of shareholders with the majority classified as private client or discretionary wealth management investors. The Company's investment and dividend strategy and diversified portfolio are well suited to investors looking for a close proxy to direct real estate investment but in a managed and liquid structure.

Capturing rental growth to support earnings is a key focus of the Investment Manager as discussed in its report. In an inflationary environment and with a lack of supply of modern, smaller regional properties we expect to see continued rental growth over the year ahead. Furthermore, where we can provide space that meets the modern environmental standards demanded by both legislation and tenants, we expect to see additional rental growth.

It will be this growth in income that is likely to form the greater component of total return over the next phase of the property market and we believe that Custodian Property Income REIT's strong income yielding portfolio, supported by higher-than-peer group EPRA EPS, will underpin shareholder returns.

David Hunter
Chair
14 June 2023

Redditch (Ravensbank)

INVESTMENT MANAGER'S REPORT

A year of investment in our portfolio

Richard Shepherd-Cross
Investment Manager

> Rental growth remains strong in the industrial and logistics sector which accounts for 40% of the Company's rent roll and 48% of the portfolio by value.

The UK property market

Despite investment market volatility during 2022, in many ways the real estate market is in a much better place than it has been for the last 18 months. Rent collection levels are very strong, COVID-19 restrictions appear to be behind us and the impact of COVID-19 on tenants' businesses is largely resolved. The economy has, thus far, narrowly avoided recession but even in a slowdown we are not faced with an over-supply of real estate and rising vacancy rates which are so often associated with the property market in recession.

In the 12 months to 31 March 2023 the UK commercial property market saw valuations decline by 17% with the bulk of the rerating in the quarter to December 2023. These valuation decreases were primarily due to changes in the macro-economic environment including heightened uncertainty from rising inflation, slowing economic growth, the energy crisis, increasing interest rates, stresses in supply chains, constraints in the labour market and low consumer spending against the backdrop of seeking to mitigate the impact of climate change. The Company's portfolio experienced a more muted fall of 11.8% like-for-like and we believe this lower volatility is primarily due to Custodian Property Income REIT's smaller regional property strategy and focus on income returns. Firstly, the Company's valuations did not 'overheat' during mid-2022 to the same extent as, say, prime logistics. Secondly, the diversified strategy provided a softer landing as sub-sectors such as high street retail, drive through restaurants and car showrooms saw much less pricing volatility than logistics. With valuations appearing to have stabilised it is possible to see the rapid correction due to the new interest rate environment as strongly positive for the market, maintaining liquidity and providing future acquisition opportunities.

The table on the next page shows the reversionary potential of the portfolio by sector once, by comparing EPRA net initial yields ("NIY") to the equivalent yield, which factors in expected rental growth and the letting of vacant units.

Across the whole portfolio, valuers' estimated rental values are 16% ahead of passing rent and while part of the reversionary potential is due to vacancy, the balance is this latent rental growth which will be unlocked at rent review and lease renewal.

Retail warehousing has been a key sector for acquisitions for some time and it demonstrated extraordinary resilience through the pandemic, particularly in our favoured sub-sectors of food, homewares, DIY and the discounters. Vacancy rates are very low and future rental growth appears affordable for occupiers.

In the office sector, a much clearer picture is emerging of how tenants will use and occupy offices in the new world of hybrid working. Occupiers are demanding much higher levels of amenity both from their offices and from their office locations. This favours modern, flexible office space in city centre locations with strong transport links and high environmental credentials. Where this space can be provided there appears to be meaningful rental growth, but conversely office space that cannot meet these criteria risks becoming obsolete and will need to be re-purposed. In our portfolio we have seen strong rental growth in Oxford and central Manchester where we are currently refurbishing offices to meet the new market demand.

Rental growth remains strong in the industrial and logistics sector which accounts for 40% of the Company's rent roll and 48% of the portfolio by value. Lack of supply, limited development of smaller and mid-box industrial units and construction cost inflation have all combined to heighten occupational demand and produce low vacancy rates, driving rental growth for new-build regional industrial units and well specified, refurbished space.

We have reorganised our high street retail portfolio over the last two years, exiting most of the secondary retail locations. We have let three vacant high street properties during the year and have terms agreed or are seeing active demand for the very limited remaining vacant space we have in the high street portfolio from both retail and leisure occupiers. Low vacancy rates in prime locations and occupier demand should be supportive of future rental growth.

Sheffield

Reversionary potential of the portfolio

Sector	Equivalent yield[26] 31 March 2023	EPRA Topped-up NIY[27] 31 March 2023	EPRA NIY[28] 31 March 2023
Industrial	6.6%	5.1%	4.9%
Retail warehouse	7.3%	7.2%	6.7%
Other	8.0%	6.8%	6.3%
Office	8.9%	6.4%	5.4%
High street retail	8.6%	9.6%	9.4%
Portfolio total	**7.3%**	**6.2%**	**5.8%**

Prevailing investment approach

Based on our assessment of the current market, our strategy of a regionally focused diversified portfolio, set out below, has proven resilient and we expect to continue to reinvest the proceeds from selective disposals. In particular we intend to focus on:

- Maintain weighting to industrial and logistics – assets in this sector still have latent rental growth, and strong occupier demand for small/mid-box units;
- Retail warehousing let off low rents which should recover from 2021 levels;
- Selective regional offices with a focus on strong city centre locations instead of out-of-town business parks;
- Drive-through expansion involving acquisition and development where rental growth is anticipated;
- Selective high street retail assets in the country's strongest locations where rents have stabilised and there is potential for growth; and
- Refurbishment of existing property, maximising all opportunities to invest in the quality of our assets and support our ESG goals.

Sectoral view

Industrial and logistics

The recent rerating of market pricing was most acute in the industrial and logistics sector and most particularly for large prime distribution units where the margin over the cost of money disappeared as debt costs escalated. While smaller regional industrial assets were also re-rated the impact was less severe. Low vacancy rates in the industrial sector are still driving rental growth and take up continues to be at or above long-term averages according to CBRE. A restricted supply should lead to an increase in development activity but to generate the necessary gross development value required to bring forward new developments, higher investment yields and increased costs of finance, labour and materials dictate that rents should continue to grow.

In summary:

- Occupational demand is robust; supply is tight
- Vacancy rate below the long-term average
- Latent rental growth potential
- Target sector for well-priced opportunities

High street retail

We have been a seller of smaller retail units in market towns where we do not forecast rental growth. However, we are holders in prime locations where rents appear to have bottomed out or are even seeing a slight recovery, and lower rents are supporting occupier demand and reducing vacancy rates and void periods.

In summary:

- Over-supply – rents have suffered but are bottoming out
- Yields are high in this unfashionable area

Retail warehouse

Out-of-town retail saw great pricing volatility throughout the year to March 2023, but has shown early stability and some growth in investor demand post year-end. The combination of convenience, lower costs per square foot and the complementary offer to online retail has kept these assets trading strongly, most notably amongst DIY, discounters, homewares and food retailers, which should prove defensive if consumer spending levels decrease.

As the second largest sector in the Custodian Property Income REIT portfolio, the recovery in market sentiment towards out-of-town retail is positive and vacancy rates remain low.

In summary:

- Units let off low rents
- Lower costs of occupation
- Complementary to online

26. Weighted average of annualised cash rents at the year-end date and ERV, less estimated non-recoverable property operating expenses, divided by property valuation plus estimated purchaser's costs. Source: Knight Frank.
27. Annualised cash rents at the year-end date, adjusted for the expiration of lease incentives, less estimated non-recoverable property operating expenses, divided by property valuation plus estimated purchaser's costs.
28. Annualised cash rents at the year -end, less estimated non recoverable property operating expenses, divided by the property valuation plus estimated purchaser's costs.

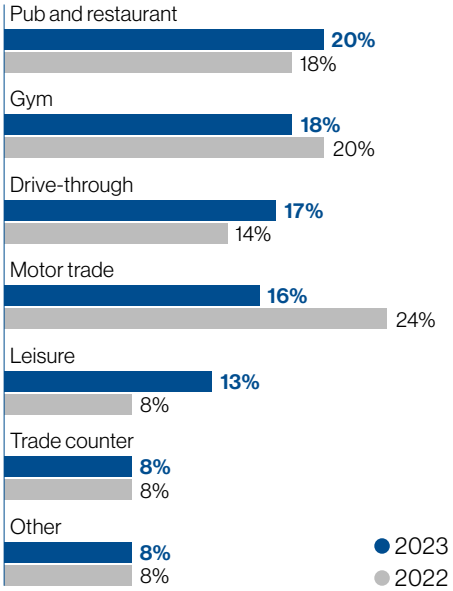
Offices

While there is talk of 'stranded assets' that are incapable of meeting modern environmental standards, obsolescence in commercial property and particularly in offices is a well understood concept. For many years offices have required regular updating and refurbishment to meet current fashions or requirements. The focus on environmental improvements is little different and we believe that the offices in the portfolio will be able to keep up with modern requirements or be profitably re-purposed.

Other

The additional diversification provided by the 'other' or 'alternative' sector of the commercial property market has long been a key differentiator and mitigator of risk for the Company. It continues to be a target sector with opportunities for the development of drive-through units being explored on existing sites and the roll out of public access EV chargers on retail parks adding to the rent roll.

Sub-sector of 'Other' sector assets



> Our strategy of a regionally focused diversified portfolio has proven resilient.

For details of all properties in the portfolio please see custodianreit.com/property/portfolio.

Property portfolio balance

Property portfolio summary

	2023	2022
Property portfolio value	£613.6m	£665.2m
Separate tenancies	319	339
EPRA occupancy rate	90.3%	89.8%
Assets	161	160
Weighted average unexpired lease term to first break of expiry ("WAULT")	5.0 years	4.7 years
EPRA topped-up NIY	6.2%	5.5%
Weighted average EPC rating	C (58)	C (61)

The property portfolio is split between the main commercial property sectors in line with the Company's objective to maintain a suitably balanced investment portfolio. The Company has a relatively low exposure to office and high street retail combined with a relatively high exposure to industrial and to alternative sectors, often referred to as 'other' in property market analysis.

The current sector weightings are:

Sector	Valuation 31 March 2023 £m	Weighting by income[29] 31 March 2023	Valuation 31 March 2022 £m	Weighting by income 31 March 2022	Valuation movement before acquisition costs £m	Valuation movement including acquisition costs £m	Weighting by value 31 March 2023	Weighting by value 31 March 2022
Industrial	295.1	40%	325.1	38%	(53.0)	(54.4)	48%	49%
Retail warehouse	131.8	23%	125.4	21%	(17.7)	(19.4)	21%	19%
Other	78.6	13%	76.9	13%	2.0	1.9	13%	12%
Office	71.7	16%	88.1	17%	(15.6)	(15.6)	12%	13%
High street retail	36.4	8%	49.7	11%	(7.3)	(7.5)	6%	7%
Total	613.6	100%	665.2	100%	(91.6)	(95.0)	100%	100%

29. Current passing rent plus ERV of vacant properties.

Acquisitions

The Company invested £52.6m (excluding acquisition costs) during the year, described below:

- The 70,160 sq ft Springfield Retail Park in Nottingham for £15.0m comprising four units occupied by Wickes, Matalan, Poundland and KFC. The leases have a WAULT of nine years with an aggregate passing rent of £994k per annum, reflecting a NIY[30] of 6.21%;
- A 91,955 sq ft distribution facility on Eurocentral park between Edinburgh and Glasgow for £11.125m let to Gist on a five-year lease with third year break option. The annual rent is £623k reflecting a NIY of 5.25% with an expected reversionary yield[31] of 7.0%;
- Two retail warehouses covering an aggregate 40,077 sq ft in Droitwich and Measham for £8.9m. Both units are let to DFS with an aggregate WAULT of 8.0 years and aggregate annual passing rent of £894k reflecting a NIY of 9.43%;
- An 86,922 sq ft industrial facility in Grangemouth for £7.5m let to Thornbridge Sawmills for a further 18 years. The unit has a passing rent of £388k per annum, with a reversion in September 2023 linked to RPI, which is expected to reflect a net reversionary yield of 5.5%;
- Two retail units on Winchester high street covering an aggregate 5,228 sq ft for £3.65m let to Nationwide Building Society and Hobbs. The tenants' leases expire in April 2028 and December 2031 respectively and are currently at an aggregate current passing rent of £249k per annum, reflecting a NIY of 6.41%;
- A 47,882 sq ft industrial facility near Chesterfield let to Container Components with 20 years remaining on the lease for £3.5m. The property produces an index linked passing rent of £227k per annum, reflecting a NIY of 6.10%; and
- Two drive-through restaurants on Clifton Moor Retail Park, York for £3.025m. The units are occupied by Burger King and KFC franchisees with a WAULT of 9.7 years and an aggregate passing rent of £163k per annum, reflecting a NIY of 5.07%.

30. Passing rent divided by property valuation plus purchaser's costs.
31. Reversionary rent divided by purchase price plus assumed purchasers' costs.

Disposals

Owning the right properties at the right time is a key element of effective property portfolio management, which necessarily involves periodically selling properties to balance the property portfolio. Custodian Property Income REIT is not a trading company but identifying opportunities to dispose of assets significantly ahead of valuation or that no longer fit within the Company's investment strategy is important.

The Company sold the following properties during the year for an aggregate consideration of £28.8m:

- A shopping centre in Gosforth for £9.3m, which had been part of the purchase of DRUM REIT in November 2021, for a 3.5% premium to the £8.975m apportioned value of the asset at purchase. Since acquisition, the asset has produced rental income of c. £0.9m with the completion of several asset management activities increasing occupancy and extending contractual lease terms;
- An industrial unit in Milton Keynes to a special purchaser for £8.5m, reflecting a 73% premium to valuation;
- An Audi car dealership in Derby for £5.6m, £1.2m ahead of valuation;
- Business park offices in Leicester for £2.8m at valuation where minimal future rent and valuation growth was expected;
- An industrial unit in Kilmarnock at auction for £1.4m, 12% ahead of valuation. The unit's environmental credentials did not fit with the Company's ESG objectives and it was not considered practical to mitigate these risks;
- A high street retail unit in Weston-super-Mare at valuation for £0.7m; and
- A high street retail unit in Bury St Edmunds at auction for £0.5m, £0.1m (35%) ahead of valuation.

Since the year end the Company has sold a retail unit in Cirencester at valuation for proceeds of £0.7m.

ESG

The sustainability credentials of both the building and the location have become ever more important for occupiers and investors. As Investment Manager we are absolutely committed to achieving the Company's challenging goals in relation to ESG and believe the real estate sector should be a leader in this field.

Until recently we considered the environmental impact of real estate and the management of the portfolio as separate issues. It is now central to the asset management of the portfolio with the moral imperative, legislation and importantly financial advantage all pulling together to keep our focus on improving environmental performance, as measured by the EPC.

Happily, our efforts in this regard are reflected in greater tenant demand, additional rental growth and, increasingly, in valuations.

As EPC requirements of the Minimum Energy Efficiency Standards ("MEES") tighten we expect to maintain a compliant portfolio of properties. With energy efficiency a core tenet of the Company's asset management strategy and with tenant requirements aligning with our energy efficiency goals we see the advance of MEES as an opportunity to secure greater tenant engagement and higher rents.

Outlook

We remain confident that our ongoing intensive asset management of the portfolio, which still offers a number of wide-ranging opportunities t o add value, will unlock its reversionary potential, enhance cash flow and support consistent returns. Coupled with the strength of the Company's balance sheet, this should continue to support our high income return strategy.

Richard Shepherd-Cross
For and on behalf of Custodian Capital Limited.
Investment Manager
14 June 2023

Nottingham

Eurocentral

Droitwich
dfs

Grangemouth

Winchester
Nationwide
HOBBS
HALIFAX

Clifton Moor
KFC

ESG COMMITTEE REPORT

Improving the environmental performance of our portfolio

Hazel Adam
Chair of the ESG Committee

Composition and designation

The ESG Committee ("the Committee") comprises Hazel Adam as Chair, Malcolm Cooper and Elizabeth McMeikan, all of whom are Independent Non-Executive Directors.

Reporting

The Committee was delighted to publish its inaugural ESG Report earlier this year which is available at: custodianreit.com/wp-content/uploads/2023/03/ESG%20Report%202023.pdf.

This report contains details of the Company's ESG approach, successes and aspirations along with case studies of recent positive steps taken to improve the environmental performance of the portfolio.

Responsibilities

The Committee's key responsibilities are:

- To develop the Company's environmental KPIs, monitor performance against those KPIs and ensure the Investment Manager is managing its property portfolio in line with the ESG policy;
- To ensure the Company complies with its external reporting obligations and best practice on ESG matters including the Global Real Estate Sustainability Benchmark ("GRESB"), EPRA and Streamlined Energy and Carbon Report ("SECR");
- To assess, at least annually, the fees and scope of engagement of the Company's environmental consultants; and
- To assess whether the Company is obtaining a suitable level of social outcomes for its tenants, other stakeholders and the communities in which it operates.

The Company is committed to delivering its strategic objectives in an ethical and responsible manner and meeting its corporate responsibilities towards society, human rights and the environment. The Board acknowledges its responsibility to society is broader than simply generating financial returns for shareholders. The Company's approach to ESG matters addresses the importance of these issues in the day-to-day running of the business, as summarised below.

ESG Approach

Environmental

We want our properties to minimise their impact on the local and wider environment. The Investment Manager carefully considers the environmental performance of our properties, both before we acquire them, as well as during our period of ownership. Sites are visited on a regular basis by the Investment Manager and any obvious environmental issues are reported.

Social

Custodian Property Income REIT strives to manage and develop buildings which are safe, comfortable and high-quality spaces. As such, the safety and well-being of occupants of our buildings is paramount.

Governance

High standards of corporate governance and disclosure are essential to ensuring the effective operation of the Company and instilling confidence amongst our stakeholders. We aim to continually improve our levels of governance and disclosure to achieve industry best practice.

The Committee encourages the Investment Manager to act responsibly in the areas it can influence as a landlord, for example by working with tenants to improve the environmental performance of the Company's properties and minimise their impact on climate change. The Committee believes that following this strategy will ultimately be to the benefit of shareholders through enhanced rent and asset values.

The Company's environmental policy commits the Company to:

Improving the energy performance of our buildings

Investing in carbon reducing technology, infrastructure and onsite renewables and ensuring redevelopments are completed to high environmental standards.

Reducing energy usage and emissions

Liaising closely with our tenants to gather and analyse data on the environmental performance of our properties to identify areas for improvement.

Achieving positive social outcomes and supporting local communities

Engaging constructively with tenants and local government to ensure we support the wider community through local economic and environmental plans and strategies and playing our part in providing the real estate fabric of the economy, giving employers safe places of business that promote tenant well-being.

Understanding environmental risks and opportunities

Allowing the Board to maintain appropriate governance structures to ensure the Investment Manager is appropriately mitigating risks and maximising opportunities.

Reporting in line with best practice and complying with all requirements

Exposing the Company to public scrutiny and communicating our targets, activities and initiatives to stakeholders.

> The Company is committed to achieving its objectives in an ethical and responsible manner and meeting its responsibilities towards society, human rights and the environment.

Environmental key performance indicators

The Company's environmental targets are measured by key performance indicators ("KPIs"), which provide a strategic way to assess its success towards achieving its environmental objectives and ensure the Investment Manager has embedded key ESG principles.

To help the assessment of progress against KPIs a central data management system, hosted by the Company's environment consultants, has been established to provide a robust data collation and validation process. As 2023 KPIs have changed to monitor landlord and tenant performance, this data management system will allow us to identify data inefficiencies and improve data collection. This data management system is also being used to identify tenant engagement and asset optimisation opportunities and facilitates the communication of environmental performance data to various stakeholders.

ESG policy

The Company's ESG policy is set out at: custodianreit.com/wp-content/uploads/2022/06/Custodian-Capital-ESG-Policy-June-2022-FINAL.pdf

EPC ratings

During the year the Company has updated EPCs at 42 units across 32 properties covering 745k sq ft for properties where existing EPCs had expired or where works had been completed. For updated EPCs, there was an aggregate decrease in rating of 25 'energy performance asset rating points[32] and the portfolio weighted average EPC score has improved from 61 (C) to 58 (C) during the year. Significant improvements in rating occurred during the year through the:

- Refurbishment and conversion of two former Pizza Hut restaurants into Tim Hortons drive-throughs in Leicester and Watford, moving the EPC ratings from 87(D) to 24 (A) and from 109 (E) to 32 (B) respectively;
- Tenant improvements of a pub in High Wycombe improving the rating from 106 (E) to 34 (B); and
- Refurbishment of an industrial unit in Avonmouth improving the rating from 51 (C) to 29 (B).

The Investment Manager is currently reviewing and undertaking new assessments of any EPCs that are older than five years and below a 'C' rating. A 'C' rating is expected to become the minimum standard under the MEES in 2027.

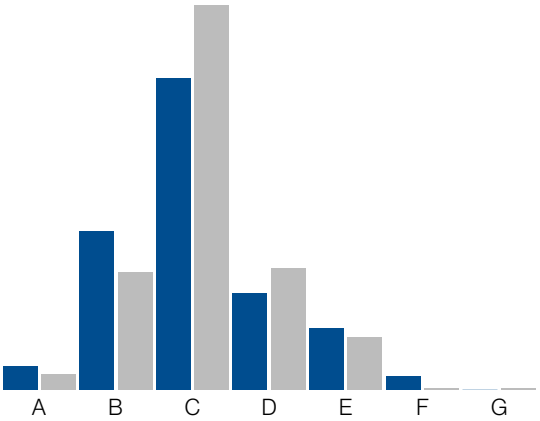
The Company's EPC profile is shown below.

The graphs show that the weighted average 'C' or better ratings has increased from 63% to 70% during the year.

The 'F' rated units at 31 March 2023 are in two properties (Atherstone and Arthur House, Manchester). Atherstone is let to Warwickshire Borough Council which sub-lets the units to small local businesses and the EPC assessment of its single 'F' rated unit is out of the Company's control, meaning it is exempt from MEES regulations. We are in ongoing discussions with our tenant regarding it arranging an updated EPC. Arthur House, Manchester has six 'F' rated units, all of which are vacant and earmarked for refurbishment which is expected to improve the EPC rating once complete.

EPC rating

Number of EPCs



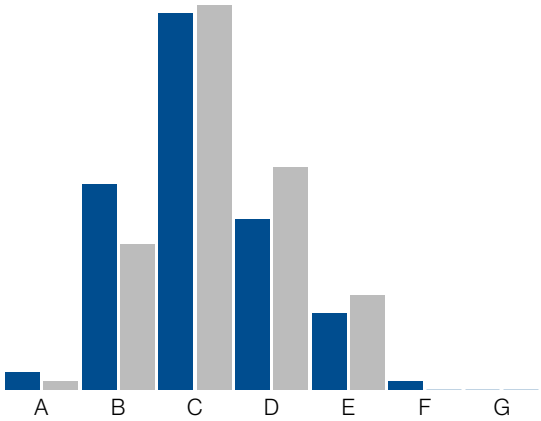
31 March 2023

A: 12, B: 82, C: 161, D: 50, E: 32, F: 7, G: -

31 March 2022

A: 8, B: 61, C: 199, D: 63, E: 27, F: 1, G: 1

Weighted average



31 March 2023

A: 2%, B: 24%, C: 44%, D: 20%, E: 9%, F: 1%, G: -

31 March 2022

A: 1%, B: 17%, C: 45%, D: 26%, E: 11%, F: 0%, G: 0%

32. One EPC letter represents 25 energy performance asset rating points.

The Company's performance against its KPIs is set out below:

Area	Target	Progress during the year
Physical building improvements (whole portfolio boundary)	Increase EV charging capacity to the following by 2025[33]: • 4,200 kW/hr[34] across retail warehouse and other sector assets; and • 980 kW/hr[35] across office and industrial assets	31 x 62.5kW or 75kW chargers (2,125kW/hr of capacity) are currently active across the public facing assets in the portfolio. Works are in progress at a further three sites with installing 6 x 75kW chargers (450kW/hr capacity), and we are in discussions with suppliers to install a further 12 x 62.5kW chargers. Our non-public facing assets (office and industrial) have 23 x 7kW chargers totalling 161kW/hr of capacity with a further 117 installations planned.
	Install on-site renewable electricity generation at 75% of redevelopments and major refurbishments	PV has been installed on two of the six redevelopments and major refurbishments which took place during the year (33%). The plans for the refurbishment of other assets were agreed before this KPI was set. Ongoing PV and air source heat pumps installed at Trafford Park and Winsford refurbishments and such installations are planned in Ashby. We are actively working with our largest tenant, Menzies Distribution, to proactively install PV at all eight of their sites let from the Company.
	Install smart meters across 25% of the portfolio by floor area	We have successfully installed smart meters at 18 sites (19% of floor areas) with four further locations due to be online in Q1 FY24 (22% floor area).
	All 'D' EPC ratings to be removed or improved by 2027	EPC ratings across the portfolio are detailed below.
	All 'E' EPC ratings to be removed or improved by 2025	—
	All redevelopments to achieve Building Research Establishment Environmental Assessment Method ("BREEAM") Excellent rating	No redevelopments have been completed during the year. The ongoing work at Alto60 in Redditch is expected to be BREEAM Excellent.
Landlord controlled usage (landlord controlled boundary[36])	For landlord controlled areas in the like for like portfolio, on a 2019 baseline, achieve: • Reduction in Scope 1 and 2 emissions of 30% by 2025 • Reduction in energy consumption of 15% by 2025 • Less than 5% waste to landfill by 2022 • Reduction in water consumption by 50% by 2025	• 7% like-for-like[37] decrease in Scope 1 and 2 emissions since 2019 • 12% like-for-like increase in energy consumption since 2019 • Actual waste to landfill data coverage for the year is insufficient and the amount of data estimation required to measure the progress towards this KPI would not depict an accurate performance • 6% like-for-like increase in water consumption since 2019
	Switch all landlord-controlled sites to 100% renewable electricity by 2023	Achieved
	Switch all landlord controlled sites to green gas by 2023	Achieved

33. Excluding assets with no car parking facilities.
34. Equating to 56 x 75kW 'Rapid' chargers.
35. Equating to 140 x 7kW 'Fast' chargers.
36. Utilities and waste directly related to tenant operations.
37. For properties owned for the years ending 31 March 2022 and 2023.

ESG COMMITTEE REPORT CONTINUED

Area	Target	Progress during the year
Risk management and reporting	Use best practice recommendations and reporting frameworks to disclose our approach to climate related governance, strategy, risk management and opportunities	Disclosure is within the Company's ESG report available at: custodianreit.com/wp-content/uploads/2023/03/ESG%20Report%202023.pdf As a closed-end investment fund, the Company is exempt from disclosures relating to the Task Force for Climate Disclosures ("TCFD").
	Incorporate ESG factors into all investment due diligence undertaken	Achieved - Investment Committee reports all include a section on ESG impact of decisions.
	Achieve an annual improvement in GRESB score between 2021 and 2025	GRESB 'Real Estate' and 'Development' scores have both increased from 2022 to 2023. • Real estate – 50 (2022: 49) • Developments – 46 (2022: 35)
Tenant engagement (tenant boundary[38])	For the non-landlord controlled like-for-like portfolio, on a 2019 baseline, achieve: • Reduction in tenants' emissions of 20% by 2025 • Reduction in energy consumption of 10% by 2025	Tenant data collection via a data platform currently covers c. 19% of the Company's portfolio by floor area which is expected to increase with improved tenant engagement. Analysis of this data will allow us to analyse the portfolio and identify assets which are performing poorly in order to make improvements.
	Engage with tenants on a quarterly basis on ESG issues	Ongoing – tenant survey has now been issued to tenants with a 32% response rate representing an increase of 125% on the prior year.
	Engage with occupiers during lease negotiations to incorporate sustainability clauses into new leases	Ongoing – 23% of tenants are interested in green leases (based on the latest tenant survey).
Social outcomes	Utilise 25% of vacant high street retail space for short-term not-for-profit lettings	Of three vacant retail properties one is being used by a charity and another property's windows and frontage are used by the local Business Improvement District.
	Install changing facilities and secure cycle parking at all appropriate assets	New cycle storage and shower facilities installed at Lochside Way, Edinburgh. Amenity block to be installed at industrial property in Ashby as part of refurbishment. Cycle racks being installed at Winsford and Oxford Willow Court.
	Ensure properties comply with the Company's cladding policy within three months of acquisition	Achieved for acquisitions made during the year.
	Consider biodiversity and habitat strategy during all redevelopments	Bat roost now installed at Alto 60, Redditch. We are exploring a green wall and bug hotel as part of Ashby refurbishment where an ecology survey has been commissioned as part of the refurbishment works.

38. Utilities and waste directly related to tenant operations.

Outlook

The Company will work towards achieving its ESG targets over the course of the next financial year, improving our understanding of the specific impacts of climate change on the Company, seeking to further influence tenant behaviour to improve environmental outcomes and continuing to develop our strategy towards creating a Net Zero pathway.

Approval

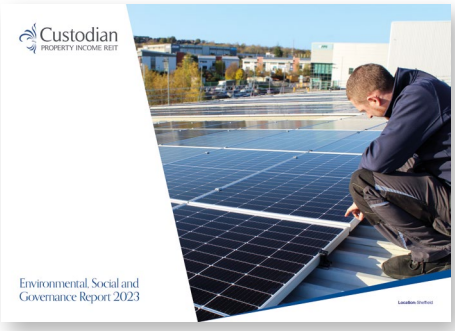
This report was approved by the Committee and signed on its behalf by:

Hazel Adam
Chair of the ESG Committee
14 June 2023

Net zero[39] carbon pathway

Continuing the journey towards net zero carbon is a crucial next step in our ESG strategy and making this journey align with stakeholder goals and the Company's property strategy is one of the key challenges facing the Company and the real estate sector.

During the course of the year ending 31 March 2024 we expect to publish a detailed plan to achieve this.



Read our ESG Report 2023
https://custodianreit.com/wp-content/uploads/2023/03/ESG%20Report%202023.pdf

39. As defined by the Committee on Climate Change.

FINANCIAL REVIEW

Operating a resilient business model

Ed Moore FCA
Financial Director

The £97.1m of net gains on investment property experienced in 2022 largely reversed during the year which saw a £90.6m net loss, resulting in a loss before tax of £65.8m (2022: £122.3m profit). EPRA earnings per share of 5.6p (2022: 5.9p, 2021: 5.6p) fully covered dividends, but were impacted by rising interest rates which increased finance costs on the Company's variable rate revolving credit facility ("RCF") facility.

Reported revenue increased by £4.3m due to a £2.7m increase in amounts rechargeable to tenants, which offsets an equivalent amount in expenses, and £1.6m from the Company's rent roll increasing by 3.7% from £40.5m at 31 March 2022 to £42.0m at 31 March 2023 as illustrated opposite.

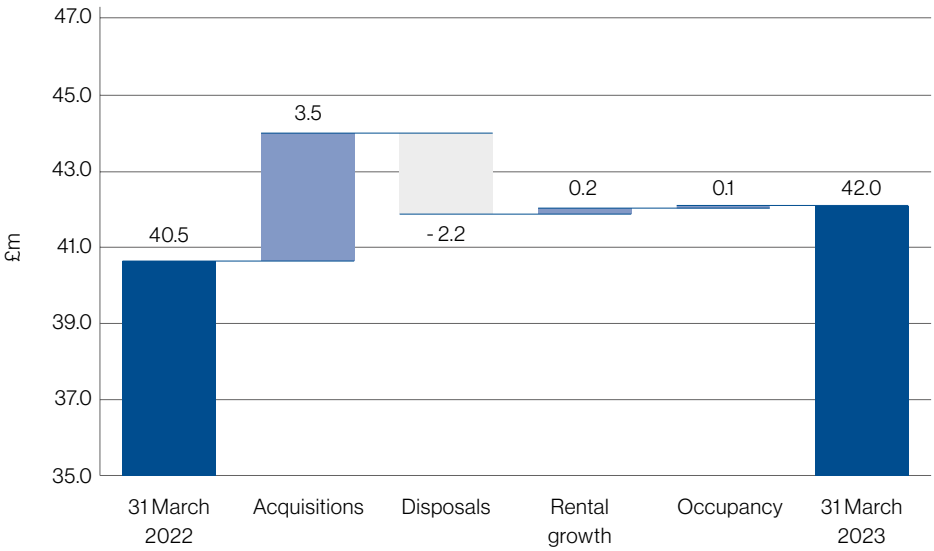
This increase in contractual rent was due primarily to net property acquisitions, which added £1.3m, but importantly the graph opposite illustrates aggregate rental growth across the portfolio and the positive impact of asset management activity in increasing like-for-like occupancy through net new lettings, which demonstrate the robust nature of the Company's diverse property portfolio.

The decrease in EPRA EPS to 5.6p (2022: 5.9p, 2021: 5.6p) was due primarily to increasing interest rates. During the year we deployed £9.6m of variable rate debt on property development and refurbishments, most of which will not be income producing until the next financial year when the associated properties are let. SONIA increased from 0.7% to 4.2% during the year and in June 2022 we refinanced a £25m variable rate revolving credit facility with a £25m tranche of 10 year debt with Aviva at a fixed rate of interest of 4.10% per annum.

A summary of the Company's financial performance for the year is shown below:

Financial summary	**Year ended 31 March 2023 £000**	Year ended 31 March 2022 £000
Revenue	**44,147**	39,891
Expenses and net finance costs	**(19,359)**	(14,639)
EPRA profits	**24,788**	25,252
Net (loss)/profit on investment property	**(90,609)**	97,073
(Loss)/profit before tax	**(65,821)**	122,325
EPRA EPS (p)	**5.6**	5.9
Dividend cover	**102.2%**	110.3%
OCR excluding direct property costs	**1.23%**	1.20%
Borrowings		
Net gearing	**27.4%**	19.1%
Weighted average debt maturity	**5.9 years**	5.7 years
Weighted average cost of drawn debt	**3.8%**	3.0%

Changes in passing rent



Dividend policy

The Board acknowledges the importance of income for shareholders and during the year its policy was to pay dividends on a sustainable basis at a rate fully covered by net rental income which does not inhibit the flexibility of the Company's investment strategy.

The Company paid dividends totalling 5.5p per share during the year (£24.2m) comprising fourth interim dividend relating to the year ended 31 March 2022 of 1.375p, and quarterly interim dividends of 1.375p per share relating to the year ended 31 March 2023.

The Company paid a fourth quarterly interim dividend of 1.375p per share for the quarter ended 31 March 2023 on 31 May 2023 totalling £6.1m. Dividends relating to the year ended 31 March 2023 of 5.5p (2022: 5.25p) were 102% (2022: 110%) covered by EPRA earnings of £24.8m (2022: £25.3m), as calculated in Note 22.

Key performance indicators

The Board reviews the Company's quarterly performance against a number of key financial and non-financial measures.

The Board considers the key performance measures over various time periods and against similar funds. A record of these measures is disclosed in the Financial highlights and performance summary, the Chair's statement and the Investment Manager's report.

- EPS and EPRA EPS – reflect the Company's ability to generate recurring earnings from the property portfolio which underpin dividends;
- Dividends per share and dividend cover - to provide an attractive, sustainable level of income to shareholders, fully covered from net rental income. The Board reviews target dividends in conjunction with detailed financial forecasts to ensure that target dividends are being met and are sustainable;
- Target dividend per share – an expectation of the Company's ability to deliver an income stream to shareholders for the forthcoming year;
- NAV per share total return – reflects both the NAV growth of the Company and dividends payable to shareholders. The Board assesses NAV per share total return over various time periods and compares the Company's returns to those of its peer group of listed, closed-ended property investment funds;
- Share price total return – reflects the movement in share price and dividends payable to shareholders, giving returns that were available to shareholders during the year;
- NAV/NTA per share, share price and market capitalisation – reflect various measures of shareholder value at a point in time;
- Net gearing – measures the Company's borrowings as a proportion of its investment property, balancing the additional returns available from utilising debt with the need to effectively manage risk;
- Weighted average cost of debt – measures the cost of the Company's borrowings based on amounts drawn and SONIA at the year end;
- OCR – measures the annual running costs of the Company and indicates the Board's ability to operate the Company efficiently, keeping costs low to maximise earnings from which to pay fully covered dividends; and
- Weighted average EPC rating – measures the overall environmental performance of the Company's property portfolio.

EPRA performance measures

EPRA Best Practice Recommendations, which are APMs, have been disclosed to facilitate comparison with the Company's peers through consistent reporting of key real estate specific performance measures.

	2023	2022
EPRA EPS (p)	**5.6**	5.9
EPRA Net Tangible Assets ("NTA") and Net Reinstatement Value ("NRV") per share (p)	**99.3**	119.7
EPRA Net Disposal Value ("NDV") per share (p)	**101.0**	119.7
EPRA NIY	**5.8%**	5.0%
EPRA 'topped-up' NIY	**6.2%**	5.5%
EPRA vacancy rate	**9.7%**	10.2%
EPRA cost ratio (including direct vacancy costs)	**23.3%**	22.9%
EPRA cost ratio (excluding direct vacancy costs)	**18.7%**	19.0%
EPRA LTV	**27.3%**	20.5%
EPRA capital expenditure (£m)	**63.7**	69.0
EPRA like-for-like rental growth (£m)	**36.6**	35.3

EPRA
EUROPEAN PUBLIC REAL ESTATE ASSOCIATION

- EPRA EPS – a key measure of the Company's underlying operating results and an indication of the extent to which current dividend payments are supported by earnings
- EPRA NAV per share metrics – make adjustments to the NAV per the IFRS financial statements to provide stakeholders with information on the fair value of the assets and liabilities of a real estate investment company, under different scenarios. EPRA NTA – assumes that entities buy and sell assets, thereby crystallising certain levels of unavoidable deferred tax. EPRA NDV – includes an adjustment for the fair value of fixed rate debt
- EPRA NIY and 'topped-up' NIY – alternative measures of property portfolio valuation based on cash passing rents at the reporting date and once lease incentive periods have expired, net of ongoing property costs
- EPRA vacancy rate – estimated rental value ("ERV") of vacant space as a percentage of the ERV of the whole property portfolio and offers insight into the additional rent generating capacity of the portfolio
- EPRA cost ratios – alternative measures of ongoing charges based on expenses, excluding operating expenses of rental property recharged to tenants, but including increases in the doubtful debt provision, compared to gross rental
- EPRA LTV – a measure of gearing including all payables and receivables
- EPRA capital expenditure – capital expenditure incurred on the Company's property portfolio during the year
- EPRA like-for-like rental growth – a measure of passing rent of the property portfolio, excluding acquisitions and disposals
- EPRA Sustainability Best Practice Recommendations – environmental performance measures focusing on emissions and resource consumption which create transparency to potential investors by enabling a comparison against peers and set a direction towards improving the integration of ESG into the management of the Company's property portfolio

Debt financing

The Company operates with a conservative level of net gearing, with target borrowings over the medium-term of 25% of the aggregate market value of all properties at the time of drawdown. The Company's net gearing increased from 19.1% LTV last year to 27.4% at the year end primarily due to £91.6m of valuation decreases.

During the year the Company arranged a £25m tranche of 10 year debt with Aviva at a fixed rate of interest of 4.10% per annum to refinance a £25m variable rate revolving credit facility with RBS. At the year end the Company had the following facilities available:

- A £40m RCF with Lloyds Bank plc ("Lloyds") with interest of between 1.5% and 1.8% above SONIA, determined by reference to the prevailing LTV ratio of a discrete security pool of assets, and expiring on 17 September 2024. The facility limit can be increased to £50m with Lloyds' approval;
- A £20m term loan facility with Scottish Widows Limited ("SWIP") repayable in August 2025, with fixed annual interest of 3.935%;
- A £45m term loan facility with SWIP repayable in June 2028, with fixed annual interest of 2.987%; and
- A £75m term loan facility with Aviva comprising:
  - A £35m tranche repayable on 6 April 2032, with fixed annual interest of 3.02%;
  - A £15m tranche repayable on 3 November 2032 with fixed annual interest of 3.26%; and
  - A £25m tranche repayable on 3 November 2032 with fixed annual interest of 4.10%.

Each facility has a discrete security pool, comprising a number of the Company's individual properties, over which the relevant lender has security and the following covenants:

- The maximum LTV of each discrete security pool is between 45% and 50%, with an overarching covenant on the Company's property portfolio of a maximum 35% LTV; and
- Historical interest cover, requiring net rental income from each discrete security pool, over the preceding three months, to exceed 250% of the facility's quarterly interest liability.

At the year end the Company had £166.3m (27% of the property portfolio) of unencumbered assets which could be charged to the security pools to enhance the LTV on the individual loans.

The weighted average cost of the Company's drawn debt facilities at 31 March 2023 was 3.8% (2022: 3.0%), with a weighted average maturity of 5.9 years (2022: 5.2 years). At 31 March 2023 the Company had £33.5m (2022: £nil) drawn under its Lloyds RCF, meaning 81% (2022: 84%) of the Company's drawn debt facilities were at fixed rates of interest.

This high proportion of fixed rate debt significantly mitigates long-term interest rate risk for the Company and provides shareholders with a beneficial margin between the fixed cost of debt and income returns from the property portfolio.

Outlook

The Company's business model has remained resilient during the year and we have further mitigated against interest rate rises by refinancing £25m of variable rate debt at a fixed rate. We have a scalable cost structure and flexible capital structure to be on the front foot when opportunities present themselves to raise new equity and exploit acquisition opportunities.

Ed Moore
Finance Director for and on behalf of Custodian Capital Limited
Investment Manager
14 June 2023

Watford
Sainsbury's
Tim Hortons
DRIVE THRU
NO ENTRY
DELIVERIES

PRINCIPAL RISKS AND UNCERTAINTIES

The Board has overall responsibility for reviewing the effectiveness of the system of risk management and internal control which is operated by the Investment Manager.

During the year the Board has performed a robust assessment of the principal and emerging risks facing the Company through a periodic review of its risk register. The Company's risk management process is designed to identify, evaluate and mitigate the significant risks the Company faces. At least annually, the Board undertakes a risk review, with the assistance of the Audit and Risk Committee, to assess the effectiveness of the Investment Manager's risk management and internal control systems. During this review, no significant failings or weaknesses were identified in respect of risk management, internal control and related financial and business reporting. Further information on the risk governance and risk management processes are included in the Internal control and risk management section of the Governance report.

The Company holds a portfolio of high quality property let predominantly to institutional grade tenants and is primarily financed by fixed rate debt. It does not undertake speculative development.

There are a number of potential risks and uncertainties which could have a material impact on the Company's performance over the forthcoming financial year and could cause actual results to differ materially from expected and historical results. The Directors have assessed the risks facing the Company, including risks that would threaten the business model, future performance, solvency or liquidity. The table below outlines the principal risks identified, but does not purport to be exhaustive as there may be additional risks that materialise over time that the Company has not yet identified or has deemed not likely to have a potentially material adverse effect on the business.

Winchester

Risk on business	Likelihood and impact	Overall change in risk from last year	Mitigating factors	Appetite
Loss of revenue • Tenant default due to a cessation or curtailment of trade • An increasing number of tenants exercising contractual breaks or not renewing at lease expiry • Enforced reduction in contractual rents through a CVA or legislative changes • Property environmental performance insufficient to attract tenants or maintain rents • Decreases in ERVs resulting in decreases in passing rent to secure long-term occupancy • Expiries or breaks concentrated in a specific year • Unable to re-let void units • Low UK economic growth impacting the occupational property market	Likelihood: Moderate Impact: High Loss of revenue has an immediate impact on earnings and dividend capacity. There is also an increased risk of breaching interest cover covenants on borrowings detailed in Note 16, which could ultimately lead to default.	Increased – deterioration in the UK's short-term economic outlook. Discussed further in the Investment Manager's report.	• Diverse property portfolio covering all key sectors and geographical areas • The Company has 319 individual tenancies with the largest tenant accounting for 3.7% of the rent roll • Investment policy limits the Company's rent roll to no more than 10% from a single tenant and 50% from a single sector • Primarily institutional grade tenants • Focused on established business locations for investment • Active management of lease expiry profile considered in forming acquisition and disposal decisions • Building specifications typically not tailored to one user • Strong tenant relationships • Significant focus and proactive investment in asset-by-asset environmental performance to maintain or improve rental levels	The Board relies on the Investment Manager's processes regarding due diligence on acquisitions and lettings. A degree of tenant covenant risk and short WAULTs are accepted due to the nature of the business.
Decreases in property portfolio valuation • Reduced property market sentiment and investor demand affecting market pricing • Decreases in sector-specific ERVs • Loss of contractual revenue • Tenants exercising contractual breaks or not renewing at lease expiry • Change in demand for space • Property environmental performance insufficient to attract tenants • Properties concentrated in a specific geographical location or sector • Lack of transactional evidence	Likelihood: High Impact: Moderate Significant valuation decreases increase the risk of non-compliance with LTV covenants on borrowings, detailed in Note 16, which could ultimately lead to default. The Company's sensitivity to valuation decreases is considered in Going concern and longer-term viability below.	Increased – valuation decreases experienced during the year due to worsening UK economic outlook, macro-economic shocks, interest rate rises and high inflation impacting investor demand. Discussed further in the Chair's statement and Investment Manager's report.	• Occupational demand has been resilient during the year despite economic headwinds • Active property portfolio diversification between office, industrial (distribution, manufacturing and warehousing), retail warehousing, high street retail and other • Investment policy limits the Company's property portfolio to no more than 50% in any specific sector or geographical region • Smaller lot-size business model limits exposure to individual asset values • High quality assets in good locations should remain popular with investors • Significant focus on asset-by-asset ESG performance and proactively investing in environmental performance to maintain or improve demand	There is no certainty that property values will be realised. This is an inherent risk of property investment. The Investment Manager aims to minimise this risk through its asset selection and active asset management initiatives.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Risk on business	Likelihood and impact	Overall change in risk from last year	Mitigating factors	Appetite
Financial • Reduced availability or increased cost of arranging or servicing debt • Breach of financial and non-financial borrowing covenants • Significant increases in interest rates • Refinancing risk from upcoming expiries	Likelihood: Moderate Impact: High Increases in interest rates in the short-term reduce earnings and dividend capacity to the extent the Company has drawn balances on its variable rate RCF. Lack of availability of financing would have a significant impact on property strategy if properties needed to be sold to repay loans.	Increased due to increases in interest rates which face continued upward pressure.	• The Company has three lenders • The Company's weighted average maturity on its debt is c. six years • Target net gearing of 25% LTV on property portfolio • 81% of drawn debt facilities at the year end at a fixed rate of interest • Significant unencumbered properties available to cure any potential breaches of LTV covenants • Ongoing monitoring and management of the forecast liquidity and covenant position	The Board and Investment Manager focus on having funding in place to take advantage of opportunities as they arise. The Board's aim is to minimise this risk to the extent possible through arranging longer-term facilities.
Operational • Inadequate performance, controls or systems operated by the Investment Manager	Likelihood: Low Impact: High Increased risk of sub-optimal returns impacting earnings and dividend capacity, ineffective risk or threat management or decisions made on inaccurate information.	No change	• Ongoing review of performance by independent Board of Directors • Outsourced internal audit function reporting directly to the Audit and Risk Committee • External depositary with responsibility for safeguarding assets and performing cash monitoring	The Board relies on the Investment Manager's processes. Its appetite for such risk is low.
Regulatory and legal • Adverse impact of new or revised legislation or regulations, or by changes in the interpretation or enforcement of existing government policy, laws and regulations • Non-compliance with the REIT regime[40] or changes to the Company's tax status	Likelihood: Moderate Impact: High Reputational damage could impact demand for shares. Earnings and dividend capacity would decrease with penalties/fines for non-compliance or through an increased tax charge.	No change	• Strong compliance culture • External professional advisers are engaged to review and advise upon control environment, ensure regulatory compliance and advise on the impact of changes • Business model and culture embraces FCA principles • REIT regime compliance is considered by the Board in assessing the Company's financial position and setting dividends and by the Investment Manager in making operational decisions	The Board has no appetite for non-compliance.

40. As defined by the Corporation Tax Act 2010.

Risk on business	Likelihood and impact	Overall change in risk from last year	Mitigating factors	Appetite
Business interruption • Cyber-attack results in the Investment Manager being unable to use its IT systems and/or losing data • Terrorism or pandemics interrupt the Company's operations through impact on either the Investment Manager or the Company's assets or tenants	Likelihood: Moderate Impact: High Reputational damage from not being able to communicate with shareholders on a timely and accurate basis. Loss of earnings and dividend capacity if contractual rents not invoiced. Fines and penalties from non-compliance with reporting requirements.	No change	• Data is regularly backed up and replicated and the Investment Manager's IT systems are protected by anti-virus software and firewalls that are regularly updated • Fire protection and access/security procedures are in place at all of the Company's managed properties • Comprehensive property damage and business interruption insurance is held, including three years' lost rent and terrorism • At least annually, a fire risk assessment and health and safety inspection is performed for each property in the Company's managed portfolio	The Board relies on the Investment Manager's processes. It has no appetite for such risk.
ESG • Failure to appropriately manage the environmental performance of the property portfolio, resulting in it not meeting the required standards of environmental legislation and making properties unlettable or unsellable • ESG policies and targets being insufficient to meet the required standards of stakeholders • Non-compliance with environmental reporting requirements • Insufficient electricity supply to maintain tenant operations due to inadequate infrastructure • Unsuccessful investment in new technology	Likelihood: Moderate Impact: Moderate Risk of reputational damage, suboptimal returns for shareholders, decreased asset liquidity, reduced access to debt and capital markets and poor relationships with stakeholders.	Increased due to increasing best practice requirements and continued investment in EV chargers and PV. Discussed further in the ESG Committee report.	• The Company has engaged specialist environmental consultants to advise the Board on compliance with requirements and adopting best practice where possible • The Company has a published ESG policy which seeks to improve energy efficiency and reduce emissions • The ESG Committee ensures compliance with environmental requirements, the ESG policy and environmental KPIs • At a property level an environmental assessment is undertaken which influences decisions regarding acquisitions, refurbishments and asset management initiatives • Upgrading power supplies where availability permits • All investments are scrutinised by the Investment Manager's Investment Committee. Investment Committee reports include a dedicated ESG rationale. Carbon reducing technology is a key part of the carbon-reduction strategy but is not invested in speculatively and only established products are considered	The Board has a low tolerance for non-compliance with risks that adversely impact reputation, stakeholder sentiment and asset liquidity.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Risk on business	Likelihood and impact	Overall change in risk from last year	Mitigating factors	Appetite
Acquisitions • Unidentified liabilities associated with the acquisition of new properties (whether acquired directly or via a corporate structure)	Likelihood: Low Impact: Moderate Decrease in NAV and loss of shareholder value.	Decreased – no corporate acquisitions completed during the year.	• Comprehensive due diligence is undertaken in conjunction with professional advisers and the provision of insured warranties and indemnities are sought from vendors where appropriate • Acquired companies' trade and assets are hived-up into Custodian Property Income REIT plc and the acquired entities are subsequently liquidated	The Board accepts risk with such transactions with the mitigations opposite used to manage risk where possible.

Emerging risks

The following emerging risks have been identified:

- Macro-economic environment – the recovery in global demand following the COVID-19 pandemic and the ongoing war in Ukraine have contributed to global supply chain issues, inflation and the risk of agricultural shortages. These impact the Company in terms of the cost and availability of materials and labour in carrying out redevelopments, refurbishments and maintenance, their effect on increasing interest rates and indirectly through their impact on the UK economy in terms of growth and consumer spending and the consequential impact on occupational demand for real estate.

The Board believes the Company effectively mitigates the longer-term impact of these risks because the Company:

- Carefully assesses the economic viability of all capital projects, ensuring as a minimum that resulting expected, demonstrable rental increases will result in valuations increasing that at least cover capital expenditure over the medium-term;
- Notes that occupational demand has proven robust, discussed in more detail in the Investment Manager's report;
- Has a portfolio diversified by sector and location with a predominantly institutional grade tenant base;
- Has low gearing with 81% of drawn debt facilities at the year end at a fixed rate of interest; and
- Has a stable investment portfolio and does not undertake speculative development.

No other emerging risks have been added to the Company's risk register during the year.

Going concern and longer-term viability

The Board assesses the Company's prospects over the long term, taking into account rental growth expectations, climate-related risks, longer-term debt strategy, expectations around capital investment in the portfolio and the UK's long-term economic outlook. At quarterly Board meetings, the Board reviews summaries of the Company's liquidity position and compliance with loan covenants, as well as forecast financial performance and cash flows.

Forecast

The Investment Manager maintains a detailed forecast model projecting the financial performance of the Company over a period of three years, which provides a reasonable level of accuracy regarding projected lease renewals, asset-by-asset capital expenditure, property acquisitions and disposals, rental growth, interest rate changes, cost inflation and refinancing of the Company's variable rate debt which typically has a maximum tenor of three years. The detailed forecast model allows robust sensitivity analysis to be conducted and over the three-year forecast period included the following key, prudent assumptions:

- A 1% annual loss of contractual revenue through CVA or tenant default;
- No changes to the demand for leasing the Company's assets going forwards, maintaining the occupancy rate;
- No portfolio valuation movements and no net acquisitions/disposals;
- Rental growth, captured at lease expiry, based on consensus forecasts;
- The Company's capital expenditure programme to invest in its existing assets continues as expected; and
- Modest further interest rate rises experienced based on the prevailing forward curve.

The Directors have assessed the Company's prospects and longer-term viability over this three-year period in accordance with Provision 36 of the AIC Code, and the Company's prospects as a going concern over a period of 12 months from the date of approval of the Annual Report, using the same forecast model and assessing the risks against each of these assumptions.

The Directors note that the Company has performed strongly during the year despite economic headwinds and valuation decreases, with rents and occupancy increasing over the last 12 months.

Sensitivities

Sensitivity analysis involves flexing these key assumptions, taking into account the principal risks and uncertainties and emerging risks detailed in the Strategic Report, and assessing their impact on the following areas:

Covenant compliance

The Company operates the loan facilities summarised in Note 16. At 31 March 2023 the Company had significant headroom on lender covenants at a portfolio level with:

- Net gearing of 27.4% compared to a maximum LTV covenant of 35%, with £166.3m (27% of the property portfolio) unencumbered by the Company's borrowings; and
- 122% minimum headroom on interest cover covenants for the quarter ended 31 March 2023.

Over the one and three year assessment periods the Company's forecast model projects a small increase in net gearing and an increase in headroom on interest cover covenants. Reverse stress testing has been undertaken to understand what circumstances would result in potential breaches of financial covenants over these periods. While the assumptions applied in these scenarios are possible, they do not represent the Board's view of the likely outturn, but the results help inform the Directors' assessment of the viability of the Company. The testing indicated, assuming no unencumbered properties were charged, that:

- The rate of loss or deferral of contractual rent on the borrowing facility with least headroom would need to deteriorate by 30% (for the going concern assessment period) and 59% (for the longer-term viability assessment period) from the levels included in the Company's prudent base case forecasts to breach interest cover covenants; or
- At a portfolio level property valuations would have to decrease by 19% from the 31 March 2023 position to risk breaching the overall 35% LTV covenant for both assessment periods.

The Board notes that the February 2023 IPF Forecasts for UK Commercial Property Investment survey suggests an average 0.6% increase in rents during 2023 with capital value decreases of 5.5%. The Board believes that the valuation of the Company's property portfolio will prove resilient due to its higher weighting to industrial assets and overall diverse and high-quality asset and tenant base comprising 161 assets and over 300 typically 'institutional grade' tenants across all commercial sectors.

Liquidity

At 31 March 2023 the Company had:

- £6.8m of cash and £6.5m undrawn RCF (can be increased to £16.5m with Lloyds' consent), with gross borrowings of £173.5m resulting in low net gearing of 27.4%, with no short-term refinancing risk and a weighted average debt facility maturity of six years; and
- An annual contractual rent roll of £42.0m, with interest costs on drawn loan facilities of only c. £6.7m per annum.

The Company's forecast model projects it will have sufficient cash and undrawn facilities to settle its target dividends and its expense and interest liabilities over the one and three year assessment periods.

As detailed in Note 16, the Company's Lloyds RCF expires in September 2024 and discussions are underway regarding a renewal. The Board anticipates lender support in agreeing subsequent facilities, and would seek to refinance the RCF with another lender or dispose of sufficient properties to repay it in September 2024 in the unlikely event of lender support being withdrawn.

Results of the assessments

Based on the prudent assumptions within the Company's forecasts regarding the factors set out above, the Directors expect that over the one-year and three-year periods of their assessment:

- The Company has surplus cash to continue in operation and meet its liabilities as they fall due;
- Borrowing covenants are complied with; and
- REIT tests are complied with.

Solihull

SECTION 172 STATEMENT AND STAKEHOLDER RELATIONSHIPS

The Directors consider that in conducting the business of the Company over the course of the year they have complied with Section 172(1) of the Companies Act 2006 ("the Act") by fulfilling their duty to promote the success of the Company and act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole.

Issues, factors and stakeholders

The Board has direct engagement with the Company's shareholders and seeks a rounded and balanced understanding of the broader impact of its decisions through regular engagement with its stakeholder groups (detailed below) to understand their views, typically through feedback from the Investment Manager and the Company's broker, which is regularly communicated to the Board via quarterly meetings. Stakeholder engagement also ensures the Board is kept aware of any significant changes in the market, including the identification of emerging trends and risks, which in turn can be factored into its strategy discussions.

Management of the Company's day-to-day operations has been delegated to the Investment Manager, Custodian Capital Limited, and the Company has no employees. This externally managed structure allows the Board and the Investment Manager to have due regard to the impact of decisions on the following matters specified in Section 172 (1) of the Act:

Section 172(1) factor	Approach taken
Likely consequences of any decision in the long term	The business model and strategy of the Company is set out within the Strategic Report. Any deviation from or amendment to that strategy is subject to Board and, if necessary, shareholder approval. The Company's Management Engagement Committee ensures that the Investment Manager is operating within the scope of the Company's investment objectives. At least annually, the Board considers a budget for the delivery of its strategic objectives based on a three-year forecast model. The Investment Manager reports non-financial and financial key performance indicators to the Board, set out in detail in the Business model and strategy section of the Strategic report, at least quarterly which are used to assess the outcome of decisions made. The Board's commitment to keeping in mind the long-term consequences of its decisions underlies its focus on risk, including risks to the long-term success of the business. The investment strategy of the Company is focused on medium to long-term returns and minimising the Company's impact on communities and the environment and as such the long-term is firmly within the sights of the Board when all material decisions are made. The board gains an understanding of the views of the Company's key stakeholders from the Investment Manager, broker and Management Engagement Committee, and considers those stakeholders' interests and views in board discussions and long-term decision-making.
The interests of the Company's employees	The Company has no employees as a result of its external management structure, but the Directors have regard to the interests of the individuals responsible for delivery of the property management and administration services to the Company to the extent that they are able to. The Company's Nominations Committee is responsible for applying the diversity policy set out in the Nominations Committee Report to Board recruitment.

Glasgow

Section 172(1) factor	Approach taken
The need to foster the Company's business relationships with suppliers, customers and others	Business relationships with suppliers, tenants and other counterparties are managed by the Investment Manager. Suppliers and other counterparties are typically professional firms such as lenders, property agents and other property professionals, accounting firms and legal firms and tenants with which the Investment Manager often has a long-standing relationship. Where material counterparties are new to the business, checks, including anti-money laundering checks where appropriate, are conducted prior to transacting any business to ensure that no reputational or legal issues would arise from engaging with that counterparty. The Company also periodically reviews the compliance of all material counterparties with relevant laws and regulations such as the Modern Slavery Act 2015. The Company pays suppliers in accordance with pre-agreed terms. The Management Engagement Committee engages directly with the Company's key service providers providing a direct line of communication for receiving feedback and resolving issues. Because the Investment Manager directly invoices most tenants and collects rent without using managing agents, it has open lines of communication with tenants and can understand and resolve any issues promptly.
The impact of the Company's operations on the community and the environment	The Board recognises the importance of supporting local communities where the Company's assets are located and seeks to invest in properties which will be fit for future purpose and which align with ESG targets. The Company also seeks to benefit local communities by creating social value through employment, viewing its properties as a key part of the fabric of the local economy. The Board takes overall responsibility for the Company's impact on the community and the environment and its ESG policies are set out in the ESG report. The Company's approach to preventing bribery, money laundering, slavery and human trafficking is disclosed in the Governance report.
The desirability of the Company maintaining a reputation for high standards of business conduct	The Board believes that the ability of the Company to conduct its investment business and finance its activities depends in part on the reputation of the Board and Investment Manager's team. The risk of falling short of the high standards expected and thereby risking its business reputation is included in the Board's review of the Company's risk register, which is conducted periodically. The principal risks and uncertainties facing the business are set out in that section of the Strategic report. The Company's requirements for a high standard of conduct and business ethics are set out in the Governance report.
The need to act fairly as between members of the Company	The Company's shareholders are a very important stakeholder group. The Board oversees the Investment Manager's formal investor relations programme which involves the Investment Manager engaging routinely with the Company's shareholders. The programme is managed by the Company's broker and the Board receives prompt feedback from both the Investment Manager and broker on the outcomes of meetings and presentations. The Board and Investment Manager aim to be open with shareholders and available to them, subject to compliance with relevant securities laws. The Chair of the Company and other Non-Executive Directors make themselves available for meetings as appropriate and attend the Company's AGM. The investor relations programme is designed to promote formal engagement with investors and is typically conducted after each half-yearly results announcement. The Investment Manager also engages with existing investors who may request meetings and with potential new investors on an ad hoc basis throughout the year, including where prompted by Company announcements. Shareholder presentations are made available on the Company's website. The Company has a single class of share in issue with all members of the Company having equal rights.

SECTION 172 STATEMENT AND STAKEHOLDER RELATIONSHIPS CONTINUED

Methods used by the Board

The main methods used by the Directors to perform their duties include:

- Board Strategy Days held at least annually to review all aspects of the Company's business model and strategy and assess the long-term sustainable success of the Company and its impact on key stakeholders;
- The Management Engagement Committee assesses the Company's engagements with its key service providers and the Investment Manager reports on their performance to the Board. The responsibilities of the Management Engagement Committee are detailed in the Management Engagement Committee report;
- The Board is ultimately responsible for the Company's ESG activities set out in the ESG Committee report, which it believes are a key part of benefitting the local communities where the Company's assets are located;
- The Board's risk management procedures set out in the Governance report identify the potential consequences of decisions in the short, medium and long term so that mitigation plans can be put in place to prevent, reduce or eliminate risks to the Company and wider stakeholders;
- The Board sets the Company's purpose, values and strategy, detailed in the Business model and strategy section of the Strategic report, and the Investment Manager ensures they align with its culture;
- The Board carries out direct shareholder engagement via the AGM and Directors attend shareholder meetings on an ad hoc basis;
- External assurance is received through internal and external audits and reports from brokers and advisers; and
- Specific training for existing Directors and induction for new Directors as set out in the Governance report.

Principal decisions in the year

The Board has delegated operational functions to the Investment Manager and other key service providers. In particular, responsibility for management of the Company's property portfolio has been delegated to the Investment Manager.

The Board retains responsibility for reviewing the engagement of the Investment Manager and exercising overall control of the Company, reserving certain key matters as set out in the Governance report. The principal non-routine decisions taken by the Board during the year, and its rationale on how the decision was made, were:

Decision	How decision was made
Setting target dividends at 5.5pps for the year ending 31 March 2024.	In line with the Board's dividend policy of paying a high, sustainable level of dividend which maximises shareholder returns without negatively influencing property strategy.
Reappointing Knight Frank as one of the Company's independent valuers for a further three years.	The Management Engagement Committee recommended Knight Frank's reappointment based on its strong performance during its first period of appointment, which offers stakeholders reassurance over the accuracy of the Company's reported NAV.
Appointing JLL as the Company's ESG adviser in October 2022 and considering its net zero carbon strategy as described in the ESG Committee report.	JLL is a market leader in real estate ESG advisory and the Board believed its appointment would enable the Company to accelerate the implementation of its ESG strategy and more effectively achieve its objectives.
Appointing new Directors as detailed in the Chair's statement.	The Board believes Malcolm Cooper and David MacLellan bring a wealth of experience and skills including leadership, financial expertise, property and governance which will benefit all shareholders.

Due to the nature of these decisions, a variety of stakeholders had to be factored into the Board's discussions. Each decision was announced at the time, so that all stakeholders were aware of the decisions.

Stakeholders

The Board recognises the importance of stakeholder engagement to deliver its strategic objectives and believes its stakeholders are vital to the continued success of the Company.

The Board is mindful of stakeholder interests and keeps these at the forefront of business and strategic decisions. Regular engagement with stakeholders is fundamental to understanding their views.

The section below highlights how the Company engages with its key stakeholders, why they are important and the impact they have on the Company and therefore its long-term success, which the Board believes helps demonstrate the successful discharge of its duties under s172(1) of the Act.

Stakeholder	Stakeholder interests	Stakeholder engagement
Tenants		
The Investment Manager understands the businesses occupying the Company's assets and seeks to create long-term partnerships and understand their needs to deliver fit for purpose real estate and develop asset management opportunities to underpin long-term sustainable income growth and maximise occupier satisfaction.	• High quality assets • Profitability • Efficient operations • Knowledgeable and committed landlord • Flexibility to adapt to the changing UK commercial landscape • Buildings with strong environmental credentials	• Regular dialogue through rent collection process • Review published data, such as accounts, trading updates and analysts' reports • Ensured buildings comply with the necessary safety regulations and insurance • Most tenants contacted to request environmental performance data and offer an engagement programme on their premises' environmental performance • Occupancy has remained around 90% during the year
The Investment Manager and its employees		
As an externally managed fund the Company's key service provider is the Investment Manager and its employees are a key stakeholder. The Investment Manager's culture aligns with that of the Company and its long-standing reputation of operating in the smaller lot-size market is key when representing the Company.	• Long-term viability of the Company • Long-term relationship with the Company • Well-being of the Investment Manager's employees • Being able to attract and retain high-calibre staff • Maintaining a positive and transparent relationship with the Board	• Board and Committee meetings • Face-to-face and video-conference meetings with the Chair and other Board Directors • Quarterly KPI reporting to the Board • Board evaluation, including feedback from key Investment Manager personnel • Ad hoc meetings and calls
Suppliers		
A collaborative relationship with our suppliers, including those to whom key services are outsourced, ensures that we receive high quality services to help deliver strategic and investment objectives.	• Collaborative and transparent working relationships • Responsive communication • Being able to deliver service level agreements	• Board and Committee meetings • One-to-one meetings • Annual review of key service providers for the Management Engagement Committee

SECTION 172 STATEMENT AND STAKEHOLDER RELATIONSHIPS CONTINUED

Stakeholder	Stakeholder interests	Stakeholder engagement
Shareholders		
Building a strong investor base through clear and transparent communication is vital to building a successful and sustainable business and generating long-term growth.	• Sustainable growth • Attractive level of income returns • Strong Corporate Governance and environmental credentials • Transparent reporting framework	• Annual and half year presentations • AGM • Market announcements and corporate website • Regular investor feedback received from the Company's broker, distribution agents and PR adviser as well as seeking feedback from face-to-face meetings • Ongoing dialogue with analysts
Lenders		
Our lenders play an important role in our business. The Investment Manager maintains close and supportive relationships with this group of long-term stakeholders, characterised by openness, transparency and mutual understanding.	• Stable cash flows • Stronger covenants • Being able to meet interest payments • Maintaining agreed gearing ratios • Regular financial reporting • Proactive notification of issues or changes	• Regular covenant reporting • Regular catch-up calls
Government, local authorities and communities		
As a responsible corporate citizen, the Company is committed to engaging constructively with central and local government and ensuring we support the wider community.	• Openness and transparency • Proactive compliance with new legislation • Proactive engagement • Support for local economic and environmental plans and strategies • Playing its part in providing the real estate fabric of the economy, giving employers a place of business	• Engagement with local authorities where we operate • Two-way dialogue with regulators and HMRC

Approval of Strategic report

The Strategic report, (incorporating the Business model and strategy, Chair's statement, Investment Manager's report, ESG Committee report, Financial report, Principal risks and uncertainties and Section 172 statement and stakeholder relationships) was approved by the Board of Directors and signed on its behalf by:

David Hunter
Chair
14 June 2023

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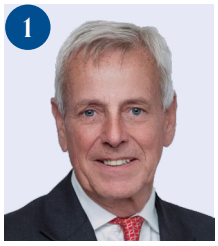
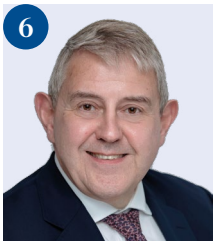
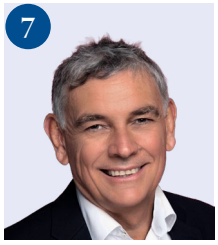
Perth

BOARD OF DIRECTORS AND INVESTMENT MANAGER PERSONNEL

The Board currently comprises seven non-executive directors. A short biography of each director is set out below:







1 David Hunter – Independent Chair

David is a professional non-executive director and strategic adviser focused principally on UK and international real estate. He chairs the Company and its Nominations Committee and is on the boards of both listed and unlisted companies in the UK and overseas, as well as holding corporate advisory roles. He qualified as a chartered surveyor in 1978 and has over 25 years' experience as a fund manager, including as Managing Director of Aberdeen Asset Management's property fund business. David is a former President of the British Property Federation and was actively involved in the introduction of REITs to the UK. He is also Honorary Swedish Consul to Glasgow and an Honorary Professor of real estate at Heriot-Watt University.

David is Non-Executive Chair of Capital & Regional plc ("C&R"). During the year, David was appointed as Non-Executive Chair of Dar Global plc ("DG"), a company established to develop the international assets of Dar Al Arkan Real Estate Development Company, a leading Saudi Arabian property developer.

The Board perceives no material conflicts of interest between Custodian Property Income REIT and the activities of C&R or DG due to their divergent property strategies.

David's other roles are not considered to impact his ability to allocate sufficient time to the Company to discharge his responsibilities effectively.

2 David MacLellan – Independent Director

David was appointed to the Board on 9 May 2023 and is expected to take on the Chair role on 8 August 2023 following David Hunter's scheduled retirement.

He has over 35 years' experience in private equity and fund management and an established track record as Chair and Non-Executive Director of public and private companies. During his executive career David was an Executive Director of Aberdeen Asset Management plc following its purchase of Murray Johnstone Limited ("MJ") in 2000.

At the time of the purchase he was Group Managing Director of MJ, a Glasgow based fund manager managing inter alia closed and open ended funds, having joined MJ's venture capital team in 1984.

Prior to joining MJ he qualified as a Chartered Accountant at Arthur Young McLelland Moores (now EY).

David is currently Chair and Managing Partner of RJD Partners ("RJD"), a private equity business; Non-Executive Director and Audit Committee Chair of J&J Denholm Limited, a family owned business involved in shipping, logistics, seafoods and industrial services; and Non-Executive Director and Audit Committee Chair of Aquila Renewables plc, an investment trust.

David is former Chair and Senior Independent Director of John Laing Infrastructure Fund, a FTSE 250 investment company, former Chair of Stone Technologies Limited, former Chair of Havelock Europa plc and former Non-Executive Director of Maven Income & Growth VCT 2 plc. He was also Chair of Britannic UK Income Fund for 12 years until 2013 as well as a director of a number of private equity backed businesses.

David's other roles are not considered to impact his ability to allocate sufficient time to the Company to discharge his responsibilities effectively.

3 Elizabeth McMeikan – Senior Independent Director

Elizabeth's substantive career was with Tesco plc, where she was a Stores Board Director before embarking on a non-executive career in 2005.

Elizabeth is currently Chair of Nichols plc, the AIM listed diversified soft drinks group. She is Senior Independent Director and Remuneration Committee Chair at both Dalata Hotel Group plc, the largest hotel group in Ireland, and at McBride plc, Europe's leading manufacturer of cleaning and hygiene products. She is also Non-Executive Director of Fresca Group Limited, a fruit and vegetable grower and importer.

Previously Elizabeth was SID and Remuneration Committee Chair at both The Unite Group plc and at Flybe plc, SID at J D Wetherspoon plc and Chair of Moat Homes Limited.

Elizabeth's other roles are not considered to impact her ability to allocate sufficient time to the Company to discharge her responsibilities effectively.

4 Hazel Adam – Independent Director

Hazel was an investment analyst with Scottish Life until 1996 and then joined Standard Life Investments. As a fund manager she specialised in UK and then Emerging Market equities. In 2005 Hazel joined Goldman Sachs International as an executive director on the new markets equity sales desk before moving to HSBC in 2012, holding a similar equity sales role until 2016.

Hazel was an Independent Non-Executive Director of Aberdeen Latin American Income Fund Limited until June 2023 and holds the CFA Level 4 certificate in ESG Investing and the Financial Times Non-Executive Directors Diploma.

5 Chris Ireland FRICS – Independent Director

Chris joined international property consultancy King Sturge in 1979 as a graduate and has worked his whole career across the UK investment property market. He ran the investment teams at King Sturge before becoming Joint Managing Partner and subsequently Joint Senior Partner prior to its merger with JLL in 2011.

Chris was Chief Executive Officer of JLL UK between 2016 and 2021 and subsequently its Chair from 2021 until retiring in March 2023. Chris is committed to leading the property sector on sustainability and supporting the debate around the climate emergency.

Chris is a former Chair of the Investment Property Forum and is a Non-Executive Director of Le Masurier, a Jersey based family trust with assets across the UK, Germany and Jersey. Chris is also a keen supporter of the UK homelessness charity Crisis.

Chris' other roles are not considered to impact his ability to allocate sufficient time to the Company to discharge his responsibilities effectively.

6 Malcolm Cooper FCCA FCT – Independent Director

Malcolm was appointed to the Board on 6 June 2022.

He is a qualified accountant and an experienced FTSE 250 company Audit Committee Chair with an extensive background in corporate finance and a wide experience in infrastructure and property.

Malcolm worked with Arthur Andersen and British Gas/BG Group/Lattice before spending 15 years with National Grid with roles including Managing Director of National Grid Property and Global Tax and Treasury Director, and culminated in the successful sale of a majority stake in National Grid's gas distribution business, now known as Cadent Gas.

Malcolm is currently a Non-Executive Director of Morgan Sindall Group plc, a FTSE 250 UK construction and regeneration business, Chairing its Audit and Responsible Business Committees. He is also Senior Independent Director and Credit Committee Chair of MORhomes plc, Non-Executive Director, Remuneration Committee Chair and Audit Committee Chair at Southern Water Services Limited and Non-Executive Director and Audit and Risk Committee Chair at Local Pensions Partnership Investment. Malcolm was recently appointed as Deputy President of the Association of Corporate Treasurers.

Malcolm was previously Senior Independent Director and Audit Committee chair at CLS Holdings plc, a Non-Executive Director of St William Homes LLP and a member of the Financial Conduct Authority's Listing Authority Advisory Panel.

Malcolm's other roles are not considered to impact his ability to allocate sufficient time to the Company to discharge his responsibilities effectively.

7 Ian Mattioli MBE – Director

Ian is CEO of Mattioli Woods with over 35 years' experience in financial services, wealth management and property businesses and is the founder director of Custodian Property Income REIT. Together with Bob Woods, Ian founded Mattioli Woods, the AIM-listed wealth management and employee benefits business which is the parent company of the Investment Manager. Mattioli Woods now has over £15bn of assets under management, administration and advice. Ian is responsible for the vision and operational management of Mattioli Woods and instigated the development of its investment proposition, including the syndicated property initiative that developed into the seed portfolio for the launch of Custodian Property Income REIT.

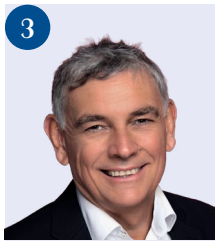
Ian is a non-independent Director of the Company due to his role with Mattioli Woods and is viewed by the Board as representative of Mattioli Woods' client shareholders which represent approximately 68% of the Company's shareholders.

His personal achievements include winning the London Stock Exchange AIM Entrepreneur of the Year award and CEO of the year in the 2018 City of London wealth management awards. Ian was awarded an MBE in the Queen's 2017 New Year's Honours list for his services to business and the community in Leicestershire and was appointed High Sheriff of Leicestershire in March 2021, an independent non-political Royal appointment for a single year. Ian and his family own 6.1m shares in the Company.

Ian's other roles are not considered to impact his ability to allocate sufficient time to the Company to discharge his responsibilities effectively.

BOARD OF DIRECTORS AND INVESTMENT MANAGER PERSONNEL CONTINUED

Short biographies of the Investment Manager's key personnel and senior members of its property team are set out below:



1 Richard Shepherd-Cross MRICS – Managing Director

Richard qualified as a Chartered Surveyor in 1996 and until 2008 worked for JLL, latterly running its national portfolio investment team.

Since joining Mattioli Woods in 2009, Richard established Custodian Capital as the Property Fund Management subsidiary to Mattioli Woods and in 2014 was instrumental in the establishment of Custodian Property Income REIT from Mattioli Woods' syndicated property portfolio and its 1,200 investors. Following the successful IPO of the Company, Richard has overseen the growth of the Company to its current property portfolio of over £0.6bn. Richard and his family own 371,061 shares in the Company.

2 Ed Moore FCA – Finance Director

Ed qualified as a Chartered Accountant in 2003 with Grant Thornton, specialising in audit, financial reporting and internal controls across its Midlands practice. He is Finance Director of Custodian Capital with responsibility for all day-to-day financial aspects of its operations.

Since IPO in 2014 Ed has overseen the Company raising over £300m of new equity, arranging or refinancing seven loan facilities and completing four corporate acquisitions, including leading on the acquisition of DRUM REIT in 2021. Ed's key responsibilities for Custodian Property Income REIT are accurate external and internal financial reporting, ongoing regulatory compliance and maintaining a robust control environment. Ed is Company Secretary of Custodian Property Income REIT and is a member of the Investment Manager's Investment Committee. Ed is also responsible for the Investment Manager's environmental initiatives, attending Custodian Property Income REIT ESG Committee meetings and co-leading the Investment Manger's ESG working group.

3 Ian Mattioli MBE – Founder and Chair

Ian's biography is set out on page 43.

4 Alex Nix MRICS – Assistant Investment Manager

Alex graduated from Nottingham Trent University with a degree in Real Estate Management before joining Lambert Smith Hampton, where he spent eight years and qualified as a Chartered Surveyor in 2006.

Alex is Assistant Investment Manager to Custodian Property Income REIT having joined Custodian Capital in 2012. Alex heads the Company's property management and asset management initiatives, assists in sourcing and executing new investments and is a member of the Investment Manager's Investment Committee.

5 Tom Donnachie MRICS – Portfolio Manager

Tom graduated from Durham University with a degree in Geography before obtaining an MSc in Real Estate Management from Sheffield Hallam University. Tom worked in London for three years where he qualified as a Chartered Surveyor with Workman LLP before returning to the Midlands first with Lambert Smith Hampton and then CBRE.

Tom joined Custodian Capital in 2015 as Portfolio Manager with a primary function to maintain and enhance the existing property portfolio and assist in the selection and due diligence process regarding new acquisitions. Tom co-leads the Investment Manager's environmental working group and attends Custodian Property Income REIT ESG Committee meetings.

6 Javed Sattar MRICS – Portfolio Manager

Javed joined Custodian Capital in 2011 after graduating from Birmingham City University with a degree in Estate Management Practice. Whilst working as a trainee surveyor on Custodian Property Income REIT's property portfolio for Custodian Capital he completed a PGDip in Surveying via The College of Estate Management and qualified as a Chartered Surveyor in 2017.

Javed operates as Portfolio Manager managing properties predominantly located in the North-West of England.

7 Aman Sharma MRICS – Portfolio Manager

Aman has worked in real estate for over 10 years having graduated from Nottingham Trent University with a degree in Real Estate Management and subsequently qualified as a Chartered Surveyor in 2014, having spent time with AXA-IM Real Assets and JLL.

Aman joined Custodian Capital in 2022 and is responsible for managing a portfolio of mixed-use assets with a focus on the South and East of England and assists in the sourcing and due diligence process regarding new acquisitions.

Hilton Business Park

GOVERNANCE REPORT

The Board has considered the Principles and Provisions of the AIC Code. The AIC Code addresses the Principles and Provisions set out in the UK Corporate Governance Code (the "UK Code"), as well as setting out additional Provisions on issues that are of specific relevance to the Company.

The Board considers that reporting against the Principles and Provisions of the AIC Code, which has been endorsed by the Financial Reporting Council provides more relevant information to shareholders. By reporting against the AIC Code, the Company also meets its obligations under the UK Code and associate disclosure requirements under paragraph 9.8.6 of the Listing Rules.

The company has complied with the Principles and Provisions of the AIC Code since IPO.

The AIC Code is available on the AIC website (theaic.co.uk). It includes an explanation of how the AIC Code adapts the Principles and Provisions set out in the UK Code to make them relevant for investment companies.

Further explanation of how the main principles of the AIC Code have been applied, to enable shareholders to evaluate how the principles have been applied, is set out below:

AIC Code principle	How applied to Custodian Property Income REIT
5 – Board leadership and purpose	• Role of the Board – Governance Report
6 – Division of responsibilities	• Division of responsibilities – Governance Report • Board Committees – Governance Report
7 – Composition, succession and evaluation	• Board performance and evaluation – Governance Report
8 – Audit, risk and internal control	• Internal control and risk management – Governance Report • Audit and Risk Committee report
9 – Remuneration	• Remuneration report

Role of the Board

The Board is responsible to shareholders, tenants and other stakeholders for promoting the long-term sustainable success of the Company and generating shareholder value. Good governance is fundamental to the long-term success of the Company and the Board and Investment Manager work together to ensure the highest standards of governance are maintained by the Company and are central to every Board decision.

The Board comprises seven Directors, all of whom have wide experience, are non-executive and, save for Ian Mattioli, are independent of the Investment Manager. Biographical information on each Director is set out earlier in the Governance Report. The Directors are responsible for managing the Company's business in accordance with its Articles of Association ("the Articles") and the Investment Policy (as set out in the Strategic Report), and have overall responsibility for the Company's activities. The Directors may delegate certain functions to other parties and in particular the Directors have delegated responsibility for management of the Company's property portfolio to the Investment Manager. The Board retains responsibility for reviewing the engagement of the Investment Manager, based on recommendations from the Management Engagement Committee, and exercising overall control of the Company, reserving the following key matters:

- Setting the Company's values, standards, investment strategy, strategic aims, risk appetite and objectives;
- Setting the overall tone of the Company's ESG strategy;
- Approving the annual operating and capital expenditure budgets and external financial reporting;
- Approving valuations of the Company's property portfolio;
- Approving the Company's dividend policy and the interim dividends;
- Ensuring a satisfactory dialogue with shareholders and approving AGM resolutions and shareholder circulars;
- Reviewing and approving changes to the structure, size and composition of the Board, including succession planning, following recommendations from the Nominations Committee;
- Determining the remuneration policy for the Directors;
- Undertaking a formal and rigorous annual review of its own performance, that of its committees and individual Directors, and the division of responsibilities and independence;
- Considering the balance of interests between shareholders, employees, customers and the community; and
- Approving the appointment of the Company's principal professional advisers.

Meetings

The Board meets at least four times a year to consider the Company's quarterly trading performance and approve the Annual and Interim reports. The Board also meets on an ad hoc basis to discuss specific issues. Meetings are attended by the Directors, the Investment Manager, the Company Secretary and other attendees by invitation.

Culture

The culture of the Company is integral to its success. The Board promotes open dialogue and frequent, honest and open communication between the Investment Manager and other key advisors to the Company. Whilst the Company has no employees, the Board pays close attention to the culture of the Investment Manager and its employees and believes that its open, proactive and pragmatic approach is the right fit for delivering the Company's purpose, values and strategy. The Board believes that its positive engagement and working relationship with the Investment Manager helps the business achieve its objectives by creating an open and collaborative culture, whilst allowing for constructive challenge. The Non-Executive Directors speak regularly with key members of the Investment Manager's team outside of Board meetings to discuss various key issues relating to the Company.

Division of responsibilities

Chair

David Hunter is the Chair and is responsible for the leadership of the Board and ensuring its overall effectiveness on directing the Company. The Chair is responsible for setting the Board's agenda and ensuring that adequate time is available for discussion of all agenda items, in particular strategic issues. The Chair promotes a culture of openness and debate by facilitating the effective contribution of other Non-Executive Directors.

The Chair is also responsible for ensuring that the Directors receive accurate, timely and clear information and ensuring effective communication with shareholders.

In addition to formal general meetings, the Chair makes himself available for meetings with major shareholders in order to understand their views on governance and performance against the Company's investment objective and investment policy.

Senior Independent Director

Elizabeth McMeikan is the SID and has a responsibility to be available as an alternative point of contact (other than the Chair) for shareholders and other stakeholders and to act as a sounding board for the Chair. The SID is also expected to take an active part in the assessment of Board effectiveness and when required to lead the recruitment process for a new Chair.

Non-Executive Directors

Malcolm Cooper and David MacLellan were appointed as Non-Executive Directors of the Company on 6 June 2022 and 9 May 2023 respectively. The Company has seven Non-Executive Directors and no employees. The Board has delegated operational functions to the Investment Manager and other key service providers. The Non-Executive Directors provide constructive challenge, strategic guidance and offer specialist advice to the Investment Manager and hold it to account.

Company Secretary

The Company Secretary is available to support all Directors and is responsible for the efficient administration of the Company, particularly with regard to ensuring compliance with statutory and regulatory requirements and for ensuring that decisions of the Board are implemented. Its other roles include developing Board and Committee agendas, advising on regulatory compliance and corporate governance, facilitating Director induction programmes and organising the AGM.

Board performance and evaluation

The Directors have annual appraisals as part of a Board Effectiveness Review ("BER"). The Chair reviews the performance of the other Independent Non-Executive Directors, and the Senior Independent Director reviews the Chair in conjunction with other Directors. Board Committees review their own performance annually.

During August 2022 the Board undertook a BER externally facilitated by Clare Chalmers Limited, an independent, external consultant with no connection with the Company or individual directors, and overseen by David Hunter and Elizabeth McMeikan covering:

- Composition – skills, knowledge, experience, leadership and diversity of the Board;
- Performance – how well the Board oversees and holds management to account for delivery of the strategy;
- People and culture – how far the right behaviours are embedded, and how the Board forms a view;
- Succession planning – depth of planning, training and development for Directors;
- Risk management – how the Board ensures there are the right processes, controls and awareness of emerging risk;
- Leadership – how effectively the Chair, SID and Committee Chairs fulfil their roles;
- Strategy – how far the Board inputs into, challenges and helps develop the Company's strategy;
- Stakeholders – factoring them into decision-making, engagement with shareholders, regulators, workforce, ESG; and
- Dynamics – openness, trust and effective individual contribution, and how NEDs receive feedback.

Overall, the results of the evaluation were positive and there were no significant concerns amongst the Directors relating to the effectiveness of the Board. The Directors are considered enthusiastic for the Company and the Board with collaborative discussions and good input from all Board members at meetings. The Board's role in driving improvement in the Company was also highlighted, particularly its efforts to diversify the shareholder base and further the ESG strategy. There is a good relationship with the Investment Manager and a strong trust in it to make decisions within the investment objectives set by the Board. The Directors believe the Board is well supported by its other advisers, with careful consideration evident regarding recent and ongoing tender processes to select the right partners.

The biggest challenge identified was the forthcoming change of Chair which is the culmination of a period of transition, following the recent staggered replacement of other independent Directors who joined the Board at IPO. The effectiveness review highlighted that the Chair succession process should identify a motivated, engaged and supportive leader with a good understanding of governance who is effective at handling any potential conflicts. The process should also be conducted with enhancing diversity in mind, utilising a detailed skills matrix. This feedback was considered by the SID and Nominations Committee in appointing David MacLellan.

As evidenced by the result of the evaluation, the Board considers that all the current Independent Directors remain independent, contribute effectively and have the skills and experience relevant to foster the effective leadership and direction of the Company. It was found that the Directors can commit sufficient time to the Company's activities. The Chair's review was positive, and the other Directors considered that the Chair remained independent and that he continued to strongly and effectively lead the Board.

Board performance and evaluation continued

Board training

We require Directors to keep their knowledge and skills up to date and include training discussions with the Chair in their annual appraisals. As required, we invite professional advisers to provide updates on a range of issues including, but not limited to, market trends, legislative developments, environmental, technological and social considerations. Our Company Secretary provides regular updates to the Board and its committees on regulatory and corporate governance matters. In addition, Directors are encouraged to attend courses hosted by the Deloitte Academy and PwC. Our Directors receive training on their duties under section 172(1) of the Companies Act 2006 as part of their induction process.

During the year Board received a number of updates from the Company's environmental consultants regarding a potential net zero carbon strategy. The Company's auditor includes technical and regulatory updates in their reports to the Audit and Risk Committee.

Board Committees

Audit and Risk Committee

The Audit and Risk Committee comprises the independent directors, excluding the Board Chair and David MacLellan as Board Chair designate, and is chaired by Malcolm Cooper. Its responsibilities are set out in the Audit and Risk Committee report.

Management Engagement Committee

The Management Engagement Committee comprises Hazel Adam, Elizabeth McMeikan, David Hunter, David MacLellan and Chris Ireland as Chair. Its responsibilities are set out in the Management Engagement Committee report.

Nominations Committee

The Board as a whole is responsible for ensuring adequate succession planning to maintain an appropriate balance of skills on the Board to ensure it functions effectively and promotes the long-term sustainable success of the Company, whilst generating shareholder value. Changes to the structure, size and composition of the Board may be made following recommendations from the Nominations Committee, which operates under written terms of reference which are available on the Company's website. This includes the selection of the Chair of the Board, the Senior Independent Director and the Company Secretary. The letter of appointment of new Directors sets out the expected time commitment and the Directors must undertake that they will have sufficient time to meet what is expected of them. Their other significant commitments are disclosed to the Board before appointment, with a broad indication of the time involved, and they are required to inform the Board of subsequent changes.

The Nominations Committee comprises all Directors due to the relatively small size of the Board and is chaired by David Hunter. Its responsibilities are set out in the Nominations Committee report.

Remuneration Committee

During the year the Board has reviewed its governance processes and identified that, because the Board has no Executive Directors and the Company has no employees, it is most appropriate for the Board as a whole to be responsible for setting and reviewing the Directors' remuneration policy. On that basis the Company's Remuneration Committee has been disbanded with its duties now performed by the Board.

ESG Committee

The ESG Committee comprises Hazel Adam as Chair, Elizabeth McMeikan and Malcolm Cooper, all of whom are independent Non-Executive Directors. The ESG Committee's key responsibilities are set out in the ESG Committee report.

Meeting attendance

The attendance of the Directors at scheduled Board and Board committee meetings held during the year, reflecting appointment or retirement dates, were as follows:

	Board	Audit and Risk Committee	Nominations Committee	Management Engagement Committee	ESG Committee
David Hunter*	5/5	n/a	1/2	1/1	n/a
Hazel Adam	5/5	3/3	2/2	1/1	4/4
Ian Mattioli	5/5	n/a	2/2	n/a	n/a
Elizabeth McMeikan	5/5	3/3	2/2	1/1	4/4
Chris Ireland**	5/5	3/3	2/2	1/1	3/3
Malcolm Cooper***	3/3	2/2	1/1	n/a	3/3
Matthew Thorne****	2/2	1/1	0/0	0/0	n/a

* David Hunter did not participate in the Nominations Committee meeting to discuss recruiting his successor.
** Chris Ireland retired from the ESG Committee in October 2022.
*** Malcolm Cooper was appointed to the Board, Audit and Risk Committee, ESG Committee and Nominations Committee on 6 June 2022.
**** Matthew Thorne resigned as a Director on 31 August 2022.

Directors' interests are set out in the Remuneration report.

The Investment Manager

The Company has appointed Custodian Capital Limited as Investment Manager and Alternative Investment Fund Manager ("AIFM") under an IMA. Under the IMA, the Investment Manager is due an annual fund and asset management fee and an annual administration fee.

The Investment Manager is a subsidiary of Mattioli Woods, a related party and a provider of specialist pension consultancy and administration, employee benefits and wealth management services. The Investment Manager is authorised and regulated by the Financial Conduct Authority ("FCA") and has an established market presence in the smaller lot-size property sector, with a proven track record of property syndication (external to the Company), investment and asset management.

Ian Mattioli is Chair of the Investment Manager, CEO of Mattioli Woods and is beneficially interested in the share capital of Mattioli Woods, the parent company of the Investment Manager, and therefore has an indirect interest in the Investment Manager. As a result, Ian Mattioli is not independent.

For its financial year ended 31 May 2022 remuneration paid by the Investment Manager to its 24 staff (2021: 23 staff) was £1.5m (2021: £1.1m), which included £0.5m (2021: £0.6m) payable to senior management and members of staff whose actions could have a material impact on the risk profile of the Company. More detail is contained within the Investment Manager's statutory accounts available from Companies House.

Key personnel

The Investment Manager's key personnel, as set out in the IMA, are Richard Shepherd-Cross, Ed Moore, Alex Nix and Tom Donnachie.

AIFM Directive

The Company's activities fall within the scope of the AIFM Directive and the Board has determined that the Investment Manager will act as AIFM for these purposes. The Board has put in place a system of regular reporting from the AIFM and the Company's depositary to ensure both are meeting their regulatory responsibilities in respect of the Company.

Non-mainstream pooled investments

The Company conducts its affairs so that its shares can be recommended by financial advisers to retail investors in accordance with the rules of the FCA in relation to non-mainstream pooled investments, and intends to continue to do so for the foreseeable future.

Directors' share dealings

The Directors have adopted a code for Directors' share dealings, which is compliant with the UK's Market Abuse Regulation ("MAR"). The Board is responsible for taking all proper and reasonable steps to ensure compliance with the MAR.

Shareholders

The Board is responsible for ensuring a satisfactory dialogue with shareholders based on the mutual understanding of objectives. It approves the resolutions and corresponding documentation to be put forward to shareholders at the AGM, together with any circulars, prospectuses, listing particulars and press releases concerning matters decided by the Board.

The Company reports to shareholders at least twice each year in its interim and annual reports, and makes announcements, where any price sensitive or other information requires disclosure, to the London Stock Exchange and on the Company's website. Any material presentations to investors are made available on the Company's website. Where there has been contact with shareholders, feedback is presented to the Board by the Investment Manager and the Company's broker, Numis Securities Limited, to ensure it is aware of any issues raised by investors. The Company's shareholder profile and any material changes in shareholdings are reviewed by the Board at least quarterly and more often as appropriate.

All members of the Board are available to meet with investors as and when required. The Board considers that the provision of independent feedback to the Board through the Company's brokers and, where appropriate, directly from investors ensures that the whole Board remains well informed of investors' views.

Board members, including the Chairs of Board Sub-Committees, and representatives of the Investment Manager are available to meet with investors and to answer any questions at the Company's AGM. All shareholders have at least 20 clear working days' notice of the AGM, where all Directors and committee members are available to answer questions. At the AGM all votes are dealt with on a poll and the number of proxy votes cast is indicated. Votes on separate issues are proposed as separate resolutions.

Significant holdings of ordinary shares in the Company are set out in the Directors' report.

Conflicts of interest

The Articles allow the Board to authorise potential conflicts of interest that may arise, subject to imposing limits or conditions when giving authorisation if this is appropriate. Only independent Directors (who have no interest in the matter being considered) are able to take the relevant decision and, in taking the decision, the Directors must act in a way they consider will be most likely to promote the Company's success. Procedures have been established to monitor actual and potential conflicts of interest on a regular basis, and the Board is satisfied that these procedures are working effectively.

Internal control and risk management

We recognise the importance of identifying and managing both the financial and non-financial risks faced by the business, including climate-related risks, and the Board has agreed a robust risk management framework to facilitate this. The framework ensures that risk management responsibilities are allocated and those, along with the Board's appetite for risk, are clearly communicated and understood.

The Investment Manager is responsible for operating the Company's system of internal control and reviewing its effectiveness. Such a system is designed to manage, rather than eliminate, the risk of fraud or the risks of not achieving some or all of the Company's business objectives and can provide only reasonable but not absolute assurance against material misstatement or loss. The Investment Manager outsources its internal audit function to RSM which has undertaken an assessment of the design and operational effectiveness of internal controls during the year with no significant deficiencies reported. Investment Manager employees are covered by Mattioli Woods' whistleblowing policy.

The Board has an ongoing process to monitor the Company's risk management and internal control systems, including financial, operational and compliance controls, and to identify, evaluate and manage the significant risks faced by the Company. The process is regularly reviewed by the Board, based on reports from the Investment Manager, and accords with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. Key features of the Company's system of internal control include:

- A detailed authorisation process and formal delegation of authority;
- A comprehensive financial reporting and forecasting system;
- A defined schedule of matters reserved for the Board; and
- An annual review of the effectiveness of internal controls and formal consideration of business risks. Issues are also raised at quarterly Board meetings as appropriate.

Responsibilities

The Board has overall responsibility for the Company's approach to risk management and internal control, including:

- Ensuring the design and implementation of risk management and internal control systems which identify the risks facing the business and enable the Board to make an assessment of principal risks;
- Determining the nature and extent of the principal risks faced, and those risks which the Company is willing to take;
- Agreeing how principal risks should be managed or mitigated to reduce the likelihood of their incidence or impact;
- Ensuring that there is sufficient relevant, reliable and valid assurance about the mitigation of risk; and
- Reviewing the disclosures to be included in the Annual Report and Accounts, to ensure that the statements made are supported by valid, relevant and reliable assurances received from the Investment Manager.

The Audit and Risk Committee provides oversight of the framework, monitors principal risks and undertakes the annual review of the Group's approach to risk management and compliance with the framework, including a review of the risk register. The external Auditor will also provide information to the Audit and Risk Committee concerning the system of internal control and any material control weaknesses, with any significant issues referred to the Board for consideration. The Audit and Risk Committee's responsibilities are set out in further detail in the Audit and Risk Committee report.

Risk appetite

Risk management is embedded in our decision-making processes, supported by robust systems, policies, leadership and governance. The level of risk considered appropriate to accept in achieving business objectives is determined by the Board. The Board has no appetite for risk in areas relating to regulatory compliance, and the health, safety and welfare of our occupiers and the wider communities in which we work. We have a moderate appetite for risk in relation to activities which are directed towards driving revenues and increased financial returns for investors.

Framework

The Company's risk register is the core of the risk management framework containing an overall assessment of the risks faced by the Company together with the:

- Quantified consequences;
- Controls established, following the three lines of defence model to reduce those risks to an acceptable level; and
- Board appetite for each category of risk.

The Investment Manager undertakes a documented annual review of the risk register, which is also is reviewed periodically by the Board.

Bribery, money laundering, slavery and human trafficking

The Board has considered the requirements of the Bribery Act 2010, the Criminal Finances Act 2017 and the Modern Slavery Act 2015 and has taken steps to ensure that it has adequate procedures in place to comply with their requirements.

The Board has a zero tolerance policy towards unethical behaviour and is committed to carrying out business fairly, honestly and openly and it expects the same of its business partners. The Investment Manager actively reviews and is responsible for monitoring perceived risks and responsibility for anti-bribery and corruption. The Investment Manager maintains a risk register where perceived risks and associated actions are recorded and this is shared annually with the Board for approval.

We believe that all efforts should be made to eliminate unethical behaviour from our supply chains. We seek to mitigate our exposure to any unethical activity by engaging with reputable third-party professional service firms based in the United Kingdom. We request formal governance information from our current or potential suppliers if there is a perceived risk of unethical behaviour to assess overall supply chain risk and conduct due diligence and risk assessment on potential new suppliers where considered necessary. We will continue to monitor and collaborate with our suppliers and tenants to ensure that they continue to adopt systems and controls that reduce the risk of facilitating bribery, money laundering, modern slavery, child labour and human trafficking.

Approval

This Governance report was approved by the Board of Directors and signed on its behalf by:

David Hunter
Chair
14 June 2023

AUDIT AND RISK COMMITTEE REPORT

Composition and designation

The Audit and Risk Committee ("the Committee") comprises Malcolm Cooper as Chair, Hazel Adam, Elizabeth McMeikan and Chris Ireland, all of whom are independent Non-Executive Directors. Matthew Thorne retired as Committee Chair on 31 August 2022. Malcolm Cooper joined the Committee on 6 June 2022 and was appointed Chair on 31 August 2022.

Responsibilities

The Committee meets regularly to monitor the integrity of the Company's financial statements and to ensure they present a fair, balanced and understandable assessment of the Company's position and prospects. The Committee is also responsible for appointing and assessing the performance and independence of the external auditor, and the programme of work and reports of the internal auditor. In providing support to the Board in making this statement, the Committee has reviewed and approved a process undertaken by the Investment Manager to provide confirmation to the Board.

The Committee operates under written terms of reference which are available on the Company's website.

The key responsibilities and principal activities of the Committee are as follows:

- To monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance, and reviewing significant financial reporting judgements contained in them;
- To advise the Board on whether the Interim Report, Annual Report and financial statements are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model, strategy, risks, working capital requirements and longer-term viability;
- To advise the Board on whether the Investment Manager's working capital review supports assertions made in the Annual Report regarding going concern and longer-term viability;
- To monitor and review the effectiveness of the Company's internal control environment and monitoring processes, which were in place for the year under review and up to the date of approval of these financial statements;
- To review the significant risks faced by the Company;
- To review the internal audit programme and monitoring the effectiveness of the internal audit process by reviewing reports, meeting with the internal auditor and identifying any matters it considers need action or improvement, making recommendations as to the steps to be taken;
- To make recommendations to the Board to be put to shareholders for their approval in general meeting in relation to the appointment, reappointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- To review the appointment of the external auditor, monitoring the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- To develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm and to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;
- To agree the scope of statutory audit work and any additional assurance work to be undertaken;
- To take an active part in discussions between the external auditor and the Investment Manager regarding the resolution of issues that impact the audited financial statements; and
- To have the opportunity to meet with the external property valuers at least once a year, to discuss the valuers' remit and any issues arising from the valuations.

The Committee also oversees and approves the calculation of fees payable to the Investment Manager set out in Note 19.

Meetings

The Committee meets no less than three times a year, typically in May to consider the Annual Report and external audit findings, in November to consider the Interim Report, interim announcement and external review findings, and in February to plan for the financial year ahead. Any other matters, including internal controls, are considered as and when necessary.

Meetings are attended by the Committee members, the Investment Manager, the external auditor and, periodically, the internal auditor.

Primary areas of judgement in relation to the Annual Report and financial statements

The Committee considers the significant judgements made in the Annual Report and financial statements and receives reports from the Investment Manager and the external auditor on those judgements. The Committee pays particular attention to the matters it considers to be important by virtue of size, potential impact, complexity and level of judgement.

The principal issue considered by the Committee for the year was the valuation of the Company's property portfolio, which is fundamental to the Company's statement of financial position and reported results. The external auditor uses real estate specialists to challenge the assumptions and approach adopted by the valuers and reported back to the Committee on its review. The Committee also gained comfort from the valuers' methodology and other supporting market information.

The Committee also reviewed the reports of the internal auditor. During the year, the internal auditor has reported on the design effectiveness and operational effectiveness of the internal control environment.

Loan covenant and REIT regime compliance are matters for the whole Board. The Committee has considered reports to support the Company's REIT regime compliance, going concern status and longer-term viability statement, along with details of available undrawn facilities and financial forecasts.

The Committee has reviewed, challenged and assessed the Company's use of APMs in particular in the context of ESMA Guidelines on APMs and believes that there is an appropriate balance between APMs and IFRS reported measures. The Committee considers that the use of APMs, some of which are based upon EPRA Best Practice Recommendations, is reflective of best practice in the sector and in line with other similar companies.

The Committee was satisfied that these issues had been fully and adequately considered and addressed and that the judgements made were appropriate. The Committee discussed the issues with the external auditor, who had concurred with the judgement of the Investment Manager.

Audit

Internal audit

The Company's day-to-day operations are contracted to the Investment Manager. The Company's internal audit function, which assesses the systems and control framework of the Investment Manager and its parent company, Mattioli Woods, is carried out by RSM. The Committee agrees an appropriate annual internal audit programme with the Investment Manager, taking into consideration the current size of the Company and its relative lack of business complexity.

The Committee receives and reviews reports of the internal audit function, which during the year covered purchasing, governance and risk management and property purchase due diligence and administration.

The Committee allows time to speak with the internal auditor without the Investment Manager present for at least one meeting each year.

The external audit, review of its effectiveness, auditor reappointment and audit tendering

The Committee reviews annually the external auditor's:

- Appointment;
- Relationship with the Company;
- Level of effectiveness;
- Audit and non-audit fees; and
- Independence.

The Committee uses a framework to assess the effectiveness of the audit approach and considered the views of the Investment Manager. This framework includes:

- The auditor confirming its independence and compliance the FRC's Ethical Standard and the Company's policy for the supply of non-audit services;
- The Investment Manager confirming its view on external auditor independence;
- How the auditor demonstrated professional scepticism and challenged assumptions where necessary; and
- Assessment of the audit quality of Deloitte LLP ("Deloitte").

In assessing how the Auditor demonstrated professional scepticism and challenged assumptions, the Committee considered the depth of discussions held with the auditor, particularly in respect to challenging the Company's approach to its significant judgements and estimates (set out in the Strategic Report) and risk assessment. The Committee was satisfied that Deloitte's individual report on Audit Quality Inspections carried out by the Financial Reporting Council ("FRC") Audit Quality Review team determined improvements had been made on prior period findings during the review of the current cycle with no audits requiring significant improvement. After taking these matters into account, the Committee concluded that Deloitte had performed the audit effectively, efficiently and to a high quality.

The Committee allows time to speak with the external auditor without the Investment Manager present for at least one meeting each year.

AUDIT AND RISK COMMITTEE REPORT CONTINUED

Audit continued

The external audit, review of its effectiveness, auditor reappointment and audit tendering continued

Fees incurred by the Company from Deloitte during the year were as follows:

	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Audit of the Company's Annual Report	**154**	138
Total audit related fees	**154**	138
Review of the Company's Interim Report	**35**	25
Total non-audit fees	**35**	25
Total fees	**189**	163

Non-audit fees

An external auditor independence policy has been adopted by the Committee, which considers the appointment of the external auditor for non-audit work, after taking into account their suitability to perform the services, the potential impact on their independence and objectivity and the relationship of non-audit to audit fees. Fees for permissible non-audit fees payable to the external auditor are capped at 70% of the average audit fee over the three preceding financial years (or from appointment, if later) in line with the FRC's Revised Ethical Standard 2019. Where there are any doubts as to whether the external auditor has a conflict of interest, Committee approval is required in advance of the engagement.

Given the external auditor's detailed knowledge of the structure of the organisation, certain recurring services provided by them, subject to the amount of fee involved, are not considered to impair the external auditor's independence or objectivity. Services included in this category are: accounting advice; compliance and regulatory certificates and minor projects, where the fee involved per service will not exceed £10,000 without the prior consent of the Committee.

Other than the review of the Interim Report, the Committee will not normally allow the external auditor to be used for the following: tax services, compiling accounting records; payroll services; work on internal controls; valuation work; legal services; internal audit services; corporate finance services; share brokerage or human resources. Non-audit fees incurred during the year related to a review of Board effectiveness.

The Committee has reviewed the level of fees due to Deloitte for permitted non-audit services and is satisfied the independence and objectivity of Deloitte as the Company's auditor is not impaired.

As a "public interest entity", the Company is required at the latest to re-tender the external audit by 2024 and rotate audit firms by 2034. The Committee re-tendered the 2024 external audit during the year, inviting PricewaterhouseCoopers LLP, BDO LLP and Deloitte to tender for the position as external auditor to the Company. The 'Request for Proposal' document was produced in line with FRC guidance – Audit Tenders – Notes on Best Practice, and set out the following evaluation criteria:

- Industry expertise of the firm and the audit team, especially regarding property valuations;
- Experience and audit quality record of the lead partner and the firm including client testimonials and references;
- Resourcing/capacity;
- Technical capability;
- Overall proposal suitability, meeting the scope and needs included herein and be presented in a clear and organised manner;
- Diversity of the audit team;
- Cost/value for money; and
- Cultural fit between the audit firm and the Company.

The Audit and Risk Committee decided to recommend the reappointment of Deloitte due to its strong proposal document, and its comprehensive in-depth knowledge of the Company. James Wright will rotate after the audit of the year ended 31 March 2023 and it is intended that Andy Siddorns, who the Committee Chair met during the tender process, is expected to take over the position as Lead Audit Partner.

Deloitte has confirmed its willingness to continue in office and ordinary resolutions reappointing Deloitte as auditor and authorising the Committee to set the auditor's remuneration will be proposed at the AGM.

Approval

This report was approved by the Committee and signed on its behalf by:

Malcolm Cooper
Chair of the Audit and Risk Committee
14 June 2023

MANAGEMENT ENGAGEMENT COMMITTEE REPORT

Composition

The Management Engagement Committee ("the Committee") comprises Chris Ireland as Chair, Hazel Adam, Elizabeth McMeikan, David MacLellan and David Hunter, all of whom are independent Non-Executive Directors.

Meetings

The Committee meets at least once a year and otherwise as required.

Responsibilities

The key responsibilities of the Committee are:

- Monitor and annually review the independence, expertise and performance of the Investment Manager and its compliance with the terms of the IMA;
- Ensure the terms of the IMA comply with all relevant regulatory requirements, conform with market practice and remain in the best interests of Shareholders;
- Oversee the relationship with the external property valuers considering changes, re-appointment and tendering, their remuneration, terms of engagement, independence and expertise; and
- Review annually the remuneration, any points of conflict and the Investment Manager's views on the effectiveness of the Company's other key service providers, excluding internal and external auditors and ESG advisers.

During the year, the Committee has considered:

- The capability and resources of the Investment Manager to deliver satisfactory investment performance; and
- The fees payable to the Investment Manager.

The Committee concluded that, based on its interaction with the Investment Manager's staff during the year, participation in meetings and quarterly reporting, that the Investment Manager had sufficient capability and resources and had delivered satisfactory investment performance.

In light of additional work required to achieve the Company's environmental objectives the Board has agreed, with effect from 1 April 2022, to amend the rates applicable in calculating administrative fees payable to the Investment Manager under the IMA (detailed in Note 19). A rate increase for NAV between £200m and £500m has resulted in administrative fees increasing by £95k for the year with a projected additional annual fee of £83k based on the year-end NAV of £437.6m. However, rate decreases applicable to NAV in excess of £500m mean that this fee differential decreases with growth in NAV beyond £500m and the rate changes, in aggregate, will decrease the overall administrative fee if NAV exceeds £950m.

The Committee believes this fee change is in the long-term interest of shareholders and is satisfied with the Investment Manager's ability to deliver investment performance that meets the agreed objectives, such that the continuing appointment of the Investment Manager, on the terms set out in Note 19, was considered in the best interest of the Company and its shareholders.

The Committee has also considered its external valuer engagements of Knight Frank LLP ("Knight Frank") and Savills (UK) Limited which began in 2019 and 2021 respectively. During the year the Committee recommended to the Board that Knight Frank be reappointed as valuer on its part of the portfolio following expiry of its initial three-year term. The Company follows prevailing RICS guideline regarding valuers' rotation.

Approval

This report was approved by the Committee and signed on its behalf by:

Chris Ireland
Chair of the Management Engagement Committee
14 June 2023

NOMINATIONS COMMITTEE REPORT

Composition

The Nominations Committee ("the Committee") consists of David Hunter as Chair, David MacLellan, Hazel Adam, Elizabeth McMeikan, Chris Ireland, Malcolm Cooper and Ian Mattioli.

Meetings

The Committee meets at least once a year and otherwise as required.

Responsibilities

The key responsibilities of the Committee are:

- Review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and make recommendations to the Board with regard to any changes;
- Consider succession planning for Directors, taking into account the challenges and opportunities facing the Company, and the skills, expertise and diversity needed on the Board in the future;
- Keep under review the leadership needs of the organisation, with a view to ensuring the continued ability of the Company to compete effectively in the marketplace; and
- Identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise.

Before any appointment is made by the Board, the Committee is required to evaluate the balance of skills, knowledge, experience and diversity on the Board, and, in light of this evaluation, prepare a description of the role and capabilities required for a particular appointment. In identifying suitable candidates the Committee shall:

- Use open advertising or the services of external advisers to facilitate the search;
- Consider candidates from a wide range of backgrounds; and
- Consider candidates on merit and against objective criteria and with due regard for the benefits of diversity on the Board, including gender, social and ethnic backgrounds and cognitive and personal strengths, taking care that appointees have enough time available to devote to the position.

The Committee also makes recommendations to the Board concerning:

- Formulating plans for succession for the Non-Executive Directors;
- Suitable candidates for the role of Senior Independent Director;
- Membership of the Audit and Risk Committee, ESG Committee and the Management Engagement Committee, and any other Board committees as appropriate and formed in due course, in consultation with the Chairs of those committees;
- The reappointment of any Non-Executive Director at the conclusion of their specified term of office having given due regard to their performance and ability to continue to contribute to the Board in light of knowledge, skills and experience required; and
- The annual re-election by shareholders of Directors or the retirement by rotation provisions in the Company's articles of association, having due regard to their performance and ability to continue to contribute to the Board in light of the knowledge, skills and experience required and the need for progressive refreshing of the Board.

Policy on tenure and succession planning

In determining an appropriate period of tenure for each Director, including the Chair, the Committee considers:

- The ongoing independence of each of the Non-Executive Directors;
- The benefits of regular Board refreshment and diversity;
- Their respective skills and experience;
- Whether each Non-Executive Director is able to commit sufficient time to the Company;
- The nature and time commitment involved in any other appointments held.

The Board considers that each Non-Executive Director has contributed an appropriate amount of time during the year.

Non-Executive Directors, including the Chair, are appointed for an initial period of three years. It is the Company's policy of tenure to review individual appointments after six years of service to consider the factors above in determining whether the Non-Executive Director is still independent and fulfils the role. However, we do not consider it necessary to mandatorily replace a Director, including the Chair, after a predetermined period of tenure.

Pursuant to the Articles of Association of the Company, at every AGM of the Company, one third of the Non-Executive Directors who are subject to the requirement to retire by rotation (not including any Non-Executive Director who was appointed by the Board since the last AGM and is standing for election) will retire from office and may offer themselves for re-election. However, notwithstanding the provisions of the Articles, all the Non-Executive Directors will offer themselves for re-election at each AGM in accordance with the provisions of the AIC Code.

Policy on tenure and succession planning continued

Succession planning

The Directors have a duty to ensure the long-term success of the Company, which includes ensuring that we have an established succession plan for Board changes. The Committee considers succession planning on a regular basis to ensure that changes to the Board are proactively planned and coordinated where possible.

Over the last 18 months the Committee has led two selection and appointment processes for new Non-Executive Directors, as both I and Matthew Thorne approached our ninth year on the Board. Odgers Berntson, an independent, external executive search consultancy with no connection with the Company or individual directors, provided assistance to the Committee for each recruitment process and as part of each process was made aware of the Board's approach to diversity.

Chair Designate

Elizabeth McMeikan, as SID, and Chris Ireland conducted the process for recruiting the Chair Designate and I was not involved. Key components of the Committee's specification was that a new Chair has:

- Substantial board experience. including listed companies and corporate governance;
- Prior experience and understanding of the externally managed investment company model;
- Experience of growing a business, including a strategic broadening of the investor base;
- Expertise in investment fund management and wealth management;
- Mergers and acquisitions experience;
- Some experience of commercial property; and
- Experience of the transition-related requirements, risks and opportunities relating to moving to a greener economy and how that impacts real estate.

Audit and Risk Committee Chair

Elizabeth McMeikan and I conducted the process for recruiting the Audit and Risk Committee Chair. The key component of our specification was an extensive Audit and Risk Committee Chair experience and an understanding of the property sector.

Following satisfactory conclusion of thorough due diligence and referencing processes, the Committee unanimously recommended Malcolm Cooper and David MacLellan's appointments to the Board with effect from 6 June 2022 and 9 May 2023 respectively.

Induction

The Company provides new Directors with a comprehensive and tailored induction process which includes meetings with the Company's audit partner and corporate lawyer, together with meetings with Investment Manager key personnel and the Directors individually.

The induction programme is managed by the Company Secretary and approved by the Chair of the Committee. New Directors are also provided with external training that addresses their role and duties as a Director of a quoted public company.

Diversity policy

The Committee is conscious of increased stakeholder focus on diversity and understands a diverse Board brings constructive challenge and fresh perspectives to discussions.

The Committee also follows the AIC Code of Corporate Governance which recommends:

- The Board has a combination of skills, experience and knowledge; and
- Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

The Company complied with these recommendations during the year.

The Board supports the overall recommendations of the FTSE Women Leaders Review and Parker Reviews for appropriate gender and ethnic diversity. During the year the FCA has introduced "comply or explain" targets of:

- At least 40% of the Board should be women;
- At least one of the senior Board positions (Chair, Chief Executive Officer, Chief Financial Officer or SID) should be a woman; and
- At least one member of the Board should be from a minority ethnic background.

The Board's positive approach to diversity means that, where possible, each time a Director is recruited at least one of the shortlist candidates is female and at least one of the shortlist candidates is from a minority ethnic background. Custodian Property Income REIT is an investment company with no Executive Directors and a small Board compared to equivalent size listed trading companies. As a result, the Company does not comply with the newly introduced diversity targets.

The Company's Board contains two females which, following David Hunter's retirement, will represent 33%. Elizabeth McMeikan acts as the SID. No Directors are from a minority ethnic background.

During the recruitment process for the Chair designate a number of female candidates and one candidate from a minority ethnic background were interviewed. David MacLellan was appointed on 9 May 2023 and is a white male. The appointment of David MacLellan was made based on his skillset and experience described above.

Diversity policy continued

The Committee considers diversity in a broad sense, not limited to gender or ethnicity, including socio-economic background and education. 14% of the Board at the year-end are from working class backgrounds[41] and 57% attended state-run schools. This information has been collected by self-disclosure directly from the individuals concerned.

The Board is aware of the diversity offered by the Investment Management team, which has a 33% ethnic minority representation and is 33% female.

Approval

This report was approved by the Committee and signed on its behalf by:

David Hunter
Chair of the Nominations Committee
14 June 2023

41. As defined by the Social Mobility Commission.

REMUNERATION REPORT

Responsibilities

The Board is responsible for:

- Setting the Remuneration Policy for all the Directors taking into account relevant legal and regulatory requirements and the provisions and recommendations of the AIC Code;
- Reviewing the ongoing appropriateness and relevance of the Remuneration Policy; and
- Within the terms of the agreed policy, determining the individual remuneration of each Director, taking into account information about remuneration in other companies of comparable scale and complexity.

Directors and officers

The Non-Executive Directors and Company Secretary are the only officers of the Company. The Company Secretary is engaged under the terms of the IMA with the Investment Manager. The Company has no employees.

Under the terms of their appointment, each Director is required to retire by rotation and seek re-election at least every three years. The Company's Articles require one third of Directors to retire and seek re-election each year. However, notwithstanding the provisions of the Articles, all the Non-Executive Directors will offer themselves for re-election at each AGM in accordance with the provisions of the AIC Code.

Remuneration Policy

The Company's objective is to have a simple and transparent remuneration structure, aligned with the Company's strategy and be comparable with similar companies. The Company offers Directors, including any new Directors, an annual fee with no pension contributions, allowances or variable elements. Directors are engaged under Letters of Appointment (rather than service contracts with the Company), which do not allow for any payments on the termination of office. Each Director's appointment under their respective Letter of Appointment is terminable immediately by either party (the Company or the Director) giving written notice. Letters of Appointment are kept available for inspection at the Company's registered office.

The Remuneration Policy was approved at the AGM held on 31 August 2022 with 99.98% of votes cast for the resolution, 0.02% of votes cast against the resolution with 22,539 votes withheld.

During the year, the Board reviewed the Company's remuneration policy, which is designed to attract, retain and motivate Non-Executive Directors with the skills and experience necessary to maximise shareholder value on a long-term basis, and determined that it remains fit for purpose. The Board has determined that the Remuneration Policy has operated as intended.

There have been no major decisions, substantial changes or discretion applied relating to Directors' remuneration during the year, other than the fees payable to the Directors for the forthcoming financial year.

The Remuneration Policy has been prepared in accordance with Schedule 8 of The Large and Medium-sized Companies and Group's (Accounts and Reports) Regulations 2008 ("the Regulations") as amended in August 2013, the Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019, the Companies (Miscellaneous Reporting) Regulations 2018 and with the AIC Code.

The Board takes into account any views in respect of Directors' remuneration expressed by shareholders in the formulation of the Remuneration Policy.

REMUNERATION REPORT CONTINUED

Directors' remuneration (audited)

	2023			2022		
	Fees £	Er's NIC £	Total £	Fees £	Er's NIC £	Total £
David Hunter	60,000	8,217	68,217	57,500	7,528	65,028
Matthew Thorne*	18,750	2,594	21,344	42,650	5,479	48,129
Ian Mattioli	40,000	5,333	45,333	37,500	4,768	42,268
Hazel Adam	42,250	5,657	47,907	40,000	5,113	45,113
Elizabeth McMeikan	45,000	6,054	51,054	40,000	5,113	45,113
Chris Ireland	42,250	5,657	47,907	40,000	5,113	45,113
Malcolm Cooper**	34,129	4,439	38,568	–	–	–
	282,379	37,951	320,330	257,650	33,114	290,764

* Matthew Thorne retired as a Director on 31 August 2022.
** Malcolm Cooper was appointed to the Board on 6 June 2022.

In February 2023 the Board reviewed Directors' remuneration against comparable entities taking into account the performance of the Company, the nature of each Directors' duties, their responsibilities and the time spent discharging their duties during the year. The Board was provided with suitable fee benchmarking information by Ellason LLP, an external consultancy with no connection with the Company or individual directors. As a result the Board approved the following annual fees with effect from 1 April 2023: David Hunter – £70,000; Malcolm Cooper – £47,250, Elizabeth McMeikan – £47,250, Chris Ireland – £44,250; Hazel Adam – £44,250; and Ian Mattioli – £42,000. David MacLellan was appointed to the Board on 9 May 2023 with an annual fee of £45,000 and is expected to be appointed as Chair on 8 August 2023 following David Hunter's anticipated retirement, at which point his annual fee will increase to £70,000.

At the 2021 AGM shareholders approved increasing the Directors' aggregate remuneration cap contained in the Company's Articles of Association to £300k, subsequently rising with CPI. In February 2022 and 2023 annual CPI was 5.5% and 10.1% respectively, making the 2023 cap £348k and the proposed FY24 pro rata fees are below this limit.

The Board is mindful of the need to attract suitably experienced members and offer candidates competitive levels of remuneration when Board refreshment is required in line with the Company's succession and diversity planning.

No pension benefits accrued to any of the directors during the year (2022: £nil).

The Directors and the key Investment Manager personnel are considered to be the Company's key management personnel defined by IAS 24 'Related Party Disclosures'. The terms and conditions of the IMA and the amounts due to the Investment Manager are set out in Note 19.

Directors' interests (audited)

The Directors had the following interests in the ordinary shares of the Company at 31 March 2023:

	2023		2022	
	No. shares	% holding	No. shares	% holding
David Hunter	39,000	0.01%	29,000	0.01%
Ian Mattioli[42]	6,075,465	1.38%	4,842,451	1.10%
Hazel Adam	19,566	0.00%	–	–
Elizabeth McMeikan	20,400	0.00%	10,400	0.00%
Chris Ireland	50,345	0.01%	25,803	0.01%
Malcolm Cooper	45,000	0.01%	–	–
	6,249,776	1.42%	4,936,654	1.13%

No Director has or has had any interest in any transactions which are or were unusual in their nature or conditions, or significant to the business of the Company and which were affected by the Company or remain in any respect outstanding or unperformed. No loan or guarantee has been granted or provided by any member of the Company for the benefit of any director. There are no restrictions agreed by any Director on the disposal within a certain period of time of their holdings in the Company's securities. Restrictions on other transfers of ordinary shares are set out in the Directors' report. There have been no changes to Directors' interests since the year end.

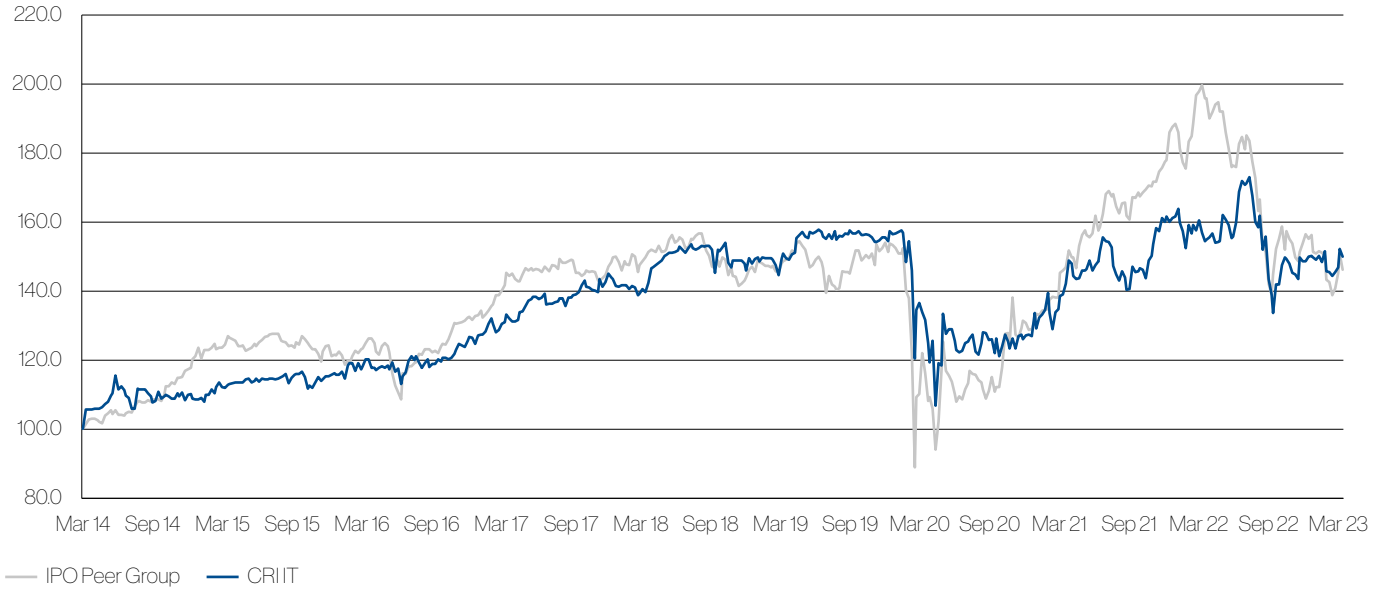
There are no requirements or guidelines for the Directors to own shares in the Company.

Richard Shepherd-Cross and Ed Moore, Managing Director and Finance Director of the Investment Manager, and their immediate families, respectively, own 371,381 and 102,596 shares in the Company.

42. Comprising shares held by Ian, his wife and a charitable trust under his control of 3,923,475 (2022: 2,755,461) and 2,151,990 (2022: 2,086,990) shares held by other persons closely associated.

Total shareholder return

The graph below illustrates the total shareholder return over the period from Admission on 26 March 2014 to 31 March 2023 in terms of the change in value of an initial investment of £100 invested on 26 March 2014 in a holding of the Company's shares against the corresponding total shareholder returns from a hypothetical basket of shares in similar ("peer group") listed property investment companies[43].



Benchmarking performance against the performance of the Company's peers is considered to be the most appropriate method of measuring the Company's relative performance, as required by the Regulations. The performance of the Company relative to its peers is discussed in the Investment Manager's report.

The Companies Act 2006 requires the Auditor to report to the shareholders on certain parts of the Remuneration report and to state whether, in their opinion, those parts of the report have been properly prepared in accordance with the Regulations. The parts of the Remuneration report that are subject to audit are shown in this Report as "audited".

Approval

This report was approved by the Committee and signed on its behalf by:

David Hunter
Chair
14 June 2023

43. The Company's peer group comprises: Balanced Commercial Property Trust Limited, CT Property Trust Limited, Picton Property Income Limited, Schroder Real Estate Investment Trust Limited, abrdn Property Income Trust Limited, UK Commercial Property Trust Limited and Ediston Property Investment Company plc.

DIRECTORS' REPORT

Report and financial statements

The Directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 March 2023. The Governance report forms part of this report. For the purposes of this report, the Directors' responsibilities statement and the Independent auditor's report, the expression 'Company' means Custodian Property Income REIT plc and the expression "Group" means the Company and its subsidiaries.

The Company's principal activity is commercial property investment. The Strategic Report includes further information about the Company's principal activity, financial performance during the year and indications of likely future developments. The trading status of the Company's subsidiaries is shown in Note 12.

Details of significant events since the year end are contained in Note 21 to the financial statements.

The Directors believe they have discharged their responsibilities under section 414C of the Companies Act 2006 to provide a balanced and comprehensive review of the development and performance of the business.

Results and dividends

The Group profit for the year after taxation is set out in the consolidated statement of comprehensive income.

The Company paid a fourth interim dividend of 1.375p per share for the quarter ended 31 March 2023 on 31 May 2023 totalling £6.1m, resulting in total dividends paid during the year of 5.5p per share (2022: 5.625p), totalling £24.2m (2022: £24.2m).

The Company's dividend policy is set out in the Financial review section of the Strategic Report.

The trade and assets of Custodian Real Estate (DROP Holdings) Limited and Custodian Real Estate (DROP) Limited were hived up into the parent company in June 2022 via an intercompany transfer. In November 2022 Custodian Real Estate (DROP Holdings) Limited and Custodian Real Estate (DROP) Limited went through a 'pre-liquidation' exercise which culminated in a non-cash dividend of £28.0m being declared from Custodian Real Estate (DROP Holdings) Limited to the parent company to clear an associated intercompany balance. The declaration of this dividend resulted in a corresponding impairment to the parent company's investment in Custodian Real Estate (DROP Holdings) Limited of £19.1m. Custodian Real Estate (DROP Holdings) Limited and Custodian Real Estate (DROP) Limited were then entered into a solvent liquidation process in December 2022.

Going concern

At 31 March 2023 the Company's forecasts indicate that over the next 12 months:

- The Company has surplus cash to continue in operation and meet its liabilities as they fall due;
- Borrowing covenants are complied with; and
- REIT tests are complied with.

The forecast is subject to sensitivity analysis, which involves flexing a number of key assumptions and judgements included in the financial projections, impacting the following areas:

Covenant compliance

The Company operates loan facilities summarised in Note 16. At 31 March 2023 the Company had significant headroom on lender covenants at a portfolio level with:

- Net gearing of 27.4% compared to a maximum LTV covenant of 35%, with £166.3m (27% of the property portfolio) unencumbered by the Company's borrowings; and
- 122% minimum headroom on interest cover covenants for the quarter ended 31 March 2023.

Reverse stress testing has been undertaken to understand what circumstances would result in potential breaches of financial covenants. While the assumptions applied in these scenarios are possible, they do not represent the Board's view of the likely outturn, but the results help inform the Directors' assessment of the viability of the Company. The testing indicated, assuming no unencumbered properties were charged, that:

- The rate of loss or deferral of contractual rent on the borrowing facility with least headroom would need to deteriorate by 30% from the levels included in the Company's prudent base case forecasts to breach interest cover covenants; or
- At a portfolio level property valuations would have to decrease by 19% from the 31 March 2023 position to risk breaching the overall 35% LTV covenant during both assessment periods.

The Board notes that the February 2023 IPF Forecasts for UK Commercial Property Investment survey suggests an average 0.6% increase in rents during 2023 with capital value decreases of 5.5%. The Board believes that the valuation of the Company's property portfolio will prove resilient due to its higher weighting to industrial assets and overall diverse and high-quality asset and tenant base comprising 161 assets and over 300 typically "institutional grade" tenants across all commercial sectors.

Going concern continued

Liquidity

At 31 March 2023 the Company had:

- £6.8m of cash and £6.5m undrawn RCF (can be increased to £16.5m with Lloyds' consent), with gross borrowings of £173.5m resulting in low net gearing of 27.4%, with no short-term refinancing risk and a weighted average debt facility maturity of six years; and
- An annual contractual rent roll of £42.0m, with interest costs on drawn loan facilities of only c. £6.7m per annum.

The Company's forecast model projects it will have sufficient cash and undrawn facilities to settle its target dividends and its expense and interest liabilities for a period of at least 12 months.

As detailed in Note 16, the Company's Lloyds RCF expires in September 2024 and discussions are underway regarding a renewal. The Board anticipates lender support in agreeing subsequent facilities, and would seek to refinance the RCF with another lender or dispose of sufficient properties to repay it in September 2024 in the unlikely event of lender support being withdrawn.

The Directors consider preparing the financial statements on a going concern basis to be appropriate because the sensitivity headroom set out above indicates that the Company can continue in operation for at least the 12 months from the date of approval of these financial statements.

Taxation

The Group operates as a REIT and hence profits and gains from the property rental business are normally expected to be exempt from corporation tax.

Directors and Officers

A list of the Directors and their short biographies are shown in the Board of Directors and Investment Manager personnel section of the Governance report.

The appointment and replacement of Directors is governed by the Articles, the AIC Code, the Companies Act and related legislation. The Articles themselves may be amended by special resolution of the shareholders.

Directors' fees and beneficial interests in the shares of the Company are disclosed in the Remuneration report. During the year, no Director had a material interest in a contract to which the Company or its subsidiary was a party (other than their own letter of appointment), requiring disclosure under the Companies Act 2006 other than in respect of Custodian Capital Limited and the IMA as disclosed in Note 19 to the financial statements.

On 6 June 2022 Malcom Cooper was appointed as a Director. On 9 May 2023 David MacLellan was appointed as a Director.

Directors' indemnity

All Directors and Officers of the Company have the benefit of a qualifying third-party indemnity provision contained in the Articles, which was in force throughout the year and is currently still in force. The Company also purchased and maintained Directors' and Officers' liability insurance in respect of itself, its Directors and Officers and the Directors and Officers of its subsidiaries as permitted by Section 234 of the Companies Act 2006, although no cover exists in the event Directors or Officers are found to have acted fraudulently or dishonestly.

Conflicts of interest

There are procedures in place to deal with any Directors' conflicts of interest arising under section 175 of the Companies Act 2006 and such procedures have operated effectively.

Donations

No political or charitable donations were made during the year.

Capital structure

The Company's authorised and issued share capital is shown in Note 17 to the financial statements.

The ordinary shares rank pari passu in all respects. Save as may be agreed at each AGM, the ordinary shares have pre-emption rights in respect of any future issues of ordinary shares to the extent conferred by section 561 of the Companies Act 2006.

There are no restrictions on the transfer of ordinary shares in the Company, other than certain restrictions that may be imposed from time to time by laws and regulations and pursuant to the Listing Rules of the FCA and the Company's share dealing code, whereby certain Directors and Officers require approval to deal in ordinary shares of the Company.

The Directors are not aware of any other agreements between holders of securities that may result in restrictions on the transfer of ordinary shares.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles and prevailing legislation. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

Note 17 sets out the Directors' authority to issue shares, pursuant to section 551 of the Companies Act 2006, to satisfy market demand and raise further monies for investment in accordance with the Company's investment policy, and to make market purchases of ordinary shares under section 701 of the Companies Act 2006.

CREST

Custodian Property Income REIT plc share dealings are settled in CREST, the computerised system for the settlement of share dealings on the London Stock Exchange. CREST reduces the amount of documentation required and makes the trading of shares faster and more secure. CREST enables shares to be held in an electronic form instead of traditional share certificates. CREST is voluntary and shareholders can keep their share certificates if they wish. This may be preferable for shareholders who do not trade in shares on a frequent basis.

Substantial shareholdings

At 31 March 2023 the Directors were aware that the following shareholders each owned[44] 3% or more of the issued share capital:

Shareholder	Number of ordinary shares	Percentage holding[45]
BlackRock	22,100,056	5.01%
Mattioli Woods	17,419,102	3.95%

On 5 May 2023 the Company was notified that Mattioli Woods' holding had increased to 17,681,529 (4.01%). On 5 June 2023 the Company was notified that Mattioli Woods' holding had decreased to 17,622,155 (3.99%). No other changes in substantial shareholding were disclosed between 31 March 2023 and 14 June 2023.

Close company provisions

The Company is not a close company within the provisions of the Income and Corporation Taxes Act 1988.

Change of control

The Company has borrowing facilities provided by its bankers which include provisions which may require any outstanding borrowings to be repaid, altered or terminated upon the occurrence of a change of control in the Company.

Related party transactions

Details of related party transactions are given in Note 19 to the financial statements.

Environmental performance and strategy

Custodian Property Income REIT actively monitors the performance of its portfolio and uses this information to develop robust strategies to minimise its environmental impact. This year we have instructed JLL, as our sustainability consultants and advisers, to implement a new centralised data management platform and have continued to collect data to monitor the performance of our property portfolio and improve our understanding of our buildings' performance. This analysis is fundamental for transparency and compliance reporting in alignment to the industry reporting frameworks we adhere to each year, namely EPRA and GRESB.

The following information summarises the Company's environmental performance over the year. Environmental impact includes the consumption of fuels, electricity and water and has been derived from both landlord and tenant obtained consumption data.

GHG emissions

This section has been prepared in accordance with our regulatory obligation to report greenhouse gas ("GHG") emissions pursuant to The Companies (Directors' report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 which implement the Government's policy on SECR.

Data collected relates to the calendar years 2022 and 2021 but has been disclosed as 2023 and 2022 respectively due to the Company's March accounting reference date.

Methodology

We quantify and report our organisational energy consumption and GHG emissions according to the Greenhouse Gas Protocol Corporate Standard (revised edition). As all of the Company's properties are located within the UK, 100% of energy consumption and GHG emissions are applicable to the UK. Consumption data has been collated by our sustainability consultants and converted into carbon dioxide equivalent ("CO_2e") using the International Energy Agency (IEA) Conversion Factors for Company Reporting in order to calculate emissions from corresponding activity data. Due to the delay in the publication of annual emissions factors, a three-year lag is used in the application of emissions factors to ensure that GHG emissions data is continuously available for reporting. We have instructed new sustainability consultants this year to manage our environmental performance data and review our reporting approach. There have been no significant changes to methodology and prior year data has not been restated, but estimation techniques are likely to differ between sustainability consultants and as a result reported numbers are not considered precisely comparable year-on-year.

To collect consumption data, our sustainability consultants have contacted the Company's tenants and managing agents to request the provision of data for their properties. Creating strong relationships with property managers and tenants is key for generating good data flows and we are actively working on strengthening these to enhance our data coverage in the future. 'Landlord obtained' refers to instances where we are responsible for the consumption/emissions of utilities in our buildings and maintain control, whereas tenant obtained refers to instances where tenants are responsible, either procuring their own utilities or via submetering from landlord obtained supplies. Landlord obtained energy corresponds to our direct Scope 1 and 2 GHG emissions which are directly attributable to our operations, whereas tenant obtained refers to Scope 3 GHG emissions which are indirect to our own activities and instead relate to those of our tenants.

44. Ownership incorporates the control of voting rights through acting as discretionary investment manager on behalf of retail investors holding the beneficial interest.
45. Based on the issued share capital on 31 March 2023.

GHG emissions continued

Performance

The Company monitors and reports on environmental KPI targets quarterly (internally) and annually (externally). Monitoring our performance quarterly allows the business to assess and improve our performance and implement a range of initiatives, including energy efficiency, green energy procurement, tenant engagement and ESG due diligence. The ESG Committee was formed in 2021 and continues to maintain the Company's robust environmental governance structure; monitoring overall progress towards these KPI targets and ensuring the Investment Manager seeks to identify new opportunities to further embed sustainability across the portfolio. The key responsibilities of the ESG Committee are set out in the ESG Committee report.

The table below shows absolute energy consumption for the past two years. Absolute consumption increases have been primarily a result of property acquisitions and may also reflect differences in data estimation techniques.

Absolute energy consumption (MWh)		**2023**	2022
Fuels	Landlord obtained	**1,755**	502
	Tenant obtained	**30,260**	4,501
		32,015	5,003
Electricity	Landlord obtained	**2,336**	1,021
	Tenant obtained	**65,397**	6,601
		67,733	7,622
		99,748	12,625
Total fuels and electricity	Landlord obtained	**4,091**	1,523
	Tenant obtained	**95,657**	11,102
		99,748	12,625

Absolute consumption includes tenant consumption from assets that are not managed by us directly. This year the return of data by tenants (excluding information obtained directly from smart meters) was lower than in previous years with information received from tenants in nine assets (2022: 34 assets) covering 31k sq m (2022: 75k sq m) of floor area representing 1% (2022: 18%) of the portfolio's floor area, which also contributed to apparent significant changes in consumption. We are continuing to work hard to improve response rates to ensure these disclosures give the best available insight into overall consumption.

We began installing smart meters during the year which by 31 March 2023 provided absolute energy consumption data covering 19% of the Company's floor area, but which will only be captured in the SECR disclosures next year.

Reporting boundaries and limitations

The GHG sources that constitute our operational boundary for the reporting period in this disclosure are aligned with our financial reporting boundary, and are as follows:

- Scope 1: Natural gas combustion within boilers, gas oil combustion within generators, road fuel combustion within owned and leased vehicles, and fugitive emissions from refrigerants in air-conditioning equipment
- Scope 2: Purchased electricity consumption for our own use
- Scope 3: Water consumption, and any natural gas and electricity consumption from tenants

Of the Company's entire property portfolio, our environmental data covers 4% of the total floor area (combined landlord and tenant data), compared to last year's total coverage of 18%. Despite ongoing efforts, obtaining tenant data continues to remain a challenge. This year we have transferred our data to a new data management platform, and we believe this will help to improve tenant data coverage in the future by enabling data automation where possible. We recognise the need for accurate data and are actively working with our sustainability consultants to improve these figures. We aim to obtain more data as we strengthen our relationships with tenants with more transparent communications and create a streamlined plan with property managers for collecting data quarterly.

One of our targets is to engage with our tenants on a quarterly basis on ESG issues, which will be fundamental to improving the data coverage of our portfolio, helping us to identify key opportunities to minimise our environmental impact and work collaboratively with tenants to improve the performance of assets.

GHG emissions continued

Assumptions and estimations

In instances where data is missing or unavailable, estimations have been applied. Different estimation methodologies are applied dependent on whether the data is missing (e.g. one month of the year) or unavailable (e.g. data we were not able to obtain). For missing data, we estimate based on historical data and figures from other months throughout the year. For data that was unavailable, we use benchmarking factors recommended by the Carbon Risk Real Estate Monitor ("CRREM") tool and floor area. We have maintained detailed records of all instances of estimation, which are stored within our internal records.

The table below shows absolute performance for both landlord and tenant obtained consumption for electricity and subsequently carbon, which is clearly shown in each relevant section of the below table. We report gas and water consumption on a whole building basis:

Absolute GHG emissions (tCO_2e)		**2023**	2022
Scope 1	Landlord fuel consumption (MWh)	**1,755**	502
	GHG emissions	**433**	92
Scope 2 (location-based)	Landlord electricity consumption (MWh)	**2,336**	1,021
	GHG emissions	**98**	222
	Total Scope 1 and 2 emissions (location-based)	**530**	314
	Scope 1 and 2 (location-based) emissions intensity ($kgCO_2e/m^2/yr$)	**1.08**	0.06
Scope 3	Tenant fuel consumption (MWh)	**30,260**	4,501
	Tenant electricity consumption (MWh)	**65,397**	6,601
	Water consumption (dam^3)	**297.2**	8.4
	Total Scope 3 emissions	**17,270**	2,554
	Scope 3 emissions intensity ($tCO_2e/m^2/yr$)	**0.37**	0.03
	Gross Scope 1, 2 and 3 emissions (location-based)	**17,800**	2,764

The emissions intensity calculation is based upon the floor area metrics available relative to the Scope 1, 2 and 3 emissions. As the Company is a REIT, primarily investing in real estate, floor area is an appropriate denominator to normalise energy consumption and GHG emissions as an intensity metric and is consistent with the SECR guidelines for the property sector.

Overall, our absolute emissions for Scope 1 and 2 (location-based) have increased from 2022 to 2023 due to an increase in both fuel and electricity consumption, and our absolute emissions for Scope 3 have increased due to increased tenant electricity consumption. Our Scope 3 emissions includes landlord water emissions, as well as our tenant consumption emissions.

Energy efficiency action

During the year, the Company has continued to take action to increase energy efficiency across the property portfolio. A summary of actions taken is detailed below, with further details in the 2023 ESG Report.

- Smart meters – installed at 18 sites, reaching 19% floor area coverage.
- EV charging – capacity expanded, with six twin 7kW chargers installed between late 2022 and early 2023. This takes our non-public facing total to 17x 7kW chargers, totalling 119kW of chargers installed in offices, with a further nine chargers (105kW) in the pipeline. Our Redditch and Winsford sites will benefit these installations, facilitating and promoting more sustainable transport choices.
- Onsite renewables – rooftop solar arrays installed at Redditch and Winsford to generate renewable electricity, and replaced carbon intensive gas boilers with an air source heat pump at Winsford.
- Lighting upgrades – installed energy efficient LEDs in the warehouse and office spaces at Redditch and Winsford, which will help to reduce our operational energy consumption.

Financial risk management

The Company's financial risk management is based upon sound economic objectives and good corporate practice. The Board has overall responsibility for risk management and internal control, with the assistance of the Audit and Risk Committee. The Board's process for identifying and managing risks is set out in more detail in the Governance report.

Since Admission, the Company has sought to manage financial risk to ensure sufficient liquidity is available to meet its identifiable needs and to invest cash assets safely and profitably. Short-term flexibility is achieved through the use of bank facilities. The Company does not undertake any trading activity in financial instruments. All activities are transacted in pounds sterling. The Company does not engage in any hedging activities.

The Company reviews the credit quality of potential tenants and limits credit exposures accordingly. All trade receivables are subject to credit risk exposure. However, there is no specific concentration of credit risk as the amounts recognised represent income from a wide range of the Company's tenants.

The Company's financial risk management policy is further detailed in Note 20 to the financial statements.

Auditor

Deloitte, which has been the Company's auditor since 20 May 2014, has confirmed its willingness to continue in office as auditor in accordance with Section 489 of the Companies Act 2006. The Group is satisfied that Deloitte is independent and there are adequate safeguards in place to safeguard its objectivity. A resolution to reappoint Deloitte as the Group's auditor will be proposed at the forthcoming AGM.

Directors' statement as to disclosure of information to the auditor

The Directors who were members of the Board at the time of approving the Directors' report are listed in the Governance report. Having made enquiries of fellow Directors and of the Company's auditor, each of these Directors confirms that:

- To the best of each Director's knowledge and belief, there is no relevant audit information of which the Company's auditor is unaware; and
- Each Director has taken all steps they might reasonably be expected to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Annual General Meeting

The AGM of the Company will be held on 8 August 2023 at 10:00am. The results of the meeting will be published on the Company's website following the meeting.

At the AGM the votes will be dealt with on a poll, using the proxy votes submitted prior to the meeting. Every member entitled to vote shall have one vote for every ordinary share held. None of the ordinary shares carry any special voting rights with regard to control of the Company. The Notice of AGM specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be passed at the AGM. The relevant proxy votes are counted and the number for, against or withheld in relation to each resolution will be published on our website following the AGM.

Engagement with suppliers, customers and others

The Company's approach to engagement with suppliers, customers and other stakeholders is set out in the s172 statement and stakeholder relationships section of the Strategic Report.

Events since 31 March 2023

Details of significant events occurring after the end of the reporting year are given in Note 21 to the financial statements.

Approval

This Directors' report was approved by the Board of Directors and signed on its behalf by:

David Hunter
Chair
14 June 2023

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with United Kingdom adopted international accounting standards. The Directors have also chosen to prepare the parent company financial statements under United Kingdom adopted international accounting standards. The financial statements also comply with International Financial Reporting Standards (IFRSs) as issued by the IASB. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- The Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- The Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Approval

This responsibility statement was approved by the Board of Directors and is signed on its behalf by:

David Hunter
Chair
14 June 2023

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CUSTODIAN PROPERTY INCOME REIT PLC

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of Custodian Property Income REIT plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2023 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- the parent company financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated statement of comprehensive income;
- the consolidated and parent company's statements of financial position;
- the consolidated and parent company's statements of cash flows;
- the consolidated and parent company's statements of changes in equity; and
- the related notes 1 to 22.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law, United Kingdom adopted international accounting standards and IFRSs as issued by the IASB. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006.

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CUSTODIAN PROPERTY INCOME REIT PLC CONTINUED

3. Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was: • Valuation of investment property. Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the group financial statements was £9.8m which was determined on the basis of 1.5% of gross assets. We have also used a lower materiality for items impacting EPRA earnings of £1.9m which was determined on the basis of 8% of EPRA earnings.
Scoping	The group audit team performed full scope audit procedures on the parent company and review procedures on its trading component up to the date of hive up to the parent company. Full scope audit procedures cover 98% of the group's revenue and 100% of the group's net assets.
Significant changes in our approach	There have been no significant changes in our approach.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- testing the clerical accuracy of the model used to prepare the going concern forecasts;
- assessing the historical accuracy of forecasts prepared by management and actual performance in the subsequent period;
- agreeing the available financing facilities to underlying agreements and assessing the accuracy of covenant calculation forecasts performed by management;
- assessing the accuracy of the REIT regime calculation forecasts performed by management;
- assessing the reasonableness of management's reverse-stress testing; and
- assessing the appropriateness of disclosures made in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1 Valuation of investment property

Key audit matter description	The group's principal activity is to invest in commercial properties and secure income from the tenants of those properties. As disclosed in Note 10 the group's investment property portfolio is valued at £613.6.2m as at 31 March 2023 (2022: £665.2m). The group's accounting policy in Note 2 states that investment property is held at fair value and Note 2.4 describes key judgements made in the valuation of investment properties. Valuation of investment property is an area of judgement which could materially affect the financial statements. The valuations were carried out by third party valuers and advisers. The valuers and advisers were engaged by those charged with governance and performed their work in accordance with the Royal Institute of Chartered Surveyors (RICS) Valuation – Professional Standards. In determining the fair value, the external valuers make a number of key estimates and significant assumptions, in particular assumptions in relation to market comparable yields and estimates in relation to future rental income increases or decreases. Certain of these estimates and assumptions require input from management. Estimates and assumptions are subject to market forces and will change over time. The estimation of yields and estimated rental values (ERVs) in the property valuation is a significant judgement area, underpinned by a number of assumptions relating to the size and location of the property as well as certain attributes of the lease. Given the high level of judgement involved, we determined that there was a potential for possible manipulation of these key inputs to the valuation. The inherent subjectivity in relation to estimation of yields and ERVs, coupled with the fact that only a small percentage difference in individual property valuations, when aggregated, could result in a material misstatement on the Statement of Comprehensive Income and the Statement of Financial Position, warrants specific audit focus in this area and we have considered it as a key audit matter. The Audit and Risk Committee report on pages 52 to 54 discloses this as a primary area of judgement.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over the valuation process, including assessing management's process and control for reviewing and challenging the work of the external valuers. Our work included consideration of management's experience and knowledge to undertake these activities. With the involvement of our real estate specialists, we identified items subject to further testing by performing an analytical procedure over the whole population and identifying properties with unexpected movements; we also met with the third party valuers and advisers appointed by those charged with governance with the aim of challenging the valuation methodology adopted. We assessed the competence, capability and objectivity of the external valuers and read their terms of engagement with the group to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations on their work. We assessed and challenged the reasonableness of the significant judgments and assumptions applied in the valuation model for each property in our sample, focusing in particular on the yields and ERVs assumed and assessing the sensitivity of the valuation to changes in assumptions. We assessed the completeness and accuracy of the data provided by the group to the valuers for the purposes of their valuation exercise. With the involvement of our specialists, we reviewed the significant assumptions in the valuation process, tested a sample of properties by benchmarking against external appropriate property indices, and understood the valuation methodology and the wider market analysis. We reviewed the information provided by the valuers, both in the meetings and contained in the detailed valuation report, and undertook our own research into the relevant markets to evaluate the reasonableness of the valuation inputs and the resulting fair values. We have also tested the integrity of the model which is used by the external valuers. We also considered the adequacy of the group's disclosures around the degree of the estimation and sensitivity to key assumptions made when valuing these properties.
Key observations	The results of our tests were satisfactory and we concluded that the key assumptions applied in determining the property valuations were appropriate. Based on the work performed we concluded that the valuation of investment property is appropriate.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CUSTODIAN PROPERTY INCOME REIT PLC CONTINUED

6. Our application of materiality

6.1 Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£9.8m (2022: £10.5m)	£9.8m (2022: £9.8m)
Basis for determining materiality	1.5% of gross assets (2022: 1.5% of gross assets) for the Statement of financial position testing. This percentage takes into account our knowledge of the group and parent company, our assessment of audit risks and the reporting requirements for the financial statements.	
Rationale for the benchmark applied	We have used the gross assets value as at 31 March 2023 as the benchmark for determining materiality, as this benchmark is deemed to be one of the key drivers of business value, and is a critical component of the financial statements and is a focus for users of those financial statements for property companies. In addition to gross assets, we consider EPRA earnings as a critical performance measure for the group that is applied to underlying earnings. We have also benchmarked these percentages and our approach to materiality to other listed REITs based on information publicly disclosed in the audit reports and found them to be consistent.	

A lower materiality of £1.9m (2022: £2.0m) which was determined on the basis of 8% (2022: 8%) EPRA earnings was used for amounts in the statement of comprehensive income. We consider EPRA earnings to be the most appropriate benchmark due to it being one of the key focus areas for both investors and management. Refer to note 22 for a reconciliation to IFRS earnings.

6.2 Performance Materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	70% (2022: 70%) of group and parent company materiality	
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: 1. our cumulative knowledge of the group and its environment, including industry wide pressure on valuation of property portfolio; and 2. our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.	

6.3 Error reporting threshold

We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £489,000 (2022: £525,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1 Identification and scoping of components

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. All audit work to respond to the risks of material misstatement was performed directly by the group audit engagement team.

The majority of the group's operations sit with the parent company. While the parent company has held a number of subsidiaries, typically acquired as part of property acquisitions, the parent company only had one inactive subsidiary at year end. The sole trading subsidiary in the year was hived-up into the parent company during the year and other entities have either been dissolved or are in the process of being dissolved. Our audit approach therefore focused principally on the parent company, over which we carried out a full scope audit, giving coverage of 98% of group revenue and 100% of the group's assets. We performed analytical procedures on all other components.

7.2 Our consideration of the control environment

The group outsources its investment management and administration functions to Custodian Capital Ltd (also referred to as the 'Investment Manager'). In performing our audit, we obtained an understanding of the relevant controls at Custodian Capital Ltd in relation to key business processes as well as IT systems that were relevant to the audit. This work included testing the operating effectiveness of controls over revenue.

7.3 Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the group's business and its financial statements.

The group continues to develop its assessment of the potential impacts of climate change, as explained in the ESG Committee Report on pages 20 to 25. As a part of our audit we have obtained management's climate-related risk assessment within the risk register and held discussions with management to understand the impact of climate matters on the group's financial statements.

7.3 Our consideration of climate-related risks continued

Management has assessed that there is currently no material impact arising from climate change on the judgements and estimates determining the valuations within the financial statements. We performed our own assessment of the potential impact of climate change on the group's account balances and classes of transactions, and did not identify any additional risks of material misstatement. Our procedures also included reading disclosures included in the strategic report to consider whether they are materially consistent with the financial statements and our knowledge obtained in the audit.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.	We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

10. Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1 Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the group's own assessment of the risks that irregularities may occur either as a result of fraud or error that was approved by the board on 23 May 2023;
- results of our enquiries of management, internal audit, the Investment Manager and the Audit and Risk Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including real estate specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CUSTODIAN PROPERTY INCOME REIT PLC CONTINUED

11.1 Identifying and assessing potential risks related to irregularities continued

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: valuation of investment property. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules and REIT legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty.

11.2 Identifying and assessing potential risks related to irregularities

As a result of performing the above, we identified valuation of investment property as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit and Risk Committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance and reviewing internal audit reports;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on pages 62 to 63;
- the directors' explanation as to its assessment of the group's prospects, the period this assessment covers and why the period is appropriate set out on pages 34 to 35;
- the directors' statement on fair, balanced and understandable set out on page 68;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 30;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 30; and
- the section describing the work of the Audit and Risk Committee set out on pages 52 to 54.

14. Matters on which we are required to report by exception

14.1 Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion: • we have not received all the information and explanations we require for our audit; or • adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or • the parent company financial statements are not in agreement with the accounting records and returns.	We have nothing to report in respect of these matters.

14.2 Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.	We have nothing to report in respect of these matters.

15. Other matters which we are required to address

15.1 Auditor tenure

Following the recommendation of the Audit and Risk Committee, we were appointed by the shareholders in 2014 to audit the financial statements for the year ending 24 March 2014 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 10 years, covering the years ending 24 March 2014 to 31 March 2023. As noted on page 54, the Audit and Risk Committee re-tendered the 2024 external audit during the year, and recommended the reappointment of Deloitte LLP as external auditor for a further term.

15.2 Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

16. Use of our report

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

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.14R, these financial statements form part of the European Single Electronic Format (ESEF) prepared Annual Financial Report filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditor's report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

James Wright (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
15 June 2023

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2023

		Group		Company	
	Note	**Year ended 31 March 2023 £000**	Year ended 31 March 2022 £000	**Year ended 31 March 2023 £000**	Year ended 31 March 2022 £000
Revenue	4	**44,147**	39,891	**43,347**	38,490
Investment management		**(3,880)**	(3,854)	**(3,880)**	(3,782)
Operating expenses of rental property					
– rechargeable to tenants		**(3,526)**	(852)	**(3,526)**	(852)
– directly incurred		**(3,530)**	(3,422)	**(3,242)**	(3,174)
Professional fees		**(911)**	(617)	**(911)**	(579)
Directors' fees		**(318)**	(291)	**(318)**	(291)
Other expenses		**(822)**	(776)	**(819)**	(774)
Depreciation		**(112)**	–	**(112)**	–
Expenses		**(13,099)**	(9,812)	**(12,808)**	(9,452)
Operating profit before (loss)/profit on investment property, financing and Group reorganisations		**31,048**	30,079	**30,539**	29,038
Unrealised (loss)/profit on revaluation of investment property:					
– relating to property revaluations	10	**(91,551)**	93,977	**(91,840)**	86,656
– relating to costs of acquisition	10	**(3,426)**	(2,273)	**(3,426)**	(2,273)
Valuation (decrease)/increase		**(94,977)**	91,704	**(95,266)**	84,383
Profit on disposal of investment property		**4,368**	5,369	**4,368**	5,369
Net (loss)/profit on investment property		**(90,609)**	97,073	**(90,898)**	89,752
Operating (loss)/profit before financing and Group reorganisations		**(59,561)**	127,152	**(60,359)**	118,790
Finance income	6	**22**	–	**22**	–
Finance costs	7	**(6,282)**	(4,827)	**(6,105)**	(4,615)
Net finance costs		**(6,260)**	(4,827)	**(6,083)**	(4,615)
(Loss)/profit before Group reorganisations		**(65,821)**	122,325	**(66,442)**	114,175
Impairment of investments on receipt of dividends from Group companies	12	**–**	–	**(22,538)**	–
Dividends received from Group companies	12	**–**	–	**31,384**	–
Other		**–**	–	**(75)**	–
Net income from Group reorganisations	12	**–**	–	**8,771**	–
(Loss)/profit before tax		**(65,821)**	122,325	**(57,671)**	114,175
Income tax expense	8	**–**	–	**–**	–
(Loss)/profit for the year and total comprehensive income for the year, net of tax		**(65,821)**	122,325	**(57,671)**	114,175
Attributable to:					
Owners of the Company		**(65,821)**	122,325	**(57,671)**	114,175
Earnings per ordinary share:					
Basic and diluted (p)	3	**(14.9)**	28.5		
EPRA (p)	3	**5.6**	5.9		

The profit for the year arises from continuing operations.

CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION AS AT 31 MARCH 2023

		Group		Company	
	Note	**31 March 2023 £000**	31 March 2022 £000	**31 March 2023 £000**	31 March 2022 £000
Non-current assets					
Investment property	10	**613,587**	665,186	**613,587**	616,211
Property, plant and equipment	11	**1,113**	–	**1,113**	–
Investments	12	**–**	–	**–**	22,538
Total non-current assets		**614,700**	665,186	**614,700**	638,749
Current assets					
Trade and other receivables	13	**3,748**	5,201	**3,748**	3,365
Cash and cash equivalents	15	**6,880**	11,624	**6,880**	9,217
Total current assets		**10,628**	16,825	**10,628**	12,582
Total assets		**625,328**	682,011	**625,328**	651,331
Equity					
Issued capital	17	**4,409**	4,409	**4,409**	4,409
Share premium	17	**250,970**	250,970	**250,970**	250,970
Merger reserve	17	**18,931**	18,931	**18,931**	18,931
Retained earnings	17	**163,259**	253,330	**163,259**	245,180
Total equity attributable to equity holders of the Company		**437,569**	527,640	**437,569**	519,490
Non-current liabilities					
Borrowings	16	**172,102**	113,883	**172,102**	113,883
Other payables		**570**	570	**570**	570
Total non-current liabilities		**172,672**	114,453	**172,672**	114,453
Current liabilities					
Borrowings	16	**–**	22,727	**–**	–
Trade and other payables	14	**7,666**	9,783	**7,666**	10,985
Deferred income		**7,421**	7,408	**7,421**	6,403
Total current liabilities		**15,087**	39,918	**15,087**	17,388
Total liabilities		**187,759**	154,371	**187,759**	131,841
Total equity and liabilities		**625,328**	682,011	**625,328**	651,331

These consolidated and Company financial statements of Custodian Property Income REIT plc were approved and authorised for issue by the Board of Directors on 14 June 2023 and are signed on its behalf by:

David Hunter
Chair

CONSOLIDATED AND COMPANY STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2023

		Group		Company	
	Note	**Year ended 31 March 2023 £000**	Year ended 31 March 2022 £000	**Year ended 31 March 2023 £000**	Year ended 31 March 2022 £000
Operating activities					
Profit for the year		**(65,821)**	122,325	**(57,671)**	114,175
Net finance costs		**6,260**	4,827	**6,083**	4,615
Valuation decrease/(increase) of investment property	10	**94,977**	(91,704)	**95,266**	(84,383)
Impact of rent free	10	**(1,677)**	(1,112)	**(1,690)**	(1,157)
Net income from group reorganisations	12	**–**	–	**(8,771)**	–
Amortisation of right-of-use asset		**8**	7	**8**	7
Profit on disposal of investment property		**(4,368)**	(5,369)	**(4,368)**	(5,369)
Depreciation		**112**	–	**(112)**	–
Cash flows from operating activities before changes in working capital and provisions		**29,491**	28,974	**28,969**	27,888
Decrease in trade and other receivables		**2,954**	1,923	**4,349**	2,636
(Decrease)/increase in trade and other payables and deferred income		**(2,104)**	1,702	**(1,559)**	1,180
Cash generated from operations		**30,341**	32,599	**31,759**	31,704
Interest and other finance charges		**(6,072)**	(4,463)	**(5,918)**	(4,279)
Net cash inflows from operating activities		**24,269**	28,136	**25,841**	27,425
Investing activities					
Purchase of investment property		**(52,603)**	(21,529)	**(52,603)**	(21,529)
Capital expenditure and development		**(11,333)**	(3,515)	**(11,333)**	(3,510)
Acquisition costs		**(3,426)**	(2,272)	**(3,426)**	(2,272)
Purchase of property, plant and equipment		**(1,225)**	–	**(1,225)**	–
Disposal of investment property		**28,767**	54,403	**28,767**	54,403
Costs of disposal of investment property		**(237)**	(479)	**(237)**	(479)
Interest and finance income received	6	**22**	–	**22**	–
Loan to subsidiaries		**–**	–	**(23,228)**	–
Cash acquired through the hive up of DRUM REIT		**–**	–	**835**	–
Net cash (outflows)/inflows from investing activities		**(40,035)**	26,608	**(62,428)**	26,613
Financing activities					
Proceeds from the issue of share capital	17	**–**	558	**–**	558
Costs of the issue of share capital		**–**	(51)	**–**	(51)
New borrowings	16	**58,500**	–	**58,500**	–
Repayment of borrowings and origination costs	16	**(23,228)**	(25,057)	**–**	(25,057)
Dividends paid	9	**(24,250)**	(24,191)	**(24,250)**	(24,191)
Net cash inflow/(outflow) from financing activities		**11,022**	(48,741)	**34,250**	(48,741)
Net (decrease)/increase in cash and cash equivalents		**(4,744)**	6,003	**(2,337)**	5,297
Cash acquired through the acquisition/hive up of DRUM REIT		**–**	1,701	**–**	–
Cash and cash equivalents at start of the year		**11,624**	3,920	**9,217**	3,920
Cash and cash equivalents at end of the year		**6,880**	11,624	**6,880**	9,217

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2023

	Note	Issued capital £000	Merger reserve £000	Share premium £000	Retained earnings £000	Total equity £000
As at 31 March 2021		4,201	–	250,469	155,196	409,866
Profit for the year		–	–	–	122,325	122,325
Total comprehensive income for year		–	–	–	122,325	122,325
Transactions with owners of the Company, recognised directly in equity						
Dividends	9	–	–	–	(24,191)	(24,191)
Issue of share capital	17	208	18,931	501	–	19,640
As at 31 March 2022		4,409	18,931	250,970	253,330	527,640
Loss for the year		–	–	–	(65,821)	(65,821)
Total comprehensive loss for year		–	–	–	(65,821)	(65,821)
Transactions with owners of the Company, recognised directly in equity						
Dividends	9	–	–	–	(24,250)	(24,250)
Issue of share capital	17	–	–	–	–	–
As at 31 March 2023		**4,409**	**18,931**	**250,970**	**163,259**	**437,569**

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2023

	Note	Issued capital £000	Merger reserve £000	Share premium £000	Retained earnings £000	Total equity £000
As at 31 March 2021		4,201	–	250,469	155,196	409,866
Profit for the year		–	–	–	114,175	114,175
Total comprehensive income for year		–	–	–	114,175	114,175
Transactions with owners of the Company, recognised directly in equity						
Dividends	9	–	–	–	(24,191)	(24,191)
Issue of share capital	17	208	18,931	501	–	19,640
As at 31 March 2022		4,409	18,931	250,970	245,180	519,490
Loss for the year		–	–	–	(57,671)	(57,671)
Total comprehensive loss for year		–	–	–	(57,671)	(57,671)
Transactions with owners of the Company, recognised directly in equity						
Dividends	9	–	–	–	(24,250)	(24,250)
Issue of share capital	17	–	–	–	–	–
As at 31 March 2023		**4,409**	**18,931**	**250,970**	**163,259**	**437,569**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023

1. Corporate information

The Company is a public limited company incorporated and domiciled in England and Wales, whose shares are publicly traded on the London Stock Exchange plc's main market for listed securities. The consolidated and parent company financial statements have been prepared on a historical cost basis, except for the revaluation of investment property, and are presented in pounds sterling with all values rounded to the nearest thousand pounds (£000), except when otherwise indicated. The consolidated financial statements were authorised for issue in accordance with a resolution of the Directors on 14 June 2023.

2. Basis of preparation and accounting policies

2.1. Basis of preparation

The consolidated financial statements and the separate financial statements of the parent company have been prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the IASB. The financial statements have also been prepared in accordance with International Financial Reporting Standards as issued by the IASB.

Certain statements in this report are forward-looking statements. By their nature, forward-looking statements involve a number of risks, uncertainties or assumptions that could cause actual results or events to differ materially from those expressed or implied by those statements. Forward-looking statements regarding past trends or activities should not be taken as representation that such trends or activities will continue in the future. Accordingly, undue reliance should not be placed on forward-looking statements.

2.2. Basis of consolidation

The consolidated financial statements consolidate those of the parent company and its subsidiaries. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Custodian Real Estate Limited has a reporting date in line with the Company. All transactions and balances between group companies are eliminated on consolidation, including unrealised gains and losses on transactions between group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of the subsidiary are adjusted where necessary to ensure consistency with the accounting policies adopted by the Group. Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date the Company gains control up to the effective date when the Company ceases to control the subsidiary.

2.3. Business combinations

Where property is acquired, via corporate acquisitions or otherwise, the substance of the assets and activities of the acquired entity are considered in determining whether the acquisition represents a business combination or an asset purchase under IFRS 3 – Business Combinations.

A business combination is a transaction or event in which an acquirer obtains control of one or more businesses. A business is defined in IFRS 3 as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities. To assist in determining whether a purchase of investment property via corporate acquisition or otherwise meets the definition of a business or is the purchase of a group of assets, the group will apply the optional concentration test in IFRS 3 to determine whether substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If the concentration test is not met the group applies judgement to assess whether acquired set of activities and assets includes, at a minimum, an input and a substantive process by applying IFRS 3:B8 to B12D. Where such acquisitions are not judged to be a business combination, due to the asset or group of assets not meeting the definition of a business, they are accounted for as asset acquisitions and the cost to acquire the corporate entity is allocated between the identifiable assets and liabilities of the entity based on their relative fair values at the acquisition date. Accordingly no goodwill or additional deferred taxation arises.

Under the acquisition accounting method, the identifiable assets, liabilities and contingent liabilities acquired are measured at fair value at the acquisition date. The consideration transferred is measured at fair value which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

2.4. Application of new and revised International Financial Reporting Standards

During the year the Company adopted the following new standards with no impact on reported financial performance or position:

- Amendments to IFRS 3 – References to the conceptual framework
- Amendments to IAS 16 – Property, plant and equipment – proceeds before intended use
- Amendments to IAS 37 – Onerous contracts – cost of fulfilling a contract
- Annual improvements to IFRSs: 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16, and IAS 41

The IASB and the International Financial Reporting Interpretations Committee have issued the following standards and interpretations, as at the date of this report, that are mandatory for later accounting periods and which have not been adopted early. They are not expected to have a material impact on the financial statements.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 31 MARCH 2023

2. Basis of preparation and accounting policies continued

2.4. Application of new and revised International Financial Reporting Standards continued

- IFRS 17 – Insurance contracts
- Amendments IFRS 17 – Initial application of IFRS 17 and IFRS 9 – comparative information
- Amendments IFRS 16 – Lease liability in a sale and leaseback
- Amendments IAS 1 – Classification of liabilities as current or non-current – deferral of effective date
  – Disclosure of accounting policies
  – Non-current liabilities with covenants
- Amendments IAS 8 – Definition of accounting estimates
- Amendments IAS 12 – Deferred tax related to assets and liabilities arising from a single transaction
- Amendments IFRS 4 – Extension of the temporary exemption from applying IFRS 9
- Amendments to IAS 12 – Pillar two model Rules
- IAS 7/IFRS 7 – Supplier finance arrangements

2.5. Significant accounting policies

The principal accounting policies adopted by the Group and Company and applied to these financial statements are set out below.

Going concern

The Directors believe the Company is well placed to manage its business risks successfully and the Company's projections show that it should be able to operate within the level of its current financing arrangements for at least the 12 months from the date of approval of these financial statements, set out in more detail in the Directors' report and Principal risks and uncertainties section of the Strategic Report. Accordingly, the Directors continue to adopt the going concern basis for the preparation of the financial statements.

Income recognition

Contractual revenues are allocated to each performance obligation of a contract and revenue is recognised on a basis consistent with the transfer of control of goods or services. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duties.

Rental income from operating leases on properties owned by the Company is accounted for on a straight-line basis over the term of the lease. Rental income excludes service charges and other costs directly recoverable from tenants. Rental income excludes service charges and other costs directly recoverable from tenants which are recognised within "income from recharges to tenants".

Lease incentives are recognised on a straight-line basis over the lease term.

Revenue and profits on the sale of properties are recognised on the completion of contracts. The amount of profit recognised is the difference between the sale proceeds and the carrying amount.

Finance income relates to bank interest receivable and amounts receivable on ongoing development funding contracts.

Taxation

The Group operates as a REIT and hence profits and gains from the property rental business are normally expected to be exempt from corporation tax. The tax expense represents the sum of the tax currently payable and deferred tax relating to the residual (non-property rental) business. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Investment property

Investment property is held to earn rentals and/or for capital appreciation and is initially recognised at cost including direct transaction costs. Investment property is subsequently valued externally on a market basis at the reporting date and recorded at valuation. Any surplus or deficit arising on revaluing investment property is recognised in profit or loss in the year in which it arises. Dilapidations receipts are held in the statement of financial position and offset against subsequent associated expenditure. Any ultimate gains or shortfalls are measured by reference to previously published valuations and recognised in profit or loss, offset against any directly corresponding movement in fair value of the investment properties to which they relate.

Group undertakings

Investments are included in the Company only statement of financial position at cost less any provision for impairment. The hive up of the trade and assets of DRUM REIT during the year was undertaken at their carrying value on the date of hive-up. Trade since the date of the hive-up has been included in the parent company results, whilst trade before hive-up has been excluded. Prior year comparatives have not been amended.

Non-listed equity investments

Non-listed equity investments are classified at fair value through profit and loss and are subsequently measured using Level 3 inputs, meaning valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

2. Basis of preparation and accounting policies continued

2.5. Significant accounting policies continued

Property, plant and equipment

Plant, machinery, fixtures and fittings are stated at cost less accumulated depreciation and accumulated impairment loss.

Depreciation is recognised so as to write off the cost of assets (less their residual values) over their useful lives, using the straight-line method, on the following bases:

EV chargers	10 years
Photovoltaic cells	20 years

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and on-demand deposits, and other short-term highly liquid investments that are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes and are readily convertible into a known amount of cash and are subject to an insignificant risk of changes in value.

Other financial assets

Financial assets and financial liabilities are recognised in the balance sheet when the Company becomes a party to the contractual terms of the instrument.

The Company's financial assets include cash and cash equivalents and trade and other receivables. Interest resulting from holding financial assets is recognised in profit or loss on an accruals basis.

Trade receivables are initially recognised at their transaction price and subsequently measured at amortised cost as the business model is to collect the contractual cash flows due from tenants. An impairment provision is created based on expected credit losses, which reflect the Company's historical credit loss experience and an assessment of current and forecast economic conditions at the reporting date.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Share capital represents the nominal value of equity shares issued. Share premium represents the excess over nominal value of the fair value of the consideration received for equity shares, net of direct issue costs.

Retained earnings include all current and prior year results as disclosed in profit or loss. Retained earnings include realised and unrealised profits. Profits are considered unrealised where they arise from movements in the fair value of investment properties that are considered to be temporary rather than permanent.

Borrowings

Interest-bearing bank loans and overdrafts are recorded at the fair value of proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlements or redemption and direct issue costs, are accounted for on an accruals basis in profit or loss using the effective interest rate method and are included in accruals to the extent that they are not settled in the period in which they arise.

Trade payables

Trade payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

Leases

Where an investment property is held under a leasehold interest, the headlease is initially recognised as an asset at cost plus the present value of minimum ground rent payments. The corresponding rental liability to the head leaseholder is included in the balance sheet as a liability. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining lease liability.

Segmental reporting

An operating segment is a distinguishable component of the Company that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Company's chief operating decision maker (the Board) to make decisions about the allocation of resources and assessment of performance and about which discrete financial information is available. As the chief operating decision maker reviews financial information for, and makes decisions about the Company's investment properties as a portfolio, the Directors have identified a single operating segment, that of investment in commercial properties.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 31 MARCH 2023

2. Basis of preparation and accounting policies continued

2.6. Key sources of judgements and estimation uncertainty

The preparation of the financial statements requires the Company to make estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities. If in the future such estimates and assumptions, which are based on the Directors' best judgement at the date of preparation of the financial statements, deviate from actual circumstances, the original estimates and assumptions will be modified as appropriate in the period in which the circumstances change.

Judgements

No significant judgements have been made in the process of applying the Group's and parent company's accounting policies, other than those involving estimations, that have had a significant effect on the amounts recognised within the financial statements.

Estimates

The accounting estimates with a significant risk of a material change to the carrying values of assets and liabilities within the next year are:

- *Valuation of investment property* – Investment property is valued at the reporting date at fair value. Where an investment property is being redeveloped the property continues to be treated as an investment property. Surpluses and deficits attributable to the Company arising from revaluation are recognised in profit or loss. Valuation surpluses reflected in retained earnings are not distributable until realised on sale. In making its judgement over the valuation of properties, the Company considers valuations performed by the independent valuers in determining the fair value of its investment properties. The valuers make reference to market evidence of transaction prices for similar properties. The valuations are based upon assumptions including future rental income, anticipated capital expenditure and maintenance costs (particularly in the context of mitigating the impact of climate change) and appropriate discount rates (ie property yields). The key sources of estimation uncertainty within these inputs above are future rental income and property yields. Reasonably possible changes to these inputs across the portfolio would have a material impact on its valuation.

3. Earnings per ordinary share

Basic EPS amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS amounts are calculated by dividing the net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. There are no dilutive instruments in issue. Any shares issued after the year end are disclosed in Note 21.

The Company is a FTSE EPRA/NAREIT index series constituent and EPRA performance measures have been disclosed to facilitate comparability with the Company's peers through consistent reporting of key performance measures. EPRA has issued recommended bases for the calculation of EPS as alternative indicators of performance.

Group	**Year ended 31 March 2023**	Year ended 31 March 2022
Net (loss)/profit and diluted net profit attributable to equity holders of the Company (£000)	**(65,821)**	122,325
Net (loss/(profit)/loss) on investment property (£000)	**90,609**	(97,073)
EPRA net profit attributable to equity holders of the Company (£000)	**24,788**	25,252
Weighted average number of ordinary shares:		
Issued ordinary shares at start of the year (thousands)	**440,850**	420,053
Effect of shares issued during the year (thousands)	**–**	8,649
Basic and diluted weighted average number of shares (thousands)	**440,850**	428,702
Basic and diluted EPS (p)	**(14.9)**	28.5
EPRA EPS (p)	**5.6**	5.9

4. Revenue

	Group		Company	
	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000	**Year ended 31 March 2023 £000**	Year ended 31 March 2022 £000
Gross rental income from investment property	**40,558**	39,039	**39,758**	37,638
Income from recharges to tenants	**3,526**	852	**3,526**	852
Other income	**63**	–	**63**	–
	44,147	39,891	**43,347**	38,490

5. Operating profit

Operating profit is stated after (crediting)/charging:

	Group		Company	
	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000	**Year ended 31 March 2023 £000**	Year ended 31 March 2022 £000
Profit on disposal of investment property	**(4,368)**	(5,369)	**(4,368)**	(5,369)
Investment property valuation decrease/(increase)	**94,977**	(91,704)	**95,266**	(84,383)
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	**154**	138	**154**	138
Fees payable to the Company's auditor and its associates for other services	**35**	25	**35**	25
Administrative fee payable to the Investment Manager	**581**	459	**581**	459
Directly incurred operating expenses of vacant rental property	**1,857**	1,826	**1,857**	1,611
Directly incurred operating expenses of let rental property	**1,286**	1,444	**1,286**	1,418
Amortisation of right-of-use asset	**8**	7	**8**	7

Fees payable to the Company's auditor, Deloitte LLP, are further detailed in the Audit and Risk Committee report.

6. Finance income

	Group		Company	
	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000	**Year ended 31 March 2023 £000**	Year ended 31 March 2022 £000
Bank interest	**22**	–	**22**	–
Finance income	**–**	–	**–**	–
	22	–	**22**	–

7. Finance costs

	Group		Company	
	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000	**Year ended 31 March 2023 £000**	Year ended 31 March 2022 £000
Amortisation of arrangement fees on debt facilities	**220**	364	**187**	337
Other finance costs	**375**	307	**375**	302
Bank interest	**5,687**	4,156	**5,543**	3,976
	6,282	4,827	**6,105**	4,615

NOTES TO THE FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 31 MARCH 2023

8. Income tax

The tax charge assessed for the year is lower than the standard rate of corporation tax in the UK during the year of 19.0%. The differences are explained below:

	Group		Company	
	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000	**Year ended 31 March 2023 £000**	Year ended 31 March 2022 £000
Profit before income tax	**(65,821)**	122,325	**(57,671)**	114,175
Tax charge on profit at a standard rate of 19.0% (2022: 19.0%)	**(12,506)**	23,242	**(10,957)**	21,693
Effects of:				
REIT tax exempt rental profits and gains	**12,506**	(23,242)	**10,957**	(21,693)
Income tax expense	**–**	–	**–**	–
Effective income tax rate	**0.0%**	0.0%	**0.0%**	0.0%

The standard rate of UK corporation tax increased to 25% on 1 April 2023.

The Company operates as a REIT and hence profits and gains from the property investment business are normally exempt from corporation tax.

9. Dividends

Group and Company	**Year ended 31 March 2023 £000**	Year ended 31 March 2022 £000
Interim dividends paid on ordinary shares relating to the quarter ended:		
Prior year		
– 31 March 2022: 1.375p (2021: 1.25p)	**6,065**	5,257
– 31 March 2022: nil (2021: 0.5p)	**–**	2,102
Current year		
– 30 June 2022: 1.375p (2021: 1.25p)	**6,062**	5,257
– 30 September 2022: 1.375p (2021: 1.25p)	**6,062**	5,511
– 31 December 2022: 1.375p (2021: 1.375p)	**6,061**	6,062
	24,250	24,191

The Company paid a fourth interim dividend relating to the quarter ended 31 March 2023 of 1.375p per ordinary share (totalling £6.1m) on 31 May 2023 to shareholders on the register at the close of business on 12 May 2023 which has not been included as liabilities in these financial statements.

10. Investment property

	Group £000	Company £000
At 31 March 2021	551,922	551,922
Impact of lease incentives	1,112	1,157
Additions	65,495	23,801
Amortisation of right-of-use asset	(7)	(7)
Capital expenditure and development	3,515	3,510
Disposals	(48,555)	(48,555)
Valuation increase before acquisition costs	93,977	86,656
Acquisition costs	(2,273)	(2,273)
Valuation increase including acquisition costs	91,704	84,383
At 31 March 2022	**665,186**	**616,211**
Impact of lease incentives	1,677	1,690
Additions	56,033	56,033
Transfers from group companies	–	49,251
Amortisation of right-of-use asset	(8)	(8)
Capital expenditure and development	9,954	9,954
Disposals	(24,278)	(24,278)
Valuation decrease before acquisition costs	(91,551)	(91,840)
Acquisition costs	(3,426)	(3,426)
Valuation decrease including acquisition costs	(94,977)	(95,266)
At 31 March 2023	**613,587**	**613,587**

£447.3m (2022: £458.0m) of investment property was charged as security against the Company's borrowings at the year end. £0.6m (2022: £0.6m) of investment property comprises right-of-use assets.

The carrying value of investment property at 31 March 2023 comprises £526.1m freehold (2022: £444.1m) and £87.5m leasehold property (2022: £107.4m).

Company only investment property additions during the year of £105.3m include £49.3m transferred from Custodian Real Estate (DROP) Limited, a subsidiary, as part of the hive-up of the trade and assets of DRUM REIT.

Investment property is stated at the Directors' estimate of its 31 March 2023 fair value. Savills (UK) Limited ("Savills") and Knight Frank LLP ("KF"), professionally qualified independent valuers, each valued approximately half of the property portfolio as at 31 March 2023 in accordance with the Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors ("RICS"). Savills and KF have recent experience in the relevant locations and categories of the property being valued.

Investment property has been valued using the investment method which involves applying a yield to rental income streams. Inputs include yield, current rent and ERV. For the year end valuation, the following inputs were used:

Sector	Valuation 31 March 2023 £000	Weighted average passing rent (£ per sq ft)	Weighted average ERV range (£ per sq ft)	Equivalent yield	Topped-up NIY
Industrial	295.1	6.7	4.8 – 18.0	6.6%	5.1%
Retail warehouse	131.8	14.3	7.0 – 17.5	7.3%	7.2%
Other	78.6	19.5	2.9 – 71.2*	8.0%	6.8%
Office	71.7	18.7	8.5 – 35.8	8.9%	6.4%
High street retail	36.4	30.7	3.8 – 57.4	8.6%	9.6%

* Drive-through restaurants' ERV per sq ft are based on building floor area rather than area inclusive of drive-through lanes.

Valuation reports are based on both information provided by the Company eg current rents and lease terms, which are derived from the Company's financial and property management systems and are subject to the Company's overall control environment, and assumptions applied by the valuers eg ERVs, expected capital expenditure and yields. These assumptions are based on market observation and the valuers' professional judgement. In estimating the fair value of each property, the highest and best use of the properties is their current use.

All other factors being equal, a higher equivalent yield would lead to a decrease in the valuation of investment property, and an increase in the current or estimated future rental stream would have the effect of increasing capital value, and vice versa. However, there are interrelationships between unobservable inputs which are partially determined by market conditions, which could impact on these changes.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 31 MARCH 2023

11. Property, plant and equipment

EV chargers and PV cells Group and Company	At 31 March 2023 £000	At 31 March 2022 £000	At 31 March 2021 £000
Cost			
Balance at the start of the year	–	–	–
Additions	1,225	–	–
	1,225	–	–
Depreciation			
At the start of the year	–	–	–
During the year	(112)	–	–
	(112)	–	–
Net book value at the end of the year	1,113	–	–

12. Investments
Shares in subsidiaries

Company Name	Company number	Country of registration and incorporation	Principal activity	Ordinary shares held	31 March 2023 £000	31 March 2022 £000
Custodian REIT Limited	08882372	England and Wales	Non-trading	100%	–	–
Custodian Real Estate (Beaumont Leys) Limited*	04364589	England and Wales	Dissolved	100%	–	4
Custodian Real Estate (Leicester) Limited*	04312180	England and Wales	Dissolved	100%	–	497
Custodian Real Estate (JMP4) Limited	11187952	England and Wales	Dissolved	100%	–	2,904
Custodian Real Estate (DROP Holdings) Limited (formerly DRUM Income Plus REIT plc)	9511797	England and Wales	In Liquidation	100%	–	19,133
Custodian Real Estate (DROP) Limited (formerly DRUM Income Plus Limited)*	9515513	England and Wales	In Liquidation	100%	–	–
					–	22,538

* Held indirectly.

The trade and assets of Custodian Real Estate (DROP Holdings) Limited and Custodian Real Estate (DROP) Limited were hived up into the Company in June 2022 via an intercompany transfer. In November 2022 Custodian Real Estate (DROP Holdings) Limited and Custodian Real Estate (DROP) Limited went through a 'pre-liquidation' exercise which culminated in a non-cash dividend of £28.0m being declared from Custodian Real Estate (DROP Holdings) Limited to the Company to clear the associated intercompany balance. The declaration of this dividend resulted in a corresponding impairment to the Company's investment in Custodian Real Estate (DROP Holdings) Limited of £19.1m. Custodian Real Estate (DROP Holdings) Limited and Custodian Real Estate (DROP) Limited were then entered into a solvent liquidation process in December 2022.

Custodian Real Estate (Beaumont Leys) Limited, Custodian Real Estate (Leicester) Limited and Custodian Real Estate (JMP4) Limited have made distributions totalling £3.4m in advance of completing their liquidations during the year which resulted in a corresponding impairment to the Company's investments in those companies.

The Company's non-trading UK subsidiaries have claimed the audit exemption available under Section 479A of the Companies Act 2006. The Company's registered office is also the registered office of each UK subsidiary.

Non-listed equity investments

Group and Company Name	Company number	Country of registration and incorporation	Principal activity	Ordinary shares held	31 March 2023 £000	31 March 2022 £000
AGO Hotels Limited	12747566	England and Wales	Operator of hotels	4.5%	–	–
					–	–

The Company was allotted 4.5% of the ordinary share capital of AGO Hotels Limited on 31 January 2021 as part of a new letting of its hotel asset in Portishead.

13. Trade and other receivables

	Group		Company	
	31 March 2023 £000	31 March 2022 £000	**31 March 2023 £000**	31 March 2022 £000
Falling due in less than one year:				
Trade receivables	**1,355**	3,094	**1,355**	2,642
Other receivables	**2,100**	1,960	**2,100**	576
Prepayments and accrued income	**293**	147	**293**	147
	3,748	5,201	**3,748**	3,365

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk, for example a deterioration in a tenant's or sector's outlook or rent payment performance, and revises them as appropriate to ensure that the criteria are capable of identifying significant increases in credit risk before amounts become past due.

Tenant rent deposits of £1.5m (2022: £1.1m) are held as collateral against certain trade receivable balances.

The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- When there is a breach of financial covenants by the debtor; or
- Available information indicates the debtor is unlikely to pay its creditors.

Such balances are provided for in full. For remaining balances the Company has applied an expected credit loss ("ECL") matrix based on its experience of collecting rent arrears.

	Group		Company	
Expected credit loss provision	**31 March 2023 £000**	31 March 2022 £000	**31 March 2023 £000**	31 March 2022 £000
Opening balance	**2,739**	3,030	**2,739**	3,030
Increase/(decrease) in provision relating to trade receivables that are credit-impaired	**453**	(291)	**453**	(291)
Utilisation of provisions	**(2,049)**	–	**(2,049)**	–
Closing balance	**1,143**	2,739	**1,143**	2,739

The significant utilisation of the expected credit loss provision during the year was a result of clearing down a large proportion of provisions made during FY21 as a result of the COVID-19 pandemic. Remaining provisions against these historical arrears are expected to be utilised during FY24.

14. Trade and other payables

	Group		Company	
	31 March 2023 £000	31 March 2022 £000	**31 March 2023 £000**	31 March 2022 £000
Falling due in less than one year:				
Trade and other payables	**972**	3,960	**972**	1,973
Social security and other taxes	**498**	456	**498**	366
Accruals	**4,693**	4,226	**4,693**	4,100
Rental deposits	**1,503**	1,141	**1,503**	1,141
Amounts due to subsidiary undertakings	**–**	–	**–**	3,405
	7,666	9,783	**7,666**	10,985

The Directors consider that the carrying amount of trade and other payables approximates to their fair value. Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. For most suppliers interest is charged if payment is not made within the required terms. Thereafter, interest is chargeable on the outstanding balances at various rates. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timescale.

Amounts payable to subsidiary undertakings are due on demand.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 31 MARCH 2023

15. Cash and cash equivalents

	Group		Company	
	31 March 2023 £000	31 March 2022 £000	**31 March 2023 £000**	31 March 2022 £000
Cash and cash equivalents	**6,880**	11,624	**6,880**	9,217

Group and Company cash and cash equivalents at 31 March 2023 include £1.6m (2022: £1.7m) of restricted cash comprising: £1.5m (2022: £1.1m) rental deposits held on behalf of tenants, £nil (2022: £0.3m) exchange deposits on pipeline acquisitions and £0.1m (2022: £0.3m) retentions held in respect of development fundings.

16. Borrowings

The table below sets out changes in liabilities arising from financing activities during the year.

	Group			Company		
	Borrowings £000	Costs incurred in the arrangement of borrowings £000	Total £000	Borrowings £000	Costs incurred in the arrangement of borrowings £000	Total £000
Falling due within one year:						
At 31 March 2021	–	–	–	–	–	–
Borrowings arising from the acquisition of DRUM REIT	22,760	(60)	22,700	–	–	–
Amortisation of arrangement fees	–	27	27	–	–	–
At 31 March 2022	22,760	(33)	22,727	–	–	–
Repayment of borrowings	(22,760)		(22,760)	–	–	–
Amortisation of arrangement fees	–	33	33	–	–	–
At 31 March 2023	**–**	**–**	**–**	**–**	**–**	**–**
Falling due after more than one year:						
At 31 March 2021	140,000	(1,396)	138,604	140,000	(1,396)	138,604
Repayment of borrowings	(25,000)	–	(25,000)	(25,000)	–	(25,000)
Arrangement fees incurred	–	(57)	(57)	–	(57)	(57)
Amortisation of arrangement fees	–	336	336	–	336	336
At 31 March 2022	115,000	(1,117)	113,883	115,000	(1,117)	113,883
Additional borrowings	58,500	–	58,500	58,500	–	58,500
Arrangement fees incurred	–	(468)	(468)	–	(454)	(454)
Amortisation of arrangement fees	–	187	187	–	173	173
At 31 March 2023	**173,500**	**(1,398)**	**172,102**	**173,500**	**(1,398)**	**172,102**
Total borrowings:						
At 31 March 2023	**173,500**	**(1,398)**	**172,102**	**173,500**	**(1,398)**	**172,102**

In June 2022 the Company arranged a £25m tranche of 10-year debt with Aviva at a fixed rate of interest of 4.10% per annum to refinance a £25m variable rate revolving credit facility with Royal Bank of Scotland ("RBS") which was due to expire in September 2022.

At the year end the Company has the following facilities available:

- A £40m RCF with Lloyds with interest of between 1.5% and 1.8% above SONIA and is repayable on 17 September 2024. The RCF limit can be increased to £50m with Lloyds' consent, with £33.5m drawn at the year end;
- A £20m term loan with Scottish Widows plc with interest fixed at 3.935% and is repayable on 13 August 2025;
- A £45m term loan with Scottish Widows plc with interest fixed at 2.987% and is repayable on 5 June 2028; and
- A £75m term loan facility with Aviva comprising:
  - A £35m tranche repayable on 6 April 2032, with fixed annual interest of 3.02%;
  - A £15m tranche repayable on 3 November 2032 with fixed annual interest of 3.26%; and
  - A £25m tranche repayable on 3 November 2032 with fixed annual interest of 4.10%.

16. Borrowings continued

Each facility has a discrete security pool, comprising a number of the Company's individual properties, over which the relevant lender has security and covenants:

- The maximum LTV of the discrete security pool is between 45% and 50%, with an overarching covenant on the Company's property portfolio of a maximum 35% LTV; and
- Historical interest cover, requiring net rental income from each discrete security pool, over the preceding three months, to exceed 250% of the facility's quarterly interest liability.

The Company's debt facilities contain market-standard cross-guarantees such that a default on an individual facility will result in all facilities falling into default.

17. Share capital

Group and Company Issued and fully paid share capital	Ordinary shares of 1p	£000
At 1 April 2021	420,053,344	4,201
Issue of share capital	20,797,054	208
At 31 March 2022	**440,850,398**	**4,409**
Issue of share capital	–	–
At 31 March 2023	**440,850,398**	**4,409**

During the year ending 31 March 2022, the Company issued 550,000 shares for cash consideration of 101.5p per share and issued 20,247,040 shares as consideration for the acquisition of DRUM Property Income REIT plc at their market value of 94.5p per share.

Rights, preferences and restrictions on shares

All ordinary shares carry equal rights and no privileges are attached to any shares in the Company. All the shares are freely transferable, except as otherwise provided by law. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

At the AGM of the Company held on 31 August 2022, the Board was given authority to issue up to 146,950,133 shares, pursuant to section 551 of the Companies Act 2006 ("the Authority"). The Authority is intended to satisfy market demand for the ordinary shares and raise further monies for investment in accordance with the Company's investment policy. No ordinary shares have been issued under the Authority since 31 August 2022. The Authority expires on the earlier of 15 months from 31 August 2022 and the subsequent AGM, due to take place on 8 August 2023.

In addition, the Company was granted authority to make market purchases of up to 44,085,039 ordinary shares under section 701 of the Companies Act 2006. No market purchases of ordinary shares have been made.

	Company	Group	Group and Company	
Other reserves	Retained earnings £000	Retained earnings £000	Share premium account £000	Merger reserve £000
At 1 April 2021	155,196	155,196	250,469	–
Shares issued during the year	–	–	552	18,931
Costs of share issue	–	–	(51)	–
Profit for the year	114,175	122,325	–	–
Dividends paid	(24,191)	(24,191)	–	–
At 31 March 2022	**245,180**	**253,330**	**250,970**	**18,931**
Shares issued during the year	–	–	–	–
Costs of share issue	–	–	–	–
Loss for the year	(57,671)	(65,821)	–	–
Dividends paid	(24,250)	(24,250)	–	–
At 31 March 2023	**163,259**	**163,259**	**250,970**	**18,931**

The nature and purpose of each reserve within equity are:

- Share premium – Amounts subscribed for share capital in excess of nominal value less any associated issue costs that have been capitalised.
- Retained earnings – All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.
- Merger reserve – A non-statutory reserve that is credited instead of a company's share premium account in circumstances where merger relief under section 612 of the Companies Act 2006 is obtained.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 31 MARCH 2023

18. Commitments and contingencies

Company as lessor

Operating leases, in which the Company is the lessor, relate to investment property owned by the Company with lease terms of between 0 to 15 years. The aggregated future minimum rentals receivable under all non-cancellable operating leases are:

	Group		Company	
	31 March 2023 £000	31 March 2022 £000	**31 March 2023 £000**	31 March 2022 £000
Not later than one year	**37,930**	36,512	**37,930**	33,565
Year 2	**33,519**	32,830	**33,519**	30,332
Year 3	**28,669**	27,986	**28,669**	25,819
Year 4	**25,193**	23,367	**25,193**	21,975
Year 5	**19,839**	19,764	**19,839**	18,546
Later than five years	**71,446**	67,843	**71,446**	62,418
	216,596	208,302	**216,596**	192,655

The following table presents rent amounts reported in revenue:

	Group		Company	
	31 March 2023 £000	31 March 2022 £000	**31 March 2023 £000**	31 March 2022 £000
Lease income on operating leases	**40,371**	38,884	**39,571**	37,483
Therein lease income relating to variable lease payments that do not depend on an index or rate	**187**	155	**187**	155
	40,558	39,039	**39,758**	37,638

19. Related party transactions

Save for transactions described below, the Company is not a party to, nor had any interest in, any other related party transaction during the year.

Transactions with directors

Each of the Directors is engaged under a letter of appointment with the Company and does not have a service contract with the Company. Under the terms of their appointment, each Director is required to retire by rotation and seek re-election at least every three years. Each Director's appointment under their respective letter of appointment is terminable immediately by either party (the Company or the Director) giving written notice and no compensation or benefits are payable upon termination of office as a Director of the Company becoming effective.

Ian Mattioli is Chief Executive of Mattioli Woods, the parent company of the Investment Manager, and is a Director of the Investment Manager. As a result, Ian Mattioli is not independent. The Company Secretary, Ed Moore, is also a Director of the Investment Manager.

Compensation paid to the directors, who are also considered 'key management personnel' in addition to the key Investment Manager personnel, is disclosed in the Remuneration report. The directors' remuneration report also satisfies the disclosure requirements of paragraph 1 of Schedule 5 to the Accounting Regulations.

Investment Management Agreement

The Investment Manager is engaged as AIFM under an IMA with responsibility for the management of the Company's assets, subject to the overall supervision of the Directors. The Investment Manager manages the Company's investments in accordance with the policies laid down by the Board and the investment restrictions referred to in the IMA. The Investment Manager also provides day-to-day administration of the Company and acts as secretary to the Company, including maintenance of accounting records and preparing the annual and interim financial statements of the Company.

Annual management fees payable to the Investment Manager under the IMA are:

- 0.9% of the NAV of the Company as at the relevant quarter day which is less than or equal to £200m divided by 4;
- 0.75% of the NAV of the Company as at the relevant quarter day which is in excess of £200m but below £500m divided by 4;
- 0.65% of the NAV of the Company as at the relevant quarter day which is in excess of £500m but below £750m divided by 4; plus
- 0.55% of the NAV of the Company as at the relevant quarter day which is in excess of £750m divided by 4.

19. Related party transactions continued
Investment Management Agreement continued

In June 2023 the rates applicable to each NAV hurdle for calculating the Administrative fees payable to the Investment Manager under the IMA were amended, with effect from 1 April 2022, to:

- 0.125% of the NAV of the Company as at the relevant quarter day which is less than or equal to £200m divided by 4;
- 0.115% (2022: 0.08%) of the NAV of the Company as at the relevant quarter day which is in excess of £200m but below £500m divided by 4;
- 0.020% (2022: 0.05%) of the NAV of the Company as at the relevant quarter day which is in excess of £500m but below £750m divided by 4; plus
- 0.015% (2022: 0.03%) of the NAV of the Company as at the relevant quarter day which is in excess of £750m divided by 4.

The IMA is terminable by either party by giving not less than 12 months' prior written notice to the other. The IMA may also be terminated on the occurrence of an insolvency event in relation to either party, if the Investment Manager is fraudulent, grossly negligent or commits a material breach which, if capable of remedy, is not remedied within three months, or on a force majeure event continuing for more than 90 days.

The Investment Manager receives a marketing fee of 0.25% (2022: 0.25%) of the aggregate gross proceeds from any issue of new shares in consideration of the marketing services it provides to the Company.

During the year the Investment Manager charged the Company £4.46m (2022: £4.41m) comprising £3.88m (2022: £3.86m) in respect of annual management fees, £0.58m (2022: £0.46m) in respect of administrative fees and £nil (2022: £nil) in respect of marketing fees. During the prior year the Investment Manager charged the Company a transaction fee of £0.09m relating to work carried out on the acquisition of DRUM REIT.

Mattioli Woods arranges insurance on behalf of the Company's tenants through an insurance broker and the Investment Manager is paid a commission by the Company's tenants for administering the policy.

20. Financial risk management
Capital risk management

The Company manages its capital to ensure it can continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance within the parameters of its investment policy. The capital structure of the Company consists of debt, which includes the borrowings disclosed below, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued ordinary share capital, share premium and retained earnings.

Net gearing

The Board reviews the capital structure of the Company on a regular basis. As part of this review, the Board considers the cost of capital and the risks associated with it. The Company has a medium-term target net gearing ratio of 25% determined as the proportion of debt (net of unrestricted cash) to investment property. The net gearing ratio at the year-end was 27.4% (2022: 19.1%).

Externally imposed capital requirements

The Company is not subject to externally imposed capital requirements, although there are restrictions on the level of interest that can be paid due to conditions imposed on REITs.

Financial risk management

The Company seeks to minimise the effects of interest rate risk, credit risk, liquidity risk and cash flow risk by using fixed and floating rate debt instruments with varying maturity profiles, at low levels of net gearing.

Interest rate risk management

The Company's activities expose it primarily to the financial risks of increases in interest rates, as it borrows funds at floating interest rates. The risk is managed by maintaining:

- An appropriate balance between fixed and floating rate borrowings;
- A low level of net gearing; and
- An RCF whose flexibility allows the Company to manage the risk of changes in interest rates by paying down variable borrowings using the proceeds of equity issuance, property sales or arranging fixed-rate debt.

The Board periodically considers the availability and cost of hedging instruments to assess whether their use is appropriate and also considers the maturity profile of the Company's borrowings.

Interest rate sensitivity analysis

Interest rate risk arises on interest payable on the RCF only, as interest on all other debt facilities is payable on a fixed rate basis. At 31 March 2023, the RCF was drawn at £33.5m. Assuming this amount was outstanding for the whole year and based on the exposure to interest rates at the reporting date, if SONIA had been 1.0% higher/lower and all other variables were constant, the Company's profit for the year ended 31 March 2023 would decrease/increase by £0.3m.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 31 MARCH 2023

20. Financial risk management continued

Market risk management

The Company manages its exposure to market risk by holding a portfolio of investment property diversified by sector, location and tenant.

Market risk sensitivity

Market risk arises on the valuation of the Company's property portfolio in complying with its bank loan covenants (Note 16). The Company would breach its overall borrowing covenant if the valuation of its property portfolio fell by 19% (2022: 45%).

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company. The Company's credit risk is primarily attributable to its trade receivables and cash balances. The amounts included in the statement of financial position are net of allowances for bad and doubtful debts. An allowance for impairment is made where a debtor is in breach of its financial covenants, available information indicates a debtor can't pay or where balances are significantly past due.

The Company has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The maximum credit risk on financial assets at 31 March 2023, which comprise trade receivables plus unrestricted cash, was £6.6m (2022: Group - £13.0m, Company - £10.1m).

The Company has no significant concentration of credit risk, with exposure spread over a large number of tenants covering a wide variety of business types. Further detail on the Company's credit risk management process is included within the Strategic Report.

Cash of £6.9m (2022: £11.6m) is held with Lloyds Bank plc which has a credit rating of A1[46].

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profile of financial assets and liabilities.

The following tables detail the Company's contractual maturity for its financial liabilities. The table has been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

Group and Company	Interest rate %	31 March 2023 0-3 months £000	31 March 2023 months-1 year £000	31 March 2023 1-5 years £000	31 March 2023 5 years + £000
Trade and other payables	N/A	7,168	–	151	420
Borrowings:					
Variable rate	5.98	501	1,502	34,439	–
Fixed rate	3.935	197	590	21,082	–
Fixed rate	2.987	336	1,008	5,377	45,250
Fixed rate	3.020	264	793	4,228	39,248
Fixed rate	3.260	122	367	1,956	17,249
Fixed rate	4.100	154	461	2,462	25,367
		8,742	4,722	69,694	127,535

Group	Interest rate %	31 March 2022 (as restated) 0-3 months £000	31 March 2022 (as restated) 3 months-1 year £000	31 March 2022 (as restated) 1-5 years £000	31 March 2022 (as restated) 5 years + £000
Trade and other payables	N/A	9,327	–	151	420
Borrowings:					
Variable rate	2.441	139	22,839	–	–
Fixed rate	3.935	197	590	22,656	–
Fixed rate	2.987	336	1,008	5,377	47,939
Fixed rate	3.020	264	793	4,228	41,362
Fixed rate	3.260	122	367	1,956	18,227
		10,385	25,597	34,368	107,948

46. Source: Moody's.

20. Financial risk management continued
Liquidity risk management continued

Company	Interest rate %	31 March 2022 (as restated) 0-3 months £000	31 March 2022 (as restated) 3 months-1 year £000	31 March 2022 (as restated) 2-5 years £000	31 March 2022 (as restated) 5 years + £000
Trade and other payables	N/A	10,619	–	151	420
Borrowings:					
Variable rate	2.491	100	299	22,656	
Fixed rate	3.935	197	590	2,656	–
Fixed rate	2.987	336	1,008	5,377	47,939
Fixed rate	3.020	264	793	4,228	41,362
Fixed rate	3.260	122	367	1,956	18,227
		11,538	2,758	34,368	107,948

The tables relating to the year ended 31 March 2022 above have been restated due to a reclassification of certain current liabilities as financial instruments included in error (social security and other tax payables of £456k and £366k for Group and Company respectively), and the correction of loan amounts (removal of average value of RCF of £16,948k, inclusion of repayment amounts of £20,000k in both Group and Company only relating to the fixed rate loan at 3.395%, and £22,700k additionally in the Group relating to the variable rate loan at 2.441%).

Fair values

The fair values of financial assets and liabilities are not materially different from their carrying values in the financial statements. The fair value hierarchy levels are as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

There have been no transfers between Levels 1, 2 and 3 during the year. The main methods and assumptions used in estimating the fair values of financial instruments and investment property are detailed below.

Investment property – Level 3

Fair value is based on valuations provided by independent firms of chartered surveyors and registered appraisers, which uses the inputs set out in Note 10. These values were determined after having taken into consideration recent market transactions for similar properties in similar locations to the investment properties held by the Company. The fair value hierarchy of investment property is Level 3. At 31 March 2023, the fair value of the Company's investment properties was £613.6m (2022: £665.2m).

Interest bearing loans and borrowings – Level 3

At 31 March 2023 the gross value of the Company's loans with Lloyds, SWIP and Aviva all held at amortised cost was £173.5m (2022: £137.8m). The difference between the carrying value of Company's loans and their fair value is detailed in Note 22.

Trade and other receivables/payables – Level 3

The carrying amount of all receivables and payables deemed to be due within one year are considered to reflect their fair value.

21. Events after the reporting date
Property transactions

Since the year end the Company has sold a retail unit in Cirencester at valuation for £0.7m.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 31 MARCH 2023

22. Alternative performance measures

NAV per share total return

An alternative measure of performance taking into account both capital returns and dividends by assuming dividends declared are reinvested at NAV at the time the shares are quoted ex-dividend, shown as a percentage change from the start of the year.

Group	Year ended 31 March 2023	Year ended 31 March 2022
Net assets (£000)	437,569	527,640
Shares in issue at 31 March (thousands)	440,850	440,850
NAV per share at the start of the year (p)	119.7	97.6
Dividends per share paid during the year (p)	5.5	5.625
NAV per share at the end of the year (p)	99.3	119.7
NAV per share total return	**(12.5%)**	28.4%

Share price total return

An alternative measure of performance taking into account both share price returns and dividends by assuming dividends declared are reinvested at the ex-dividend share price, shown as a percentage change from the start of the year.

Group	Year ended 31 March 2023	Year ended 31 March 2022
Share price at the start of the year (p)	101.8	91.8
Dividends per share paid during the year (p)	5.5	5.625
Share price at the end of the year (p)	89.2	101.8
Share price total return	**(7.0%)**	17.0%

Dividend cover

The extent to which dividends relating to the year are supported by recurring net income, indicating whether the level of dividends is sustainable.

Group	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Dividends paid relating to the year	18,185	16,830
Dividends approved relating to the year	6,062	6,062
	24,247	22,892
(Loss)/profit after tax	(65,821)	122,325
One-off costs	–	–
Net loss/(profit) on investment property	90,609	(97,073)
	24,788	25,252
Dividend cover	**102.2%**	110.3%

Weighted average cost of debt

The interest rate payable on bank borrowings at the year end weighted by the amount of borrowings at that rate as a proportion of total borrowings.

31 March 2023	Amount drawn £m	Interest rate	Weighting
RCF	33.5	5.830%	1.13%
Total variable rate	33.5		
SWIP £20m loan	20.0	3.935%	0.45%
SWIP £45m loan	45.0	2.987%	0.78%
Aviva			
• £35m tranche	35.0	3.020%	0.61%
• £15m tranche	15.0	3.260%	0.28%
• £25m tranche	25.0	4.100%	0.59%
Total fixed rate	140.0		
Weighted average drawn facilities	173.5		3.84%

22. Alternative performance measures continued

Weighted average cost of debt continued

31 March 2022	Amount drawn £m	Interest rate	Weighting
RCF	23.0	2.441%	0.40%
Total variable rate	23.0		
SWIP £20m loan	20.0	3.935%	0.56%
SWIP £45m loan	45.0	2.987%	0.96%
Aviva			
• £35m tranche	35.0	3.020%	0.76%
• £15m tranche	15.0	3.260%	0.35%
Total fixed rate	115.0		
Weighted average rate on drawn facilities	138.0		3.02%

Net gearing

Gross borrowings less cash (excluding rent deposits), divided by property portfolio value. This ratio indicates whether the Company is meeting its investment objective to target 25% loan-to-value in the medium-term to balance enhancing shareholder returns without facing excessive financial risk.

Group	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Gross borrowings	173,500	137,760
Cash	(6,880)	(11,624)
Cash held on behalf of tenants	1,503	1,141
Net borrowings	168,123	127,277
Investment property	613,587	665,186
Net gearing	27.4%	19.1%

Ongoing charges

A measure of the regular, recurring costs of running an investment company expressed as a percentage of average NAV, and indicates how effectively costs are controlled in comparison to other property investment companies.

Group	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
Average quarterly NAV during the year	489,075	462,501
Expenses	13,099	9,812
Operating expenses of rental property rechargeable to tenants	(3,526)	(852)
	9,573	8,960
Operating expenses of rental property directly incurred	(3,530)	(3,422)
One-off costs	–	–
	6,043	5,538
OCR	1.96%	1.94%
OCR excluding direct property expenses	1.23%	1.20%

EPRA performance measures

The Company uses EPRA alternative performance measures based on its Best Practice Recommendations to supplement IFRS measures, in line with best practice in the sector. The measures defined by EPRA are designed to enhance transparency and comparability across the European real estate sector. The Board supports EPRA's drive to bring parity to the comparability and quality of information provided in this report to investors and other key stakeholders. EPRA alternative performance measures are adopted throughout this report and are considered by the Directors to be key business metrics.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 31 MARCH 2023

22. Alternative performance measures continued

EPRA earnings per share

A measure of the Company's operating results excluding gains or losses on investment property, giving an alternative indication of performance compared to basic EPS which sets out the extent to which dividends relating to the year are supported by recurring net income.

Group	Year ended 31 March 2023 £000	Year ended 31 March 2022 £000
(Loss)/profit for the year after taxation	(65,821)	122,325
Net (profit)/loss on investment property	90,609	(97,073)
EPRA earnings	**24,788**	25,252
Weighted average number of shares in issue (thousands)	440,850	428,702
EPRA earnings per share (p)	**5.6**	5.9

EPRA NAV per share metrics

EPRA NAV metrics make adjustments to the IFRS NAV to provide stakeholders with additional information on the fair value of the assets and liabilities of a real estate investment company, under different scenarios.

EPRA Net Reinstatement Value ("NRV")

NRV assumes the Company never sells its assets and aims to represent the value required to rebuild the entity.

Group	31 March 2023 £000	31 March 2022 £000
IFRS NAV	437,569	527,640
Fair value of financial instruments	–	–
Deferred tax	–	–
EPRA NRV	**437,569**	527,640
Number of shares in issue (thousands)	440,850	440,850
EPRA NRV per share (p)	**99.3**	119.7

EPRA Net Tangible Assets ("NTA")

Assumes that the Company buys and sells assets for short-term capital gains, thereby crystallising certain deferred tax balances.

Group	31 March 2023 £000	31 March 2022 £000
IFRS NAV	437,569	527,640
Fair value of financial instruments	–	–
Deferred tax	–	–
Intangibles	–	–
EPRA NTA	**437,569**	527,640
Number of shares in issue (thousands)	440,850	440,850
EPRA NTA per share (p)	**99.3**	119.7

22. Alternative performance measures continued

EPRA Net Disposal Value ("NDV")

Represents the shareholders' value under a disposal scenario, where deferred tax, financial instruments and certain other adjustments are calculated to the full extent of their liability, net of any resulting tax.

Group	31 March 2023 £000	31 March 2022 £000
IFRS NAV	437,569	527,640
Fair value of fixed rate debt below book value	7,636	–
Deferred tax	–	–
EPRA NDV	**445,205**	527,640
Number of shares in issue (thousands)	440,850	440,850
EPRA NDV per share (p)	**101.0**	119.7

At 31 March 2023 the Company's gross fixed-rate debt included in the balance sheet at amortised cost was £173.5m (2022: £137.8m) and its fair value is considered to be £163.9m. This fair value has been calculated based on prevailing mark-to-market valuations provided by the Company's lenders, and excludes 'break' costs chargeable should the Company settle loans ahead of their contractual expiry. These mark-to-market values were not available in the prior year so the fair value in excess of book value is shown as £nil in the table above.

EPRA NIY and EPRA "topped-up" NIY

EPRA NIY represents annualised rental income based on cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the property valuation plus estimated purchaser's costs. The EPRA "topped-up" NIY is calculated by making an adjustment to the EPRA NIY in respect of the expiration of rent-free periods (or other unexpired lease incentives such as discounted rent periods and stepped rents). These measures offer comparability between the rent generating capacity of portfolios.

Group	31 March 2023 £000	31 March 2022 £000
Investment property	613,587	665,186
Allowance for estimated purchasers' costs[47]	39,883	43,237
Gross-up property portfolio valuation	653,470	708,423
Annualised cash passing rental income[48]	39,908	37,367
Property outgoings[49]	(1,875)	(1,719)
Annualised net rental income	38,033	35,648
Impact of expiry of current lease incentives[50]	2,144	3,126
Annualised net rental income on expiry of lease incentives	40,177	38,773
EPRA NIY	**5.8%**	5.0%
EPRA "topped-up" NIY	**6.2%**	5.5%

EPRA vacancy rate

EPRA vacancy rate is the ERV of vacant space as a percentage of the ERV of the whole property portfolio and offers insight into the additional rent-generating capacity of the portfolio.

Group	31 March 2023 £000	31 March 2022 £000
Annualised potential rental value of vacant premises	4,743	4,643
Annualised potential rental value for the property portfolio	48,976	45,580
EPRA vacancy rate	**9.7%**	10.2%

47. Assumed at 6.5% of investment property valuation.
48. Annualised cash rents at the year date.
49. Non-recoverable directly incurred operating expenses of rental property, excluding letting and rent review fees.
50. Adjustment for the expiration of lease incentives.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED FOR THE YEAR ENDED 31 MARCH 2023

22. Alternative performance measures continued

EPRA cost ratios

EPRA cost ratios reflect overheads and operating costs as a percentage of gross rental income and indicate how effectively costs are controlled in comparison to other property investment companies.

Group	**Year ended 31 March 2023 £000**	Year ended 31 March 2022 £000
Directly incurred operating expenses and other expenses	**9,461**	8,960
Ground rent costs	**(37)**	(37)
EPRA costs (including direct vacancy costs)	**9,424**	8,923
Property void costs	**(1,828)**	(1,525)
EPRA costs (excluding direct vacancy costs)	**7,596**	7,398
Gross rental income	**40,558**	39,039
Ground rent costs	**(37)**	(37)
Rental income net of ground rent costs	**40,521**	39,002
EPRA cost ratio (including direct vacancy costs)	**23.3%**	22.9%
EPRA cost ratio (excluding direct vacancy costs)	**18.7%**	19.0%

EPRA LTV

An alternative measure of gearing including all payables and receivables. This ratio indicates whether the Company is complying with its investment objective to target 25% loan-to-value in the medium-term to balance enhancing shareholder returns without facing excessive financial risk.

Group	**Year ended 31 March 2023 £000**	Year ended 31 March 2022 £000
Gross borrowings	**173,500**	137,760
Trade and other receivables	**3,748**	5,201
Trade and other payables	**(7,666)**	(9,783)
Deferred income	**(7,421)**	(7,408)
Cash	**6,880**	11,624
Cash held on behalf of tenants	**(1,503)**	(1,141)
Net borrowings	**167,538**	136,253
Investment property	**613,587**	665,186
EPRA LTV	**27.3%**	20.5%

22. Alternative performance measures continued

EPRA capital expenditure

Capital expenditure incurred on the Company's property portfolio during the year. This ratio offers insight into the proportion of cash deployment relating to acquisitions compared to the like-for-like portfolio.

Group	31 March 2023 £000	31 March 2022 £000
Acquisitions	56,033	65,495
Development	3,580	–
Like-for-like portfolio	4,066	3,515
Total capital expenditure	63,679	69,010

EPRA like-for-like rental growth

Like-for-like rental growth of the property portfolio by sector which offers an alternative view on the "run-rate" of revenues at the year end.

						31 March 2023
Group	Industrial £000	Retail warehouse £000	Retail £000	Other £000	Office £000	Total £000
Like-for-like rent	14,377	8,074	3,405	5,184	5,597	36,637
Acquired properties	824	1,377	217	139	–	2,557
Sold properties	583	–	34	57	690	1,364
	15,784	9,451	3,656	5,380	6,287	40,558

						31 March 2022
Group	Industrial £000	Retail warehouse £000	Retail £000	Other £000	Office £000	Total £000
Like-for-like rent	14,637	7,887	3,167	5,397	4,168	35,256
Acquired properties	218	182	538	–	1,074	2,012
Sold properties	976	100	149	546	–	1,771
	15,831	8,169	3,854	5,943	5,242	39,039

ENVIRONMENTAL DISCLOSURES (UNAUDITED)

EPRA Sustainability Best Practice Recommendations ("sBPR") Guidelines

Custodian Property Income REIT recognises the importance of disclosing its ESG information as it creates transparency to potential investors and sets a direction towards improving the integration of ESG into the management of the Company's property portfolio. The Company has chosen to report in alignment with the European Public Real Estate (EPRA) guidelines to achieve this which are considered best practice and are utilised across the real estate industry, enabling a comparison against our peers and helping set clear benchmarks for the Company moving forwards.

Materiality

The scope of our EPRA sBPR data disclosure was influenced by our application of materiality. Custodian Property Income REIT undertook a materiality assessment to review the applicability of the full set of EPRA indicators. Based on professional judgement, each indicator was assessed in terms of its impact on the Company and its importance to stakeholders.

This calculation resulted in an overall score which determined if an issue was material.

As part of our EPRA disclosures and associated materiality assessment, we have defined Custodian Property Income REIT's organisational boundary in line with the GHG Protocol. We have taken the operational control approach and this has played a fundamental role in the materiality assessment. Custodian Property Income REIT is an externally managed real estate investment trust which has no direct employees. The Investment Manager is Custodian Capital Limited which has 24 employees and Custodian Property Income REIT has operational control over neither Custodian Capital nor its employees. The Social Performance indicators determined immaterial are in relation to employees, thus they are not relevant for reporting at the Custodian Property Income REIT level.

Using this organisational boundary, our materiality assessment determined the following Sustainability Performance measures immaterial for Custodian Property Income REIT:

- Employee gender and diversity
- Employee gender pay ratio
- Employee training and development
- Employee performance appraisals
- New hires and turnover
- Employee health and safety

However, as Custodian Property Income REIT does have its own Board, which consists of seven Non-Executive Directors, we have chosen to report on gender, diversity and the gender pay ratio of Custodian Property Income REIT's Board members, to be as transparent as possible with our stakeholders.

The Company's asset level reporting is disclosed on its website at: **custodianreit.com/environmental-social-and-governance-esg/.**

HISTORICAL PERFORMANCE SUMMARY (UNAUDITED)

Income statement	**2023 £000**	2022 £000	2021 £000	2020 £000	2019 £000
Revenue	**44,147**	39,891	39,578	40,903	39,974
Expenses and net finance costs	**(19,359)**	(14,639)	(15,904)	(12,230)	(11,688)
EPRA earnings	**24,788**	25,252	23,674	28,673	28,286
Property valuation movements	**(91,551)**	93,977	(19,611)	(25,850)	(5,499)
Acquisition costs	**(3,426)**	(2,273)	(707)	(599)	(3,391)
Profit/(loss) on disposal	**4,368**	5,369	393	(101)	4,250
Property (losses)/gains	**(90,609)**	97,073	(19,925)	(26,550)	(4,640)
(Loss)/profit after tax	**(65,821)**	122,325	3,749	2,123	23,646
Dividends relating to the year	**24,250**	22,892	21,006	27,464	25,767
Statement of financial position					
Investment property	**613,587**	665,186	551,922	559,817	572,745
Net borrowings	**(172,102)**	(127,277)	(137,259)	(125,512)	(137,897)
Other assets and liabilities	**(3,916)**	(10,269)	(4,797)	(7,553)	(8,225)
NAV	**437,569**	527,640	409,866	426,752	426,623
Financial highlights					
NAV per share total return	**(12.5%)**	28.4%	0.9%	1.1%	5.9%
NAV per share (p)	**99.3**	119.7	97.6	101.6	107.1
EPRA earnings per share (p)	**5.6**	5.9	5.6	7.0	7.3
Dividends per share (p)	**5.5**	5.25	5.0	6.65	6.55
Dividend cover	**102%**	110.3%	112.7%	104.4%	110.4%
Share price total return	**(7.0%)**	17.0%	(2.3%)	(5.0%)	4.2%
New equity raised	**–**	19,692	–	25,300	13,420
Net gearing	**27.4%**	19.1%	24.9%	22.4%	24.1%
OCR excluding direct property expenses	**1.23%**	1.20%	1.12%	1.12%	1.12%

COMPANY INFORMATION

Directors
David Hunter
Independent Non-Executive Chair

Elizabeth McMeikan
Senior Independent Non-Executive Director

David MacLellan
Independent Non-Executive Director

Hazel Adam
Independent Non-Executive Director

Chris Ireland
Independent Non-Executive Director

Malcolm Cooper
Independent Non-Executive Director

Ian Mattioli MBE
Non-Executive Director

Company Secretary
Ed Moore

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Registered number
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Investment Manager
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Broker
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Solicitors
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Valuers
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Knight Frank LLP
55 Baker Street
London
W1U 8AN

Statutory Auditor
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Registrar
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Depositary
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London
EC4M 7RA

Banker
Lloyds Bank plc
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Birmingham
B3 3BD

Tax adviser
KPMG LLP
1 Snow Hill
Queensway
Birmingham
B4 6GH

ESG adviser
JLL
30 Warwick Street
London
W1B 5NH

INVESTMENT POLICY

The Company's investment objective is to provide Shareholders with an attractive level of income together with the potential for capital growth from investing in a diversified portfolio of commercial real estate properties in the UK.

The Company's investment policy is:

a) To invest in a diversified portfolio of UK commercial real estate properties principally characterised by individual values of less than £15m at acquisition[51].

b) The property portfolio should not exceed a maximum weighting to any one property sector, or to any geographic region, of greater than 50%.

c) To focus on areas with high residual values, strong local economies and an imbalance between supply and demand. Within these locations the objective is to acquire modern buildings or those that are considered fit for purpose by occupiers.

d) No one tenant or property should account for more than 10% of the total rent roll of the Company's portfolio at the time of purchase, except:
(i) in the case of a single tenant which is a governmental body or department for which no percentage limit to proportion of the total rent roll shall apply; or
(ii) in the case of a single tenant rated by Dun & Bradstreet with a credit risk score higher than 2, in which case the exposure to such single tenant may not exceed 5% of the total rent roll (a risk score of 2 represents "lower than average risk").

e) The Company will not undertake speculative development (that is, development of property which has not been leased or pre-leased), save for redevelopment and refurbishment of existing holdings, but may invest in forward funding agreements or forward commitments (these being, arrangements by which the Company may acquire pre-development land under a structure designed to provide the Company with investment rather than development risk) of pre-let developments where the Company intends to own the completed development. Substantial redevelopments and refurbishments of existing properties which expose the Company to development risk would not exceed 10% of the Company's gross assets.

f) The Company may use gearing, including to fund the acquisition of property and cash flow requirements, provided that the maximum gearing shall not exceed 35% of the Company's total assets at the time of borrowing aggregate market value of all the properties of the Company. Over the medium-term the Company is expected to target borrowings of 25% of the Company's total assets aggregate market value of all the properties of the Company at the time of borrowing.

g) The Company reserves the right to use efficient portfolio management techniques, such as interest rate hedging and credit default swaps, to mitigate market volatility.

h) Uninvested cash or surplus capital or assets may be invested on a temporary basis in:
(i) cash or cash equivalents, money market instruments, bonds, commercial paper or other debt obligations with banks or other counterparties having a single-A (or equivalent) or higher credit rating as determined by an internationally recognised rating agency; or
(ii) any "government and public securities" as defined for the purposes of the FCA rules.

i) Gearing, calculated as borrowings as a percentage of the aggregate market value of all the properties of the Company and its subsidiaries, may not exceed 35% at the time such borrowings are incurred.

51. The Board proposes removing this upper lot-size limit at the Company's forthcoming AGM, subject to FCA approval.

GLOSSARY OF TERMS

Term	Explanation
2019 AIC Corporate Governance Code for Investment Companies (AIC Code)	The AIC Code addresses the Principles and Provisions set out in the UK Corporate Governance Code, as well as setting out additional provisions on issues that are of specific relevance to the Company and provide more relevant information to shareholders.
Alternative Investment Fund Manager (AIFM)	External investment manager with appropriate FCA permissions to manage an "alternative investment fund".
Alternative performance measures (APMs)	Assess Company performance alongside IFRS measures.
Building Research Establishment Environmental Assessment Method (BREEAM)	A set of assessment methods and tools designed to help understand and mitigate the environmental impacts of developments.
Carbon Risk Real Estate Monitor (CRREM)	A project focused on carbon risk assessment for the European real estate industry's push to decarbonise, building a methodology to empirically quantify the different scenarios and their impact on the investor portfolios and identify which properties will be at risk of stranding due to the expected increase in the stringent building codes, regulation, and carbon prices. It also enables an analysis of the effects of refurbishing single properties on the total carbon performance of a company.
Core real estate	Generally offer the lowest risk and target returns, requiring little asset management and fully let on long leases.
Core-plus real estate	Generally offer low-to-moderate risk and target returns, typically high-quality and well-occupied properties but also providing asset management opportunities.
Dividend cover	EPRA earnings divided by dividends paid and approved for the year.
Earnings per share (EPS)	Profit before tax dividend by number of shares in issue.
Energy performance certificate (EPC)	Required certificate whenever a property is built, sold or rented. An EPC gives a property an energy efficiency rating from A (most efficient) to G (least efficient). An EPC contains information about a property's energy use and typical energy costs, and recommendations about how to reduce energy use and save money.
EPRA occupancy	ERV of occupied space as a percentage of the ERV of the whole property portfolio.
EPRA (Sustainability) Best Practice Recommendations (BPR), (sBPR)	EPRA BPR and sBPR facilitate comparison with the Company's peers through consistent reporting of key real estate specific and environmental performance measures.
EPRA topped-up net initial yield	Annualised cash rents at the year-end date, adjusted for the expiration of lease incentives (rent free periods or other lease incentives such as discounted rent periods and stepped rents), less estimated non-recoverable property operating expenses, divided by property valuation plus estimated purchaser's costs.
Estimated rental value (ERV)	The external valuers' opinion of the open market rent which, on the date of valuation, could reasonably be expected to be obtained on a new letting or rent review of a property.
Equivalent yield	Weighted average of annualised cash rents at the year-end date and ERV, less estimated non-recoverable property operating expenses, divided by property valuation plus estimated purchaser's costs.
Expected credit loss (ECL)	Unbiased, probability-weighted amount of doubtful debt provision, using reasonable and supportable information that is available without undue cost or effort at the reporting date.
Global Real Estate Sustainability Benchmark (GRESB)	GRESB independently benchmarks ESG data to provide financial markets with actionable insights, ESG data and benchmarks.
Greenhouse gas (GHG)	Gasses in the earth's atmosphere which trap heat and lead directly to climate change.
Investment management agreement (IMA)	The Investment Manager is engaged under an IMA to manage the Company's assets, subject to the overall supervision of the Directors.
Investment policy	Published, FCA approved policy that contains information about the policies which the Company will follow relating to asset allocation, risk diversification, and gearing, and that includes maximum exposures. This is a requirement of Listing Rule 15.
Key performance indicator (KPI)	The Company's environmental and performance targets are measured by KPIs which provide a strategic way to assess its success towards achieving its objectives.
Like-for-like	Comparisons adjusted to exclude assets bought or sold during the current or prior year.
Market Abuse Regulation (MAR)	Regulations to which the Company's code for Directors' share dealings is aligned.
Minimum Energy Efficiency Standards (MEES)	MEES regulations set a minimum energy efficiency level for rented properties.
Net asset value (NAV)	Equity attributable to owners of the Company.
NAV per share total return	The movement in EPRA Net Tangible Assets per share plus the dividend paid during the period expressed as a percentage of the EPRA net tangible assets per share at the beginning of the period.
Net gearing/loan-to-value (LTV)	Gross borrowings less cash (excluding rent deposits), divided by property portfolio value.

Term	Explanation
Net initial yield (NIY)	Annualised cash rents at the year-end date, adjusted for the expiration of lease incentives, divided by property valuation plus estimated purchaser's costs.
Net rental income	Annualised cash rents at the year-end date, adjusted for the expiration of lease incentives, less estimated non-recoverable property operating expenses including void costs and net service charge expenses.
Net tangible assets (NTA)	NAV adjusted to reflect the fair value of trading properties and derivatives and to exclude deferred taxation on revaluations.
Ongoing charges ratio (OCR)	Expenses (excluding operating expenses of rental property recharged to tenants) divided by average quarterly NAV, representing the Annual running costs of the Company.
Passing rent	Annualised cash rents at the year-end date, adjusted for the expiration of lease incentives.
Real Estate Investment Trust (REIT)	A property company which qualifies for and has elected into a tax regime which is exempt from corporation tax on profits from property rental income and UK capital gains on the sale of investment properties.
Revolving credit facility (RCF)	Variable rate loan which can be drawn down or repaid periodically during the term of the facility.
Reversionary potential	Expected future increase in rents once reset to market rate.
Share price total return	Share price movement including dividends paid during the year.
Sterling Overnight Index Average (SONIA)	Base rate payable on variable rate bank borrowings before the bank's margin.
Streamlined Energy and Carbon Report (SECR)	SECR requirements aim to put green credentials into the public domain and help organisations achieve the benefits of environmental reporting.
Value add real estate	Generally moderate-to-higher risk and target returns, often representing properties requiring significant levels of asset management to improve the building and secure new lettings.
Weighted average cost of drawn debt facilities	The total loan interest cost per annum, based on prevailing rates on variable rate debt, divided by the total debt in issue.
Weighted average unexpired lease term to first break or expiry (WAULT)	Average unexpired lease term across the investment portfolio weighted by contracted rent.

FINANCIAL CALENDAR

11 May 2023	Ex-dividend date for fourth interim dividend
12 May 2023	Record date for fourth interim dividend
31 May 2023	Payment of fourth interim dividend
15 June 2023	Announcement of results for the year ended 31 March 2023
8 August 2023	AGM

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