INVESTOR UPDATE

ethicalproperty

2023: ISSUE 1

FINANCE DIRECTOR'S UPDATE

It was lovely to see so many of you at our recent AGM. Thank you for coming and for the questions that you sent in. If you weren't able to make it, in this issue we summarise the main challenges we face and our plans to address them and deliver on our triple bottom line objectives, as presented at the meeting.

Feedback on the results of the voting is included, and you can read about the work of campaigns group We Own It, whose founder Cat Hobbs presented at the AGM. Also in this issue, we report on our progress on cutting carbon emissions and where we aim to make further cuts (page 6). Following separate audits of our social and environmental impact for the first time last year, we've also set new targets for social impact (page 5).

The financial performance for the first quarter is better than last year. Occupancy in the buildings is higher and operating profit is significantly higher than the same period last year. However, higher interest rates create a challenge in returning to profitability. This is discussed in more detail in the financial results.

In the last quarterly report, we requested your feedback in a short survey – thank you to everyone who has already responded. We would like to gather input from more investors, so the survey is still open. If you haven't completed it yet, we would be very grateful if you could do so before 17 April. We will share the results in the next issue.

Cate Teideman
Finance Director

PS. If you have any questions or comments, we'd love to hear them. Email us today at: **invest@ethicalproperty.co.uk**

> "In this issue we summarise the main challenges we face and our plans to address them"

It's not too late...

... to tell us what you think of our investor updates. What would you like to see more of? What could you do without? Please take a few minutes of your time to complete our investor survey. Thank you.

AGM UPDATE

FUTURE **PLANS**

We would like to thank all those who joined us for our AGM on 15 March, either in person in Oxford, or online. It was good to meet you, to take the opportunity to present our recent performance and future plans to you, and to hear your observations and questions. For those who were unable to attend, details of our performance during 2021-22 are available in the *Annual Report* and the *Environmental and Social Impact Report*. Here we would like to take the opportunity to provide a brief summary of the main themes of our future plans.

We are facing a number of challenges at present, the three most important of which are:

1. **changes in the demand for workspace**, with weaker demand in London and stronger demand in the regional cities where we operate;
2. **falling property values**, particularly in London, and higher interest charges on our debt owing to the recent rises in short-term interest rates;
3. **secondary liquidity for company shares is poor**, with few trades at low prices, which is not reflective of the true value of the company and its prospects.

The Board and the Senior Management Team have a clear focus to address these challenges.

Having reviewed our portfolio, we have decided to sell one or two of our London centres, and have put The Green House, our largest property, on the market. This might take the form of an outright sale, a partial sale whereby we retain the management, or a sale-and-leaseback arrangement. Once the sales are complete, we will:

1. use the proceeds to **reduce the level of bank debt on our balance sheet**, which will lower our interest cost payments and, in due course, allow us to invest more of the revenues we generate through normal operations in new projects;
2. **bring forward detailed proposals for a share buyback**, to allow those shareholders who wish to sell shares to do so, with the intention to follow this with regular dividend payments to existing shareholders and proposals for regular liquidity events at which company shares can be bought and sold;
3. **invest in new projects** where we see strong demand for our services, ideally in partnership with other organisations, which will deliver additional social, environmental and financial impacts that benefit shareholders, tenants and the wider community.

The underlying operating model of the company remains robust and demand for our services is growing. We face some significant short-term challenges, but the company leadership has a clear plan to overcome these challenges and move the company into a position in which we are able to deliver the triple bottom line objectives that the Ethical Property Company has long championed.

The Ethical Property Board

RESULTS FROM AGM VOTES

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		VOTES FOR	VOTES AGAINST	WITHHELD	RESULT*
Ordinary Resolution 1	To receive audited reports and accounts	2,628,465	100	0	Resolution passed
Ordinary Resolution 2	To reappoint Moore Kingston Smith LLP as auditor	2,627,965	100	500	Resolution passed
Ordinary Resolution 3	To approve the Social Report	2,597,225	100	31,240	Resolution passed
Ordinary Resolution 4	To reappoint Heidi Fisher MBE of Make an Impact CIC as the auditor of the Social Report	2,626,145	680	11,740	Resolution passed
Ordinary Resolution 5	To approve the Environmental Report	2,616,725	100	11,740	Resolution passed
Ordinary Resolution 6	To reappoint Environmental Monitoring Solutions as the auditor of the Environmental Report	2,604,725	100	23,740	Resolution passed
Ordinary Resolution 7	To elect Mark Hannam as a Director of the Company	2,617,085	1,480	10,000	Resolution passed
Ordinary Resolution 8	To elect Jennifer Ekelund as a Director of the Company	2,628,465	100	0	Resolution passed

* More than 50% of votes cast required to pass a resolution

AGM UPDATE

WE OWN IT

We Own It campaigns for public ownership of public services. We were delighted that its founder, Cat Hobbs, joined us at our AGM to tell us more about its work.

Cat formed We Own It in 2013, initially working on her own from home, to address the privatisation of public assets such as the NHS, public transport, water, energy, Royal Mail and the media. In 2015, We Own It moved into The Old Music Hall, where it has continued to grow and to punch well above its weight in terms of impact.

Covering a wide range of public services and assets, We Own It supports and often leads the campaigns that bring many people together to call for change. Cat highlighted some of its recent successes, including at a national scale, such as helping to ensure that Channel Four remains safely out of the hands of the private sector. In March 2021, following a We Own It campaign, 'Better Buses for Greater Manchester', the Mayor of Greater Manchester Andy Burnham decided to bring the region's buses back into public control. This was hailed a 'game changer' for public transport and a vital step towards public services being run for the benefit of the communities they serve.

Cat explained that there are many advantages to taking space in an Ethical Property centre. It has given the organisation the flexible space to operate as it grows; it now has six staff members and has been able to change space five times to accommodate that growth. The opportunity to collaborate is also appreciated, whether it's just having a chat with someone over lunch in the communal spaces or seeking advice and knowledge from others who are experts in their field.

Cat made it clear that not all investors and companies do damage – Ethical Property is an example of investment doing good – but when it comes to organisations that fall within the public sector, private ownership is not in the best interest of the majority of people.

To find out more and get involved, visit: www.weownit.org.uk

> "Being in an Ethical Property centre has given the organisation the flexible space to operate as it grows"

LEADING THE CHARGE ON SOCIAL IMPACT REPORTING

'Triple Bottom Line' or 'Environmental, Social and Governance', whatever your preferred term, the importance of being a socially responsible company has grown so much in the last 25 years. When Ethical Property started, we stood out as one of the very few organisations that reported on our environmental and social impact alongside our financials, and thankfully this has now become commonplace.

There are of course some who only see the monetary benefits of reporting, and 'Greenwashing' – a company's exaggeration of their environmental credentials to attract more customers or investors – is a worrying trend. Unfortunately, this approach also seems to be spreading into social impact reporting, with some major brands finding themselves in the spotlight for the wrong reasons.

As a company that has reported on our social impact from the very start, we wanted to make sure that going forward we are still leading the charge. So last year we spent a lot of time finding both environmental and social impact auditors with specific expertise in these areas. We were surprised at how few true social impact auditors there are. With no real regulations in place in the UK on social (unlike environmental) impact reporting, finding an organisation who would hold us to account as well as challenge us was not the easiest of tasks. So we were pleased when our search led us to Make an Impact CIC.

Make an Impact CIC and its founder Heidi Fisher MBE are leading the field in supporting non-profits and social enterprises to hold themselves to account and increase their social impact. Their audit was extremely thorough; they took time to explore the work we do and spoke to our local teams to get a real feel for our work, rather than just relying on the reports we sent them. We certainly felt that we had been challenged and pointed in the right direction to build on our achievements. You can read their findings within our *Environmental and Social Impact Report*.

> "We will continue to challenge and push ourselves to do more"

One of the most important tasks within any organisation is to find ways to learn and improve. Following the social auditor's recommendations, we have already started work on a set of social impact targets that any of our centres can sign up to. This will help us increase our impact at a more grassroots level and to prove that no matter how big or small our centres, they can all play a part in ensuring we live up to our founding values. We will continue to challenge and push ourselves to do more. This will be reflected in the annual updates to our *Adherence Framework* to keep us at the forefront of ethical business.

CUTTING OUR CARBON – WHAT NEXT?

Our progress towards Net Zero is affected by several factors.

For example:

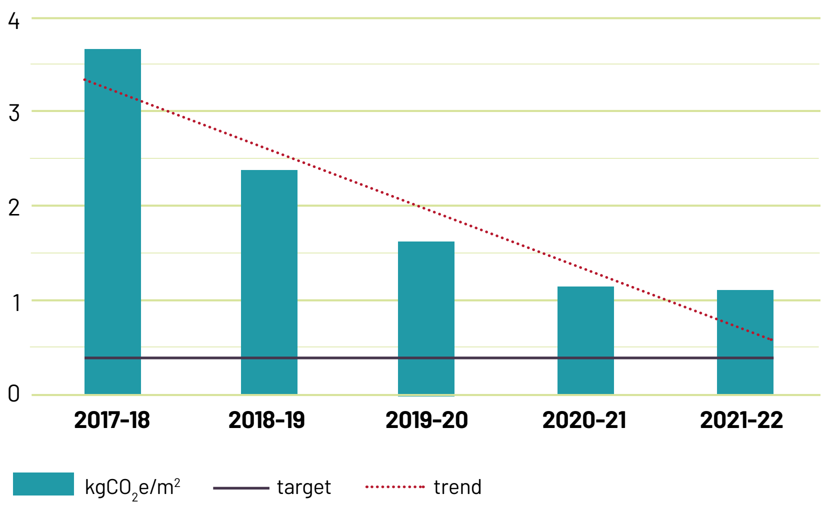
- improvements that can be made to our properties to reduce energy or water use;
- changes that we can make to energy sources, e.g. switching from natural gas to biogas;
- behaviour change, e.g. people choosing to cycle to work;
- decarbonisation of the national grid.

The graph below shows the progress we have made in reducing the carbon emissions from our properties over the past five years. The trend is clearly going in the right direction, but the rate of progress has slowed and plateaued.

In the early years we were able to find some 'easy wins' as we moved most properties onto biogas contracts and made energy efficiency improvements, such as replacing lighting with LED panels. Carbon emissions associated with water treatment have also reduced by about 60% over the period. To continue making progress, we need to understand what the major sources of carbon are now.

"To continue making progress, we need to understand what the major sources of carbon are now"

Total carbon emissions/m² showing progress towards 50% reduction target*



* Electricity, gas, wood, water and refrigerants only

The pie chart on the right shows the sources of our carbon emissions in the past year, with 63% of our emissions being from natural gas, 23% from refrigerants associated with air conditioning, and 11% from water.

Natural gas is still being used at two of our properties, Brighton Junction and Streamline in Bristol, as they are part of wider 'district heating systems' that serve multiple commercial and residential properties and which are not controlled by us.

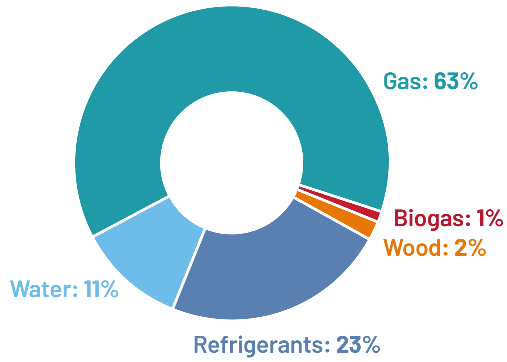
Streamline's heating is entirely from natural gas; Brighton Junction's heating is designed to be from wood, but last year the wood boiler was not working properly and the backup is natural gas.

The second pie chart shows that 57% of our carbon emissions were from Streamline, 10% from Brighton Junction, and the remaining 33% were from the rest of the portfolio combined. So a key priority is to work with the operators of these district heating systems to seek to reduce the amount of natural gas they are using.

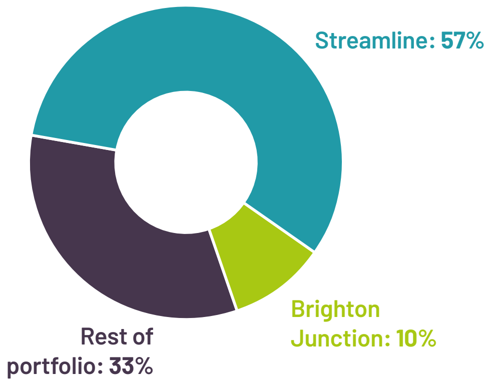
Many of our properties have some form of air conditioning, even if only for cooling the comms room. We will be consulting with the engineers that maintain these systems to help us understand how we can reduce the global warming potential, e.g. by switching refrigerants.

We have also started measuring the carbon associated with our business travel and the waste generated from the use of our properties. These figures will be used to update the baseline against which we measure carbon reduction, and future annual reports will include this, to continue to improve our carbon reporting.

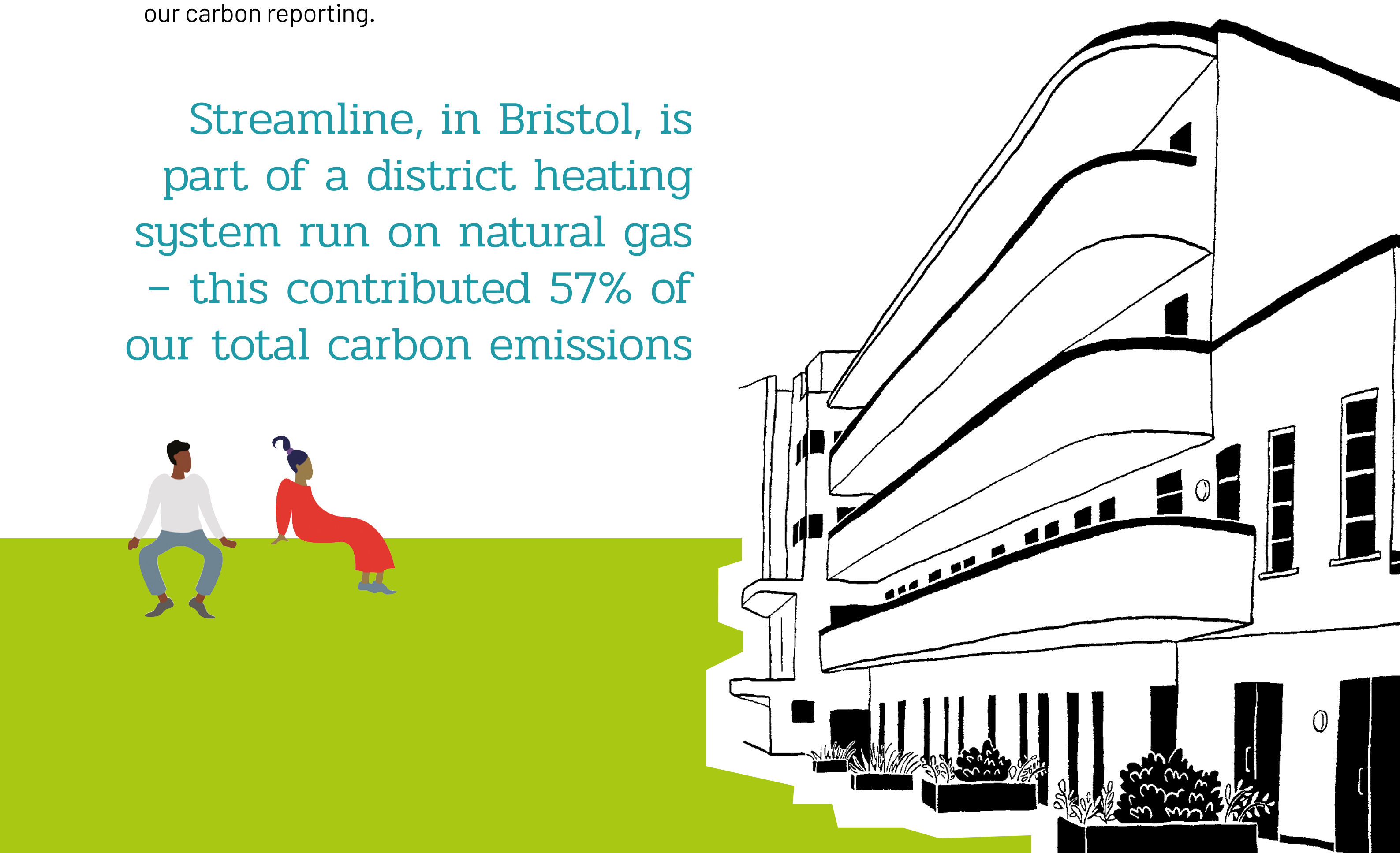
Breakdown of carbon emissions 2021-22



Carbon emissions 2021-22 highlighting impact of natural gas



Streamline, in Bristol, is part of a district heating system run on natural gas – this contributed 57% of our total carbon emissions



FINANCIAL RESULTS

For the first quarter ended 31 December 2022

£'000	Current year Quarter 1	Prior year to date (31 Dec 2021) Quarter 1	Variance £'000	Variance %
Turnover	1,432	1,293	139	11%
Cost of sales	(787)	(726)	(61)	-8%
Gross profit	**645**	**567**	**78**	**14%**
Administrative expenses	(476)	(520)	44	8%
Operating profit	**169**	**47**	**122**	**260%**
Interest payable	(341)	(246)	(95)	-39%
(Loss)/profit before tax	**(172)**	**(199)**	**27**	**14%**
Occupancy (average)	77%	71%		6%

Please note that these financial results are produced internally and have not been reviewed or audited. They do not include revaluation of property, investments or financial instruments. Audited financial statements are produced annually and are included in the Annual Report.

COMMENTARY ON FINANCIAL PERFORMANCE

The first quarter was a good start to the financial year. Average occupancy was 77%, which is an improvement of 3% on last quarter and 6% higher than the same period last year. This has increased turnover by 11% compared to last year. Growth in occupancy has come from The Green House in London and Streamline in Bristol.

Cost of sales is higher as the buildings are fuller, more utilities are consumed, and more cleaning and building maintenance are required. Costs are passed on to tenants where appropriate. Utilities prices will increase in April but will not be as high as feared. The key priority remains to improve energy efficiency in the buildings to reduce consumption.

We aim to keep administrative expenses as low as possible and have implemented a number of cost-saving initiatives. As a result, administrative expenses are 8% lower than last year. We are planning to invest in new IT solutions in the second half of this year to improve operational efficiency of the business.

Interest rates have increased over the last six months. The interest rate swap provides a deal of protection but the cost for this quarter was £341k, which is 39% higher than last year. At the AGM, we outlined our plans to reduce debt in order to reduce the impact of higher interest rates in the future. This is a key part of returning to profitability.

Overall the loss for the first quarter is £172k, an improvement of 14% from prior year.

Thank you for your continuing support.

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