



Investing in
our portfolio

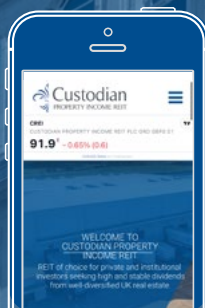


WELCOME

Company background and investment strategy

Welcome to the Custodian Property Income REIT plc Interim Report 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 properties with strong income characteristics let to predominantly institutional grade tenants across the UK



For more
information visit:
custodianreit.com

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Our reporting

Annual Report 2023

custodianreit.com



ESG Report 2023

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PROPERTY HIGHLIGHTS

A year of defensive earnings performance

Property value

£609.8m

31 March 2023: £613.6m,
30 September 2022: £685.4m

Property valuation decreases

£15.6m

Primarily relating to decreases in the following sectors:

- Office - £8.9m
- Retail warehouse - £5.2m

Disposal proceeds

£1.6m

High street retail units in Bury St Edmunds and Cirencester sold at auction in line with valuation

Capital expenditure

£12.2m

Primarily comprising:

- £4.6m refurbishing offices in Manchester and Leeds
- £3.4m redeveloping an industrial unit in Redditch
- £1.3m buying the long-leasehold of a unit at a 10-unit industrial asset in Knowsley
- £1.1m refurbishing an industrial unit in Ashby-de-la-Zouch
- £1.0m reconfiguring retail assets in Shrewsbury and Liverpool

The Company presents alternative performance measures ("APMs") to assist stakeholders in assessing performance alongside the Company's results on a statutory basis.

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 19.



FINANCIAL HIGHLIGHTS

	6 months ended 30 Sept 2023	6 months ended 30 Sept 2022	12 months ended 31 Mar 2023	Comments
Financial highlights and performance summary				
<i>Returns</i>				
EPRA ¹ earnings per share ²	2.9p	2.8p	5.6p	Rental growth and improvement in occupancy have offset administrative cost inflation and higher finance costs
Basic and diluted earnings per share ³	(0.6p)	(3.2p)	(14.9p)	Current period loss reflects valuation decreases of £15.6m
(Loss)/profit before tax (£m)	(2.7)	(14.1)	(65.8)	
Dividends per share ⁴	2.75p	2.75p	5.5p	Target dividend per share for the year ended 31 March 2024 of not less than 5.5p
Dividend cover ⁵	107.1%	102.0%	102.2%	In line with the Company's policy of paying fully covered dividends
NAV total return per share ⁶	(0.7%)	(2.7%)	(12.5%)	2.8% dividends paid and a 3.5% capital decrease
Share price total return ⁷	(4.4%)	(2.0%)	(7.0%)	Share price decreased from 89.2p to 82.5p during the Period
<i>Capital values</i>				
NAV and EPRA NTA ⁸ (£m)	422.8	501.4	437.6	NAV decreased due to £15.6m of valuation decreases
NAV per share and NTA per share	95.9p	113.7p	99.3p	
<i>Borrowings</i>				
Net gearing ⁹	29.6%	25.5%	27.4%	Increased due to capital expenditure during the Period
Weighted average cost of drawn debt facilities	4.2%	3.5%	3.8%	Majority fixed rate debt insulating the Company from a 1% rise in base rates during the Period
<i>Costs</i>				
Ongoing charges ratio ("OCR") excluding direct property expenses ¹⁰	1.23%	1.20%	1.23%	
<i>Environmental</i>				
Weighted average energy performance certificate ("EPC") rating ¹¹	C(56)	C(58)	C(58)	EPCs updated across 39 properties demonstrating continuing improvements in the environmental performance of the portfolio

1. The European Public Real Estate Association ("EPRA").
2. Profit after tax, excluding net gains or losses on investment property, divided by weighted average number of shares in issue.
3. Profit after tax divided by weighted average number of shares in issue.
4. Dividends paid and approved for the year.
5. Profit after tax, excluding net gains or losses on investment property, divided by dividends paid and approved for the period.
6. Net Asset Value ("NAV") movement including dividends paid during the period on shares in issue at 31 March 2023.
7. Share price movement including dividends paid during the Period.
8. EPRA net tangible assets ("NTA") does not differ from the Company's IFRS NAV or EPRA NAV.
9. Gross borrowings less cash (excluding deposits) divided by property portfolio value.
10. Expenses (excluding operating expenses of rental property) divided by average quarterly NAV.
11. Weighted by floor area. 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 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.



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 policy¹² is summarised below:

- To invest in a diverse portfolio of UK commercial, real estate, principally characterised by smaller, regional, core/core-plus properties that provide enhanced income;
- 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 two¹³, 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 properties with the intention of owning the completed development; and

- 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.

12. A full version of the Company's Investment Policy is available at custodianreit.com.

13. A risk score of two represents "lower than average risk".

BUSINESS MODEL AND STRATEGY CONTINUED

Differentiated property strategy

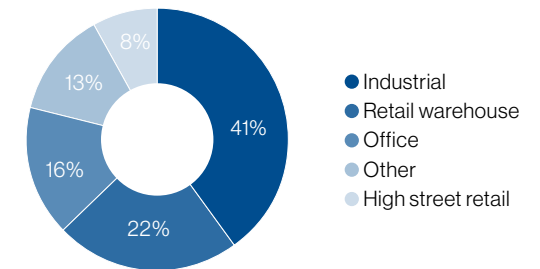
The Company's portfolio is focused on smaller, regional, core/core-plus assets which helps achieve our target of high and stable dividends from well-diversified real estate by offering:

- 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.



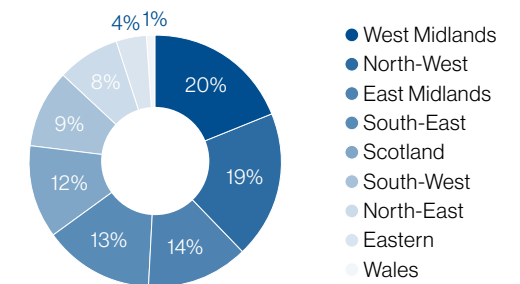
Sector

Weighting by income 30 September 2023

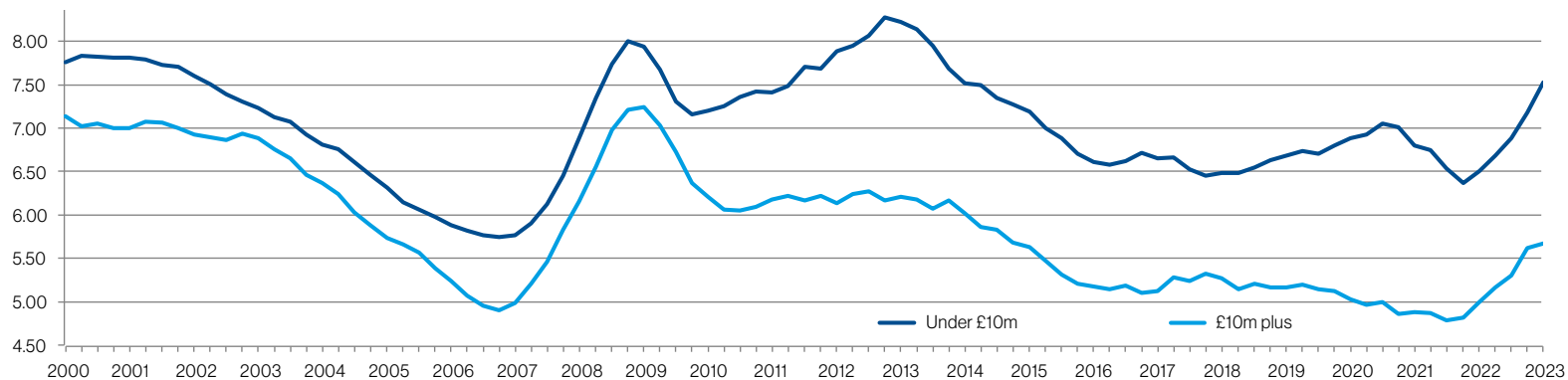


Location

Weighting by income 30 September 2023



1 year rolling average transaction yield %



BUSINESS MODEL AND STRATEGY CONTINUED

Our environmental, social and governance (“ESG”) objectives

1 Improving the energy performance of our buildings

Investing in carbon reducing technology, infrastructure and on-site 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

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

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



**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.

CHAIR'S STATEMENT

A year of change, challenge and opportunity



David
MacLellan
Chair



The Board acknowledges the importance of income for shareholders and its objective is to grow the dividend on a sustainable basis

Custodian Property Income REIT's strategy is to invest in a diversified portfolio which, at 30 September 2023, comprised 159 properties geographically spread throughout the UK and across a diverse range of sectors, with a portfolio yielding 6.4%¹⁴. With an average property value of c.£4m and no one tenant accounting for more than 1.75% of the Company's rent roll, property specific risk and tenant default risk are significantly mitigated.

This diversified strategy and strong focus on income has served to deliver relatively stable returns against a background of weak sentiment towards commercial property investment and volatility across the sector. Share price total return was -4.4% and NAV total return -0.7% for the six months to 30 September 2023 with a fully covered dividend providing a significant and defensive component of total returns.

Despite rising interest rates increasing the Company's weighted average cost of debt from 3.8% at 31 March 2023 to 4.2%, earnings have been resilient with EPRA EPS of 2.9p (2022: 2.8p) for the Period, supported by:

- Occupancy increasing since 31 March 2023 from 90.3% to 91.5%. Subject to the conclusion of deals agreed, we expect occupancy to be above 93% by the end of the financial year; and
- The rent roll growing from £42.1m at 31 March 2023 to £43.2m. The estimated rental value ("ERV") of the portfolio has also grown from £49.0m to £49.7m, providing a reversionary potential of 15.0%.

In line with the Company's objective to be the REIT of choice for institutional and private investors seeking high and stable dividends from well diversified UK commercial real estate, I was pleased to be able to announce that dividends per share of 2.75p (2022: 2.75p) have been declared relating for the six months to 30 September 2023. The Board expects to continue to pay quarterly dividends per share of 1.375p to achieve a fully covered target dividend per share for the year ending 31 March 2024 of no less than 5.5p.

The Board acknowledges the importance of income for shareholders and its objective is to grow the dividend on a sustainable basis at a rate which is fully covered by projected net rental income and does not inhibit the flexibility of the Company's investment strategy.

Portfolio

Since the Period end the Company has sold a children's day nursery for £0.6m and has a further four properties valued at £12.4m under offer to sell, which are expected to generate sales proceeds of c.£14m.

Further property sales are under active consideration. Sale proceeds will be used to continue the Company's ongoing capital expenditure programme and reduce the drawn revolving credit facility to support net earnings. The Company's property investment strategy, which targets smaller regional properties, often provides strategic options to re-lease or to sell at lease expiry. This optionality exists because there is an active owner-occupier market for smaller regional properties, which is much less the case for larger assets. As a result, two of the four properties under offer are vacant buildings which are being sold ahead of investment value to owner-occupiers or developers. Concluding sales without foregoing rental income is strongly positive to earnings. The remaining pipeline of sales are also accretive to earnings with sales forecast to be concluded at prices reflecting yields, in aggregate, below the cost of the Company's variable rate debt.

Net asset value

The NAV of the Company at 30 September 2023 was £422.8m, approximately 95.9p per share, a decrease of 3.4p or 3.4% since 31 March 2023:

	Pence per share	£m
NAV at 31 March 2023	99.3	437.6
Valuation movements relating to:		
- Asset management activity	1.4	6.1
- Other valuation movements	(5.0)	(21.8)
Net losses on investment property	(3.6)	(15.7)
EPRA earnings	2.9	13.0
Dividends paid ¹⁵ during the Period	(2.7)	(12.1)
NAV at 30 September 2023	95.9	422.8

14. EPRA topped-up net initial yield.

15. Dividends of 2.75p per share were paid during the Period on shares in issue throughout the Period.

CHAIR'S STATEMENT CONTINUED

Borrowings

The Company's net gearing increased from 27.4% LTV at 31 March 2023 to 29.6% during the Period.

The proportion of the Company's drawn debt facilities with a fixed rate of interest was 76% at 30 September 2023 (31 March 2023: 81%), significantly mitigating interest rate risk for the Company and maintaining a beneficial margin between the weighted average cost of debt of 4.2% (31 March 2023: 3.8%) and income returns from the property portfolio. The Company's debt is summarised in Note 14.

Board

After nine years of service, David Hunter retired as Non-Executive Chair of the Company at the annual general meeting ("AGM") on 8 August 2023, in line with its succession plan. David chaired the Board from the Company's IPO in 2014. On behalf of our shareholders, the Board would like to thank him for his significant contribution to the development of the Company over that period.

Following a search process in line with the Company's policy when hiring new Board members, I joined the Board on 9 May 2023 and assumed the Chair at the AGM in August 2023. I look forward to working with my colleagues on the Board to continue to deliver the strategy as summarised in the Business Model and Strategy section of this report.

Our policy on board diversity is summarised in the Annual Report. The Company follows the AIC Corporate Governance Code but, at present, we do not meet the FCA's newly introduced 'comply or explain' targets for female and minority ethnic representation. Custodian Property Income REIT is an investment company with no Executive Directors and a small

Board compared to equivalent size listed trading companies. The Nominations Committee considers diversity in a broad sense, not limited to gender or ethnicity, including socio-economic background and education. 17% of the Board are from working class backgrounds¹⁶ and 67% attended state-run school. The Board also welcomes the diversity offered by the Investment Management team working with the Company, which has a 35% minority ethnic representation and is 43% female.

ESG

As Richard Shepherd-Cross explains in the Investment Manager's report, ESG considerations are now central to the asset management of our portfolio and are vital to protecting future value and income. The Company has made further pleasing progress implementing its environmental policy during the Period, improving its weighted average EPC score from C (58) to C (56) due to completing refurbishments and new lettings, further detailed in the ESG Committee report.

General meeting voting

At the Company's AGM on 8 August 2023 resolutions to re-elect Ian Mattioli and Elizabeth McMeikan as Directors of the Company received votes against of 41.6% and 23.7% respectively, which comprised 9.8% and 5.8% respectively of total shareholders due to a 23% turnout rate. I have since sought feedback from shareholders, which identified that votes against were primarily a result of perceived 'over-boarding' due to Ian's roles as CEO of Mattioli Woods plc and Chair of Kanabo Group plc, and Elizabeth's roles as Chair of Nichols plc and Non-Executive Director of Dalata Hotel Group plc and McBride plc. These institutional

shareholders applied stricter internal voting policies than Institutional Shareholder Services which allow fewer 'mandates' and their voting policies do not acknowledge the generally lower time commitments as Directors of investment companies or companies of a relatively small size. The Nominations Committee is satisfied with Ian and Elizabeth's attendance and responsiveness to the demands of being Directors of the Company. I believe additional roles offer Directors helpful insight and experience which benefits the Boards on which they sit and I do not intend to ask my colleagues to reduce their additional roles.

The Company's Articles require that at every seventh AGM a Continuation Resolution be proposed but at the 2020 AGM this was not brought to the attention of the Board and, as a result, a Continuation Resolution was not proposed. On 21 November the Company passed a Special Resolution at a General Meeting ("GM") to release the Company and its directors from an historical obligation to propose a Continuation Vote at the 2020 AGM and ratify this breach of the Company's Articles. The Continuation Resolution in 2020 was overlooked during a period of strong performance by the Company relative to its peers and amidst the COVID-19 pandemic. Shareholders were not pressing for such a resolution at that time and the Board is not aware of any desire for a Continuation Resolution to be considered at this stage either. As a result, the Board did not propose a replacement Continuation Resolution at the GM on 21 November 2023 and the next Continuation Resolution will be proposed at the fourteenth AGM of the Company expected to be held in 2027.

Outlook

Over the last five years the Custodian Property Income REIT strategy has provided shareholders with an income return per share of 28.4p, or an annual average of 5.7p, always fully covered by earnings, supported by both a diverse, regional property strategy and a conservative gearing policy as well as a hands-on and detailed approach to both managing the assets themselves and buying and selling well. Negative sentiment towards real estate investment is currently weighing against capital performance. This sentiment is driven primarily by the potential for persistent inflationary pressure to mean 'higher-for-longer' interest rates, uncertainty around the future of offices and the impact of the UK's general economic outlook on discretionary consumer expenditure. However, as the Investment Manager sets out below, there is depth in occupational demand and latent rental growth in the portfolio which offers the prospect of growth for existing shareholders, as sentiment improves towards the sector.

David MacLellan

Chair

5 December 2023

INVESTMENT MANAGER'S REPORT

A year of investment in our portfolio



The portfolio offers a defensive strategy to investors

Property market

The disconnect between the occupational and investment markets in UK real estate continues to persist. While the impacts of high inflation and interest rates appear to weigh heavily on investor sentiment, perhaps the greater influence has been the marked re-rating of valuations in the final quarter of 2022, which still seems to colour investors' attitude to real estate investment.

However, since the start of 2023 valuations have been reasonably stable across the market, with some sub-sectors showing signs of recovery while others continue to drift, albeit at a much reduced rate. The outcome for the NAV of Custodian Property Income REIT has been a marginal decrease of 3.9% over the past three quarters.

By contrast, occupational demand has been consistently strong and our asset management team has been able to capitalise on this to reduce vacancy and increase in the portfolio rent roll.

It is the strength of the occupational market driving rental growth and low vacancy that will ultimately support fully covered dividends and earnings growth. Income and earnings remain our central focus, as it is income that will deliver positive total returns for shareholders. On this basis we remain cautiously optimistic.

Custodian Property Income REIT has a diversified portfolio comprising 159 properties with an average value of c.£4m and no one tenant in any single property accounting for more than 1.75% of the Company's rent roll. This spread significantly mitigates property specific risk and tenant default risk.

Strong recent leasing activity demonstrates the resilience of Custodian Property Income REIT's well-diversified investment portfolio. 23 new leases/lease renewals have been signed during the Period securing £2.8m of annual rent. Seven rent reviews have been settled at a weighted average of uplift 16%.

EPRA earnings per share of 2.9p showed an annualised earnings yield¹⁷ of 7.1% at 30 September 2023 and 6.7% at the time of writing. As pricing for listed property companies is increasingly out of step with NAV, we believe earnings yield is a more reliable measure of value and comparator between different companies with differing strategies, as income supports the greater part of total return. On this measure the Company rates strongly against its close peers, offering an annual dividend per share of 5.5p, fully covered by net earnings, representing a dividend yield¹⁸ of 6.7% at 30 September 2023 and 6.3% at the time of writing.

76% of the Company's drawn debt facilities are at fixed rates of interest with the balance drawn on a variable rate revolving credit facility. The Company's weighted average term and cost of drawn debt at 30 September 2023 were 5.2 years and 4.2% respectively. Thanks to a strong balance sheet with significant covenant headroom and no debt facility maturing until August 2025 the Company is under no immediate pressure to sell and the relatively low cost of debt should remain accretive to earnings over the medium-term.



17. Annualised EPRA earnings per share divided by the prevailing share price (82.5p at 30 September 2023, 86.8p at 5 December 2023).

18. Annual target dividend per share of 5.5p divided by the prevailing share price (82.5p at 30 September 2023, 86.8p at 5 December 2023).

INVESTMENT MANAGER'S REPORT CONTINUED

Property portfolio performance	30 Sept 2023	30 Sept 2022	31 Mar 2023
Property portfolio value	£609.8m	£685.4m	£613.6m
Separate tenancies	336	335	319
EPRA occupancy rate	91.5%	89.3%	90.3%
Assets	159	165	161
Weighted average unexpired lease term to first break of expiry ("WAULT")	4.8 years	4.8 years	5.0 years
EPRA topped-up net initial ("NIY")	6.4%	5.8%	6.2%
Weighted average EPC rating	C (56)	C (58)	C (58)



Strong recent leasing activity demonstrates the resilience of Custodian Property Income REIT's well-diversified investment portfolio

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

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:

The current sector weightings are:

Sector	Valuation 30 Sept 2023 £m	Weighting by income ¹⁹ 30 Sept 2023	Valuation 31 Mar 2023 £m	Weighting by income 31 Mar 2023	Valuation movement £m	Weighting by value 30 Sept 2023	Weighting by value 31 Mar 2023
Industrial	303.2	41%	295.1	40%	1.4	49%	48%
Retail warehouse	127.6	22%	131.8	23%	(5.2)	21%	21%
Other	78.1	16%	78.6	13%	(1.5)	13%	13%
Office	67.5	13%	71.7	16%	(8.9)	11%	12%
High street retail	33.4	8%	36.4	8%	(1.4)	6%	6%
	609.8	100%	613.6	100%	(15.6)	100%	100%



19. Current passing rent plus ERV of vacant properties.

INVESTMENT MANAGER'S REPORT CONTINUED

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 high street retail units in Bury St Edmunds and Cirencester during the Period at auction in line with valuation for an aggregate consideration of £1.6m.

Since the Period end the Company has sold a day nursery in Chesham at valuation for £0.55m and has a further £12.4m of property under offer which is expected to complete before the end of the financial year, in aggregate, ahead of valuation.

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 ambitious 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.

We are aware of recent public concerns regarding reinforced autoclaved aerated concrete ("RAAC"). We have undertaken an internal portfolio review, identifying assets constructed between the 1950s and mid-1990s (when RAAC use was prevalent) and where concrete beams have been used in their construction. This review identified a low number of assets, primarily small retail units, potentially using RAAC for which we undertook a detailed review of pre-acquisition building surveys, base build diagrams, sectional floor plans, structural surveys, licences to alter, photographs as well as queries direct with building surveyors. In all circumstances this review indicated that RAAC was not evident in the construction of the buildings.

Outlook

Rental growth from real assets, diversified by tenant, location and sector and supported by a strong balance sheet provides a robust model to face down current market volatility. Accordingly, we remain optimistic for returns from Custodian Property Income REIT and confident that the smaller regional property portfolio will continue to support fully covered dividends while offering a defensive strategy to investors.

Richard Shepherd-Cross

For and on behalf of Custodian Capital Limited
Investment Manager
5 December 2023



ESG COMMITTEE REPORT

Improving the environmental performance of our portfolio



Hazel Adam
Chair of the ESG Committee

The Company's ESG policy commits the Company to:

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

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.

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. 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.

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 primary responsibilities of the ESG Committee ("the Committee") are to agree the Company's environmental KPIs, monitor performance against those KPIs and ensure the Investment Manager is managing the property portfolio in line with the ESG policy.

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 maximised.



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 lower carbon technology, infrastructure and on-site 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.

ESG COMMITTEE REPORT CONTINUED

Environmental key performance indicators

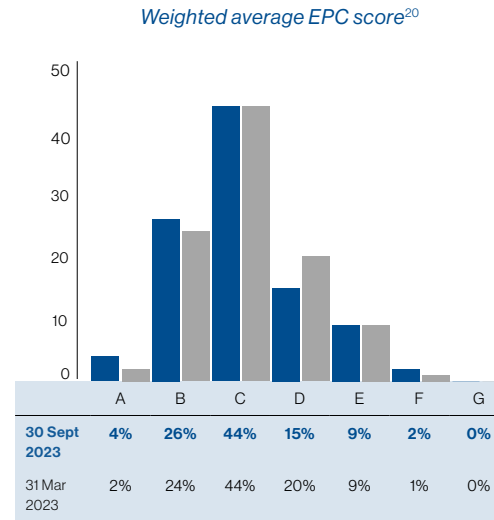
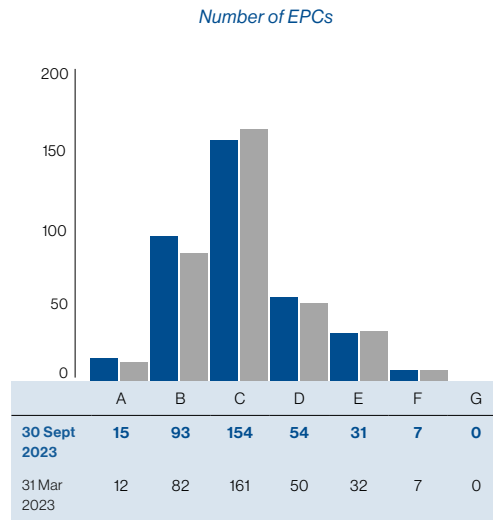
The Company's performance against its KPIs is set out in the ESG Report linked on the previous page.

EPC ratings

During the Period the Company has updated EPCs at 73 units across 39 properties for properties where existing EPCs had expired or where works had been completed, improving the weighted average EPC rating from C (58) at 31 March 2023 to C (56). Some of the properties showing an improvement are detailed below:

- Redditch – a refurbishment of an industrial unit improved the EPC rating from C (59) to A (12)
- Winsford - a refurbishment of an industrial unit improved the EPC rating from C (67) to A (25)

The Company's EPC ratings are illustrated below:



Outlook

The Company continue to work towards achieving its ESG targets over the course of the remainder of the 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 assessing our strategy towards creating a carbon reduction pathway.

Approval

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

Hazel Adam

Chair of the ESG Committee
5 December 2023



20. Weighted by floor area.

FINANCIAL REVIEW

Operating a resilient business model



Ed Moore FCA
Finance Director



Increased recurring earnings demonstrate the robust nature of the portfolio despite significant economic headwinds

Rental revenue increased by 5% compared to the period ended 30 September 2022, and on an annualised basis, by 2% from the year ended 31 March 2023. During the Period the Company's rent roll increased by 2.9% from £42.0m at 31 March 2023 to £43.2m at 30 September 2023 driven primarily by occupancy improving from 90.3% to 91.5%.

During the Period we deployed £12.2m of variable rate debt on property redevelopments and refurbishments, most of which will not be income producing until the end of the financial year when the associated properties are let. SONIA increased from 4.2% to 5.2% during the Period and, in aggregate, these rising interest rates and deployment of debt increased finance costs on the Company's variable rate revolving credit facility ("RCF") facility. However, growth in the rent roll more than offset these costs, increasing EPRA earnings per share to 2.9p (2022: 2.8p) and fully covering dividends. This increase in recurring earnings demonstrates the robust nature of the Company's diverse property portfolio despite significant economic headwinds.

Sentiment towards real estate continued to be affected by concerns over the impact of 'higher-for-longer' interest rates on the outlook for medium-term earnings, resulting in a £15.6m loss on investment property and an associated loss before tax of £2.7m (2022: £65.8m loss).

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

Financial summary	Period ended 30 Sept 2023 £000	Period ended 30 Sept 2022 £000	Year ended 31 Mar 2023 £000
Rental revenue	20,654	19,592	40,558
Other revenue	2,175	2,704	3,589
Expenses and net finance costs	(9,844)	(9,932)	(19,359)
EPRA profits	12,985	12,364	24,788
Net loss on investment property	(15,651)	(26,451)	(90,609)
Loss before tax	(2,666)	(14,087)	(65,821)
EPRA EPS (p)	2.9	2.8	5.6
Dividend cover	107.1%	102.0%	102.2%
OCR excluding direct property costs	1.23%	1.20%	1.23%



FINANCIAL REVIEW CONTINUED

Of the Company's £185m of drawn debt facilities 76% are at fixed rates of interest. The Company's weighted average term and cost of drawn debt at 30 September 2023 were 5.2 years and 4.2% respectively (fixed rate only: 6.5 years and 3.4%). 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.

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 27.4% LTV at 31 March 2023 to 29.6% during the Period primarily due to £15.6m of valuation decreases and £12.2m of capital expenditure.

At the Period end the Company had the following facilities available:

- A £45m 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 could be increased to £50m with Lloyds' approval. This facility was renewed after the Period-end with a three-year term and maximum £75m facility limit;
- 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 Real Estate Investors ("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 either 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 either 200% or 250% of the facility's quarterly interest liability.

Debt financing

The Company's debt profile at 30 September 2023 is summarised below:

	30 Sept 2023	30 Sept 2022	31 Mar 2023
Amount	£185.m	£178.0m	£173.5m
Net gearing	29.6%	25.5%	27.4%
Weighted average cost	4.2%	3.5%	3.8%
Weighted average maturity	5.2 years	6.0 years	5.9 years
Percentage of facilities at a fixed rate of interest	76%	79%	81%

At the Period end the Company had £126.2m (20.7% of the property portfolio) of unencumbered assets which could be charged to the security pools to enhance the LTV and interest cover on the individual loans, of which a further £15.2m in the process of being charged.

On 10 November 2023 the Company and Lloyds agreed to extend the RCF for a term of three years, with options to extend the term by a further year on each of the first and second anniversaries of the renewal. The RCF includes an 'accordion' option with the facility limit initially set at £50m, which can be increased up to £75m subject to Lloyds' agreement. The headline rates of annual interest now include a LIBOR transition fee previously applied separately, increasing by 12bps to between 1.62% and 1.92% above SONIA, determined by reference to the prevailing LTV ratio. As a result there is no change to the aggregate margin from the renewal.

Dividends

During the Period the Company paid a fourth interim dividend per share for the financial year ended 31 March 2023 of 1.375p, and the first quarterly dividend per share for the financial year ending 31 March 2024 of 1.375p, relating to the quarter ended 30 June 2023.

In line with the Company's dividend policy the Board approved an interim dividend of 1.375p per share for the quarter ended 30 September 2023 which was paid on 30 November 2023 to shareholders on the register on 27 October 2023.

Ed Moore

for and on behalf of Custodian Capital Limited
Investment Manager
5 December 2023

PRINCIPAL RISKS AND UNCERTAINTIES

The Company's Annual Report for the year ended 31 March 2023 set out the principal risks and uncertainties facing the Company at that time which are also summarised in Note 2.6. This disclosure highlighted inflation as an emerging risk, which has continued during the Period and interest rates have risen sharply as a result.

This prevailing macro-economic situation, potentially exacerbated by the ongoing conflict in Israel, has continued to impact the Company in terms of the cost of materials and labour in carrying out redevelopments, refurbishments and maintenance, and an increase in the cost of its variable rate borrowing. These factors also present an indirect risk through their impact on the UK economy in terms of growth and consumer spending and the consequential impact on occupational demand for real estate. Since the Period end inflation has decreased and as a result the medium-term interest rate outlook has improved, but we believe these risks will pervade into the subsequent financial year and that significant uncertainty remains.

We do not anticipate any changes to the other risks and uncertainties disclosed over the remainder of the financial year.



CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2023

	Note	Unaudited 6 months to 30 Sept 2023 £000	Unaudited 6 months to 30 Sept 2022 £000	Audited 12 months to 31 Mar 2023 £000
Revenue	4	22,829	22,296	44,147
Investment management fee		(1,757)	(2,086)	(3,880)
Operating expenses of rental property				
– rechargeable to tenants		(2,082)	(2,704)	(3,526)
– directly incurred		(1,335)	(1,119)	(3,530)
Professional fees		(394)	(428)	(911)
Directors' fees		(182)	(167)	(318)
Administrative expenses		(327)	(460)	(822)
Depreciation		(41)	(8)	(112)
Expenses		(6,118)	(6,972)	(13,099)
Operating profit before net losses on investment property		16,711	15,324	31,048
Unrealised losses on revaluation of investment property:				
– relating to gross property revaluations	9	(15,632)	(27,742)	(91,551)
– relating to acquisition costs	9	–	(3,404)	(3,426)
Net valuation decrease		(15,632)	(31,146)	(94,977)
(Loss)/profit on disposal of investment property		(19)	4,695	4,368
Net losses on investment property		(15,651)	(26,451)	(90,609)
Operating profit/(loss)		1,060	(11,127)	(59,561)
Finance income	5	30	–	22
Finance costs	6	(3,756)	(2,960)	(6,282)
Net finance costs		(3,726)	(2,960)	(6,260)
Loss before tax		(2,666)	(14,087)	(65,821)
Income tax	7	–	–	–
Loss and total comprehensive expense for the Period, net of tax		(2,666)	(14,087)	(65,821)
Attributable to:				
Owners of the Company		(2,666)	(14,087)	(65,821)
Earnings per ordinary share:				
Basic and diluted (p)	3	(0.6)	(3.2)	(14.9)
EPRA (p)	3	2.9	2.8	5.6

The loss for the Period arises from the Company's continuing operations.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 SEPTEMBER 2023

	Note	Unaudited 30 Sept 2023 £000	Unaudited 30 Sept 2022 £000	Audited 31 Mar 2023 £000
Non-current assets				
Investment property	9	609,757	685,423	613,587
Property, plant and equipment	10	1,677	747	1,113
Total non-current assets		611,434	686,170	614,700
Current assets				
Trade and other receivables	11	4,819	6,019	3,748
Cash and cash equivalents	13	6,697	4,765	6,880
Total current assets		11,516	10,784	10,628
Total assets		622,950	696,954	625,328
Equity				
Issued capital	15	4,409	4,409	4,409
Share premium		250,970	250,970	250,970
Merger reserve		18,931	18,931	18,931
Retained earnings		148,470	227,116	163,259
Total equity attributable to equity holders of the Company		422,780	501,426	437,569
Non-current liabilities				
Borrowings	14	138,748	176,596	172,102
Other payables		570	570	570
Total non-current liabilities		139,318	177,166	172,672
Current liabilities				
Borrowings	14	44,941	–	–
Trade and other payables	12	8,067	10,702	7,666
Deferred income		7,844	7,660	7,421
Total current liabilities		60,852	18,362	15,087
Total liabilities		200,170	195,528	187,759
Total equity and liabilities		622,950	696,954	625,328

These interim financial statements of Custodian Property Income REIT plc were approved and authorised for issue by the Board of Directors on 5 December 2023 and are signed on its behalf by:

David MacLellan

Director

Registered number: 08863271

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2023

	Note	Unaudited 6 months to 30 Sept 2023 £000	Unaudited 6 months to 30 Sept 2022 £000	Audited 12 months to 31 Mar 2023 £000
Operating activities				
Loss for the Period		(2,666)	(14,087)	(65,821)
Net finance costs	5.6	3,726	2,960	6,260
Net revaluation loss	9	15,632	31,146	94,977
Loss/(profit) on disposal of investment property		19	(4,695)	(4,368)
Impact of lease incentives and costs	9	(1,201)	(832)	(1,677)
Amortisation	9	3	4	8
Depreciation	10	41	8	112
Cash flows from operating activities before changes in working capital and provisions		15,554	14,504	29,491
(Increase)/decrease in trade and other receivables		(1,071)	(818)	2,954
Increase/(decrease) in trade and other payables		824	1,169	(2,104)
Cash generated from operations		15,307	14,855	30,341
Interest and other finance charges	6	(3,630)	(2,777)	(6,072)
Net cash flows from operating activities		11,677	12,078	24,269
Investing activities				
Purchase of investment property		–	(52,818)	(52,603)
Purchase of property, plant and equipment		(605)	(755)	(1,225)
Capital expenditure		(12,179)	(4,455)	(11,333)
Acquisition costs		–	(3,404)	(3,426)
Proceeds from the disposal of investment property		1,575	14,899	28,767
Costs of disposal of investment property		(19)	(80)	(237)
Interest and finance income received		30	–	22
Net cash flows used in investing activities		(11,198)	(46,613)	(40,035)
Financing activities				
New borrowings	14	11,500	63,000	58,500
New borrowings origination costs	14	(39)	(437)	–
Repayment of borrowings		–	(22,760)	(23,228)
Dividends paid	8	(12,123)	(12,127)	(24,250)
Net cash flows (used in)/from financing activities		(662)	27,676	(11,022)
Net decrease in cash and cash equivalents		(183)	(6,859)	(4,744)
Cash and cash equivalents at start of the Period		6,880	11,624	11,624
Cash and cash equivalents at end of the Period		6,697	4,765	6,880

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2023

	Note	Issued capital £000	Merger reserve £000	Share premium £000	Retained earnings £000	Total equity £000
At 31 March 2023 (audited)		4,409	18,931	250,970	163,259	437,569
Profit and total comprehensive income for the Period		–	–	–	(2,666)	(2,666)
Transactions with owners of the Company, recognised directly in equity						
Dividends	8	–	–	–	(12,123)	(12,123)
At 30 September 2023 (unaudited)		4,409	18,931	250,970	148,470	422,780

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2022

	Note	Issued capital £000	Merger reserve £000	Share premium £000	Retained earnings £000	Total equity £000
At 31 March 2022 (audited)		4,409	18,931	250,970	253,330	527,640
Profit and total comprehensive income for the Period		–	–	–	(14,087)	(14,087)
Transactions with owners of the Company, recognised directly in equity						
Dividends	8	–	–	–	(12,127)	(12,127)
At 30 September 2022 (unaudited)		4,409	18,931	250,970	227,116	501,426

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 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 interim 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 interim financial statements were authorised for issue in accordance with a resolution of the Directors on 5 December 2023.

2. Basis of preparation and accounting policies

2.1. Basis of preparation

The interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. The interim financial statements do not include all the information and disclosures required in the annual financial statements. The Annual Report for the year ending 31 March 2024 will be prepared in accordance with International Financial Reporting Standards adopted by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB (together "IFRS") as adopted by the United Kingdom, and in accordance with the requirements of the Companies Act applicable to companies reporting under IFRS.

The information relating to the Period is unaudited and does not constitute statutory financial statements within the meaning of section 434 of the Companies Act 2006. A copy of the statutory financial statements for the year ended 31 March 2023 has been delivered to the Registrar of Companies. The auditor's report on those financial statements was not qualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

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. Significant accounting policies

The principal accounting policies adopted by the Company and applied to these interim financial statements are consistent with those policies applied to the Company's Annual Report and financial statements.

2.3. Critical judgements and key sources of estimation uncertainty

Preparation of the interim 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 interim 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 Company's accounting policies, other than those involving estimations, that have had a significant effect on the amounts recognised within the interim 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 property valuers in determining the fair value of its investment properties. The property 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.

2.4. Going concern

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 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 completion of the disposals currently under offer;
- 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
- No movement in interest rates.

NOTES TO THE INTERIM FINANCIAL STATEMENTS CONTINUED

FOR THE PERIOD ENDED 30 SEPTEMBER 2023

2. Basis of preparation and accounting policies continued

2.4. Going concern continued

The Directors have assessed the Company's prospects 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 Interim 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 period despite economic headwinds and valuation decreases, with rents and occupancy increasing over the last six months.

Sensitivities

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

Covenant compliance

The Company operates the loan facilities summarised in Note 14. At 30 September 2023 the Company had the following headroom on lender covenants at a portfolio level with:

- Net gearing of 29.6% compared to a maximum LTV covenant of 35%, with £126.2m (21% of the property portfolio) unencumbered by the Company's borrowings; and
- 88% minimum headroom on interest cover covenants for the quarter ended 30 September 2023.

The Company agreed temporary reductions in interest cover covenants on two of its facilities from 250% to 200% at 30 September 2023. These temporary waivers were put in place whilst the process of charging £15.2m of unencumbered property with annual passing rent of £1.3m to the associated charge pools to increase covenant headroom was being completed.

Over the three-year assessment period the Company's forecast model projects a small increase in net gearing with a small 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 11% 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 15% from the 30 September 2023 position to risk breaching the overall 35% LTV covenant for the assessment period.

The Board notes that the Summer 2023 IPF Forecasts for UK Commercial Property Investment survey suggests an average 1.3% increase in rents during 2024 with capital value increases of 0.8%. 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 over 150 assets and over 300 typically 'institutional grade' tenants across all commercial sectors.

Liquidity

At 30 September 2023 the Company had:

- £6.7m of cash, with gross borrowings of £185m resulting in net gearing of 29.6% and a weighted average debt facility maturity of six years; and
- An annual contractual rent roll of £43.2m, with interest costs on drawn loan facilities of only c. £7.8m 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 next 12 months.

Since the Period end the Company has increased total funds available under the RCF from £50m to £75m for a term of three years, with an option to extend the term by a further two years, subject to Lloyds' consent.

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 period 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.

Having due regard to these matters and after making appropriate enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period of at least 12 months from the date of signing of these condensed consolidated financial statements and, therefore, the Board continues to adopt the going concern basis in their preparation.

2.5. 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 INTERIM FINANCIAL STATEMENTS CONTINUED

FOR THE PERIOD ENDED 30 SEPTEMBER 2023

2. Basis of preparation and accounting policies continued

2.6. Principal risks and uncertainties

The Company's assets consist of direct investments in UK commercial property. Its principal risks are therefore related to the UK commercial property market in general, the particular circumstances of the properties in which it is invested and their tenants. Principal risks faced by the Company are:

- Loss of contractual revenue;
- Decreases in property portfolio valuations;
- Reduced availability or increased costs of debt and complying with loan covenants;
- Inadequate performance, controls or systems operated by the Investment Manager;
- Non-compliance with regulatory or legal changes;
- Business interruption from cyber or terrorist attack or pandemics;
- Failure to meet ESG compliance requirements or shareholder expectations; and
- Inflation in property costs and capital expenditure.

These risks, and the way in which they are mitigated and managed, are described in more detail under the heading 'Principal risks and uncertainties' within the Company's Annual Report for the year ended 31 March 2023. The Company's principal risks and uncertainties have not changed materially since the date of that report.

3. Earnings per ordinary share

Basic earnings per share ("EPS") amounts are calculated by dividing net profit for the Period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the Period.

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 Period 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.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	Unaudited 6 months to 30 Sept 2023	Unaudited 6 months to 30 Sept 2022	Audited 12 months to 31 Mar 2023
Net loss and diluted net loss attributable to equity holders of the Company (£000)	(2,666)	(14,087)	(65,821)
Net loss on investment property (£000)	15,651	26,451	90,609
EPRA net profit attributable to equity holders of the Company (£000)	12,985	12,364	24,788
Weighted average number of ordinary shares:			
Issued ordinary shares at start of the Period (thousands)	440,850	440,850	440,850
Effect of shares issued during the Period (thousands)	–	–	–
Basic and diluted weighted average number of shares (thousands)	440,850	440,850	440,850
Basic and diluted EPS (p)	(0.6)	(3.2)	(14.9)
EPRA EPS (p)	2.9	2.8	5.6

4. Revenue

	Unaudited 6 months to 30 Sept 2023 £000	Unaudited 6 months to 30 Sept 2022 £000	Audited 12 months to 31 Mar 2023 £000
Gross rental income from investment property	20,654	19,592	40,558
Income from recharges to tenants	2,082	2,704	3,526
Other income	93	–	63
	22,829	22,296	44,147

NOTES TO THE INTERIM FINANCIAL STATEMENTS CONTINUED

FOR THE PERIOD ENDED 30 SEPTEMBER 2023

5. Finance income

	Unaudited 6 months to 30 Sept 2023 £000	Unaudited 6 months to 30 Sept 2022 £000	Audited 12 months to 31 Mar 2023 £000
Bank interest	30	–	22
	30	–	22

6. Finance costs

	Unaudited 6 months to 30 Sept 2023 £000	Unaudited 6 months to 30 Sept 2022 £000	Audited 12 months to 31 Mar 2023 £000
Amortisation of arrangement fees on debt facilities	126	183	220
Other finance costs	28	172	375
Bank interest	3,602	2,605	5,687
	3,756	2,960	6,282

7. Income tax

The effective tax rate for the Period is lower than the standard rate of corporation tax in the UK during the Period of 25.0%. The differences are explained below:

	Unaudited 6 months to 30 Sept 2023 £000	Unaudited 6 months to 30 Sept 2022 £000	Audited 12 months to 31 Mar 2023 £000
Loss before income tax	(2,666)	(14,087)	(65,821)
Tax benefit on loss at a standard rate of 25.0% (30 September 2022: 19.0%, 31 March 2023: 19.0%)	(667)	(2,677)	(12,506)
Effects of:			
REIT tax exempt rental losses	667	2,677	12,506
Income tax expense for the Period	–	–	–
Effective income tax rate	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 Real Estate Investment Trust and hence profits and gains from the property investment business are normally exempt from corporation tax.

NOTES TO THE INTERIM FINANCIAL STATEMENTS CONTINUED

FOR THE PERIOD ENDED 30 SEPTEMBER 2023

8. Dividends

	Unaudited 6 months to 30 Sept 2023 £000	Unaudited 6 months to 30 Sept 2022 £000	Audited 12 months to 31 Mar 2023 £000
Interim equity dividends paid on ordinary shares relating to the periods ended:			
31 March 2022: 1.375p	–	6,065	6,065
30 June 2022: 1.375p	–	6,062	6,062
30 September 2022: 1.375p	–	–	6,062
31 December 2022: 1.375p	–	–	6,061
31 March 2023: 1.375p	6,062	–	–
30 June 2023: 1.375p	6,061	–	–
	12,123	12,127	24,250

All dividends paid are classified as property income distributions.

The Directors approved an interim dividend relating to the quarter ended 30 September 2023 of 1.375p per ordinary share in October 2023 which has not been included as a liability in these interim financial statements. This interim dividend was paid on 30 November 2023 to shareholders on the register at the close of business on 27 October 2023.

9. Investment property

	£000
At 31 March 2023	613,587
Impact of lease incentives and lease costs	1,201
Additions	–
Capital expenditure	12,179
Disposals	(1,575)
Amortisation of right-of-use asset	(3)
Valuation decrease	(15,632)
At 30 September 2023	609,757

	£000
At 31 March 2022	665,186
Impact of lease incentives	1,677
Additions	56,033
Capital expenditure	9,954
Disposals	(24,278)
Amortisation of right-of-use asset	(8)
Valuation decrease before acquisition costs	(91,551)
Acquisition costs	(3,426)
Valuation decrease including acquisition costs	(94,977)
At 31 March 2023	613,587

£483.5m (2022: £458.0m) of investment property was charged as security against the Company's borrowings at the Period end with a further £15.2m in the process of being charged. £0.6m (2022: £0.6m) of investment property comprises right-of-use assets.

Investment property is stated at the Directors' estimate of its 30 September 2023 fair value. Savills (UK) Limited ("Savills") and Knight Frank LLP ("KF"), professionally qualified independent property valuers, each valued approximately half of the property portfolio as at 30 September 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 Period end valuation, the following inputs were used:

Sector	Valuation 30 September 2023 £000	Weighted average passing rent (£ per sq ft)	Weighted average ERV range (£ per sq ft)	Equivalent yield	EPRA topped-up NIY
Industrial	303.2	7.0	2.0 – 18.0	6.7%	5.3%
Retail warehouse	127.6	14.4	6.1 – 26.7	7.5%	7.6%
Other	78.1	19.1	2.7 – 66.7*	8.1%	6.9%
Office	67.4	19.0	4.9 – 35.8	9.6%	7.1%
High street retail	33.4	31.7	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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS CONTINUED

FOR THE PERIOD ENDED 30 SEPTEMBER 2023

9. Investment property continued

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 property valuers eg ERVs, expected capital expenditure and yields. These assumptions are based on market observation and the property 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.

10. Property, plant and equipment

	Unaudited at 30 Sept 2023 £000	Unaudited at 30 Sept 2022 £000	Audited at 31 Mar 2023 £000
EV chargers and PV cells			
Cost			
Balance at the start of the period	1,225	–	–
Additions	605	755	1,225
	1,830	755	1,225
Depreciation			
At the start of the period	(112)	–	–
During the period	(41)	(8)	(112)
	(153)	(8)	(112)
Net book value at the end of the period	1,677	747	1,113

11. Trade and other receivables

	Unaudited at 30 Sept 2023 £000	Unaudited at 30 Sept 2022 £000	Audited at 31 Mar 2023 £000
Trade receivables before expected credit loss provision	2,788	8,233	2,498
Expected credit loss provision	(547)	(2,914)	(1,143)
Trade receivables	2,241	5,319	1,355
Other receivables	2,096	445	2,100
Prepayments and accrued income	482	255	293
	4,819	6,019	3,748

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 £1.8m (2022: £0.7m) 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.

	Unaudited at 30 Sept 2023 £000	Unaudited at 30 Sept 2022 £000	Audited at 31 Mar 2023 £000
Expected credit loss provision	£000	£000	£000
Opening balance	1,143	2,739	2,739
(Decrease)/increase in provision relating to trade receivables that are credit-impaired	(596)	175	453
Utilisation of provisions	–	–	(2,049)
Closing balance	547	2,914	1,143

NOTES TO THE INTERIM FINANCIAL STATEMENTS CONTINUED

FOR THE PERIOD ENDED 30 SEPTEMBER 2023

12. Trade and other payables

	Unaudited at 30 Sept 2023 £000	Unaudited at 30 Sept 2022 £000	Audited at 31 Mar 2023 £000
Falling due in less than one year:			
Trade and other payables	902	4,507	972
Social security and other taxes	816	621	498
Accruals	4,430	3,948	4,693
Rental deposits and retentions	1,919	1,626	1,503
	8,067	10,702	7,666

The Directors consider that the carrying amount of trade and other payables approximates 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.

13. Cash and cash equivalents

	Unaudited at 30 Sept 2023 £000	Unaudited at 30 Sept 2022 £000	Audited at 31 Mar 2023 £000
Cash and cash equivalents	6,697	4,765	6,880

Cash and cash equivalents at 30 September 2023 include £2.4m (2022: £2.4m, 31 March 2023: £1.6m) of restricted cash comprising: £1.8m (2022: £1.4m, 31 March 2023: £1.5m) rental deposits held on behalf of tenants, £Nil (2022: £0.7m, 31 March 2023: £Nil) disposal proceeds held in charged disposal accounts and £0.1m (2022: £Nil, 31 March 2023: £Nil) disposal deposit.

14. Borrowings

	Bank borrowings £000	Costs incurred in the arrangement of bank borrowings £000	Total £000
Falling due within one year:			
At 31 March 2023	–	–	–
Reclassification	33,500	(89)	33,411
New borrowings	11,500	–	11,500
Amortisation of arrangement fees	–	30	30
At 30 September 2023	45,000	(59)	44,941
Falling due in more than one year:			
At 31 March 2023	173,500	(1,398)	172,102
Reclassification	(33,500)	89	(33,411)
New borrowings	–	–	–
Costs incurred in the arrangement of bank borrowings	–	(39)	(39)
Repayment of borrowings	–	–	–
Amortisation	–	96	96
At 30 September 2023	140,000	(1,252)	138,748
Total borrowings at 30 September 2023	185,000	(1,311)	183,689

NOTES TO THE INTERIM FINANCIAL STATEMENTS CONTINUED

FOR THE PERIOD ENDED 30 SEPTEMBER 2023

14. Borrowings continued

	Bank borrowings £000	Costs incurred in the arrangement of bank borrowings £000	Total £000
Falling due in more than one year:			
At 31 March 2022	115,000	(1,117)	113,883
New borrowings	63,000	(437)	62,563
Costs incurred in the arrangement of bank borrowings	–	–	–
Amortisation	–	150	150
Total borrowings at 30 September 2022	178,000	(1,404)	176,596

The Company's borrowing facilities require minimum interest cover of either 200% or 250% of the net rental income of the security pool. The maximum LTV of the Company combining the value of all property interests (including the properties secured against the facilities) must be no more than 35%.

The Company's borrowing position at 31 March 2023 is set out in the Annual Report for the year ended 31 March 2023.

Since the Period end the Company has increased total funds available under the RCF from £50m to £75m for a term of three years, with an option to extend the term by a further two years, subject to Lloyds' consent.

15. Issued capital and reserves

	Ordinary shares of 1p	£000
Share capital		
At 31 March 2023	440,850,398	4,409
Issue of share capital	–	–
At 30 September 2023	440,850,398	4,409
	Ordinary shares of 1p	£000
Share capital		
At 31 March 2022	440,850,398	4,409
Issue of share capital	–	–
At 30 September 2022	440,850,398	4,409

The Company has made no further issues of new shares since the Period end.

The following table describes the nature and purpose of each reserve within equity:

Reserve	Description and purpose
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 (eg 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 INTERIM FINANCIAL STATEMENTS CONTINUED FOR THE PERIOD ENDED 30 SEPTEMBER 2023

16. Financial instruments

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 (ie as prices) or indirectly (ie 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 30 September 2023, the fair value of the Company's investment properties was £609.8m (2022: £665.2m).

Interest bearing loans and borrowings – level 3

At 30 September 2023 the gross value of the Company's loans with Lloyds, SWIP and Aviva all held at amortised cost was £185.0m.

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.

17. 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 period.

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. 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 offer themselves for re-election at each AGM in accordance with the provisions of the AIC Code.

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.

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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS CONTINUED

FOR THE PERIOD ENDED 30 SEPTEMBER 2023

17. 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;
- 0.02% (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 period the Investment Manager charged the Company £2.06m (2022: £2.34m) comprising £1.80m (2022: £2.09m) in respect of annual management fees, £0.26m (2022: £0.25m) in respect of administrative fees and £Nil (2022: £Nil) in respect of marketing fees.

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 via their premiums for administering the policy.

18. Events after the reporting date

Since the Period end the Company has:

- Sold a day nursery in Chesham at valuation for £0.55m; and
- Refinanced its RCF as described in Note 14.

19. Additional disclosures

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 period.

	Unaudited 6 months to 30 Sept 2023	Unaudited 6 months to 30 Sept 2022	Audited 12 months to 31 Mar 2023
Net assets (£000)	422,780	501,426	437,569
Shares in issue at the period end (thousands)	440,850	440,850	440,850
NAV per share at the start of the period (p)	99.3	119.7	119.7
Dividends per share paid during the period (p)	2.75	2.75	5.5
NAV per share at the end of the period (p)	95.9	113.7	99.3
NAV per share total return	(0.7%)	(2.7%)	(12.5%)

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 period.

	Unaudited 6 months to 30 Sept 2023	Unaudited 6 months to 30 Sept 2022	Audited 12 months to 31 Mar 2023
Share price at the start of the period (p)	89.2	101.8	101.8
Dividends per share for the period (p)	2.75	2.75	5.5
Share price at the end of the period (p)	82.5	97.0	89.2
Share price total return	(4.4%)	(2.0%)	(7.0%)

NOTES TO THE INTERIM FINANCIAL STATEMENTS CONTINUED

FOR THE PERIOD ENDED 30 SEPTEMBER 2023

19. Additional disclosures continued

Dividend cover

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

	Unaudited 6 months to 30 Sept 2023	Unaudited 6 months to 30 Sept 2022	Audited 12 months to 31 Mar 2023
Group			
Dividends paid relating to the period	6,061	6,062	18,185
Dividends approved relating to the year	6,062	6,062	6,062
	12,123	12,124	24,247
Loss after tax	(2,666)	(14,087)	(65,821)
One-off costs	–	–	–
Net loss on investment property	15,651	26,451	90,609
	12,985	12,364	24,788
Dividend cover	107.1%	102.0%	102.2%

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.

	Unaudited at 30 Sept 2023 £000	Unaudited at 30 Sept 2022 £000	Audited at 31 Mar 2023 £000
Gross borrowings	185,000	178,000	173,500
Cash	(6,697)	(4,765)	(6,880)
Deposits	1,919	1,626	1,503
Net borrowings	180,222	174,861	168,123
Investment property	609,757	685,423	613,587
Net gearing	29.6%	25.5%	27.4%

Weighted average cost of debt

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

	Amount drawn £m	Interest rate	Weighting
30 September 2023			
Lloyds RCF	45.0	6.840%	1.66%
Variable rate	45.0	6.840%	
SWIP £20m loan	20.0	3.935%	0.43%
SWIP £45m loan	45.0	2.987%	0.73%
Aviva			
– £35m tranche	35.0	3.020%	0.57%
– £15m tranche	15.0	3.260%	0.26%
– £25m tranche	25.0	4.100%	0.55%
Fixed rate	140.0	3.359%	
Weighted average drawn facilities	185.0		4.20%

	Amount drawn £m	Interest rate	Weighting
31 March 2023			
Lloyds RCF	33.5	5.830%	1.13%
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%
Fixed rate	140.0		
Weighted average rate on drawn facilities	173.5		3.84%

NOTES TO THE INTERIM FINANCIAL STATEMENTS CONTINUED

FOR THE PERIOD ENDED 30 SEPTEMBER 2023

19. Additional disclosures continued

Weighted average cost of debt continued

	Amount drawn £m	Interest rate	Weighting
30 September 2022			
Lloyds RCF	38.0	3.790%	0.81%
Variable rate	38.0		
SWIP £20m loan	20.0	3.935%	0.44%
SWIP £45m loan	45.0	2.987%	0.76%
Aviva			
–£35m tranche	35.0	3.020%	0.59%
–£15m tranche	15.0	3.260%	0.27%
–£25m tranche	25.0	4.100%	0.58%
Fixed rate	140.0		
Weighted average rate on drawn facilities	178.0		3.45%

EPRA EPS

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 Period are supported by recurring net income.

	Unaudited 6 months to 30 Sept 2023 £000	Unaudited 6 months to 30 Sept 2022 £000	Audited 12 months to 31 Mar 2023 £000
Loss for the Period after taxation	(2,666)	(14,087)	(65,821)
Net losses on investment property	15,651	26,451	90,609
EPRA earnings	12,985		
Weighted average number of shares in issue (thousands)	440,850	440,850	440,850
EPRA EPS (p)	2.9	2.8	5.6

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.

	Unaudited at 30 Sept 2023 £000	Unaudited at 30 Sept 2022 £000	Audited at 31 Mar 2023 £000
Annualised potential rental value of vacant premises	4,243	5,236	4,743
Annualised potential rental value for the property portfolio	49,744	49,183	48,976
EPRA vacancy rate	8.5%	10.7%	9.7%

EPRA Net Tangible Assets (“NTA”)

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

	Unaudited at 30 Sept 2023 £000	Unaudited at 30 Sept 2022 £000	Audited at 31 Mar 2023 £000
Group and Company			
IFRS NAV	422,780	501,425	437,569
Fair value of financial instruments	–	–	–
Deferred tax	–	–	–
EPRA NTA	422,780	501,425	437,569
Closing number of shares in issue (thousands)	440,850	440,850	440,850
EPRA NTA per share (p)	95.9	113.7	99.3

NOTES TO THE INTERIM FINANCIAL STATEMENTS CONTINUED FOR THE PERIOD ENDED 30 SEPTEMBER 2023

19. Additional disclosures continued

EPRA topped-up NIY

Annualised cash rents at the period-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

	Unaudited at 30 Sept 2023 £000	Unaudited at 30 Sept 2022 £000	Audited at 31 Mar 2023 £000
Group and Company			
Investment property	609,757	685,423	613,587
Allowance for estimated purchaser's costs ²¹	39,634	44,552	39,883
Gross-up property portfolio valuation	649,391	729,975	653,470
Annualised net rental income	43,162	42,971	42,050
Property outgoings ²²	(1,679)	(947)	(1,875)
Annualised net rental income	41,483	42,024	40,175
EPRA topped-up NIY	6.4%	5.8%	6.2%

21. Assumed at 6.5% of investment property valuation.

22. Non-recoverable directly incurred operating expenses of rental property, excluding letting and rent review fees.

DIRECTORS' RESPONSIBILITIES FOR THE INTERIM FINANCIAL STATEMENTS

The Directors have prepared the interim financial statements of the Company for the Period from 1 April 2023 to 30 September 2023.

We confirm that to the best of our knowledge:

- The condensed interim financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the United Kingdom;
- The condensed set of financial statements, which has been prepared in accordance with the applicable set of accounting standards, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, or the undertakings included in the consolidation as a whole as required by DTR 4.2.4R;
- The interim financial statements include a fair review of the information required by DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year, and their impact on the Condensed Financial Statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- The interim financial statements include a fair review of the information required by DTR 4.2.8R of the Disclosure and Transparency Rules, being material related party transactions that have taken place in the first six months of the current financial year and any material changes in the related party transactions described in the last Annual Report.

A list of the current Directors of Custodian Property Income REIT plc is maintained on the Company's website at custodianreit.com.

By order of the Board

David MacLellan

Chair

5 December 2023

AUDITOR'S INDEPENDENT REPORT

TO CUSTODIAN PROPERTY INCOME REIT PLC

Conclusion

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2023 which comprises the Condensed consolidated statement of comprehensive income, the Condensed consolidated statement of financial position, the Condensed consolidated statements of changes in equity, the Condensed consolidated statement of cash flows and related notes 1 to 19.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2023 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for Conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom (ISRE (UK) 2410). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed in note 2.1, the annual financial statements of the Company are prepared in accordance with United Kingdom adopted international accounting standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34, "Interim Financial Reporting".

Conclusion relating to Going Concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for Conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed.

This Conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410; however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of the directors

The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

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

Auditor's Responsibilities for the review of the financial information

In reviewing the half-yearly financial report, we are responsible for expressing to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report. Our Conclusion, including our Conclusion Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report

This report is made solely to the Company in accordance with ISRE (UK) 2410. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP

Statutory Auditor
London, United Kingdom
5 December 2023

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
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 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 property 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

Term	Explanation
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
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
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
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

GLOSSARY OF TERMS CONTINUED

Term	Explanation
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
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

COMPANY INFORMATION

Directors

David MacLellan	(Independent Non-Executive Chair)
Elizabeth McMeikan	(Senior Independent Non-Executive Director)
Ian Mattioli MBE	(Non-Executive Director)
Malcolm Cooper	(Independent Non-Executive Director)
Hazel Adam	(Independent Non-Executive Director)
Chris Ireland	(Independent Non-Executive Director)

Company Secretary

Ed Moore

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Registered number

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ESG adviser

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Auditor

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1 New Street Square
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Marketing adviser

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200 Aldersgate
Aldersgate Street
London
EC1A 4HD

FINANCIAL CALENDAR

26 October 2023	Ex-dividend date for Q2 dividend
27 October 2023	Record date for Q2 dividend
30 November 2023	Payment of Q2 dividend
6 December 2023	Announcement of results for the period ended 30 September 2023





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