



Annual Report 2022

The Power of Space

Welcome to the Industrials REIT 2022 Annual Report

Who We Are

Industrials REIT Limited (formerly Stenprop Limited) is a UK REIT listed on the Premium Segment of the Main Market of the London Stock Exchange ("LSE") and the Johannesburg Stock Exchange ("JSE"). We specialise in the ownership and operation of multi-let industrial ("MLI") estates in the United Kingdom ("UK").

Our Story

Industrials REIT is a business on a mission. In 2018, we identified an opportunity in the MLI market in the UK for a landlord who can provide SMEs with what they really need – flexibility and quality customer service – akin to what they might expect to find in serviced offices and self-storage. To achieve this, we disposed of mixed use assets across Europe and invested to become a focused UK MLI business, while simultaneously building a class-leading, digital-first operating platform called Industrials Hive. With those two fundamental building blocks now in place and a highly diversified and evolving customer base, we are pushing forward with delivering a differentiated customer experience, driven by operational excellence and efficiency through our Industrials Hive platform.



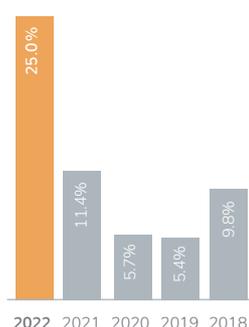
Find out more at <https://www.industrialsreit.com/>

A large photograph of a living wall covered in various shades of green moss and small plants. The wall is partially enclosed by a glass structure on the right side.

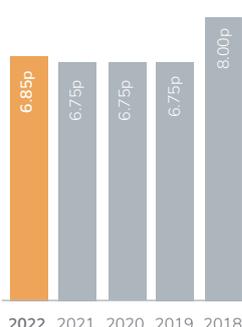
industrials
REIT

Highlights

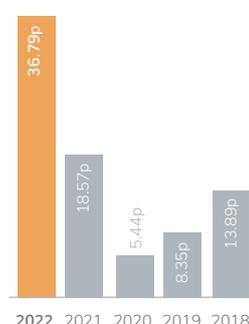
Total accounting return (TAR)



Dividends per share



Diluted IFRS EPS



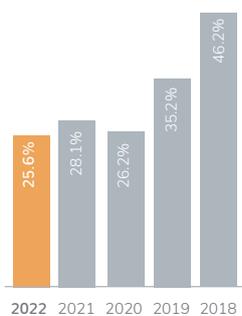
EPRA NTA per share



Diluted IFRS NAV per share



Group loan-to-value



Read about Our KPIs on p. 36 to 37 for further detail

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About us

Unlocking The Power of Space:



Read about [Our MLI Portfolio](#) on p. 10 to 11

Read about [Our Marketplace](#) on p. 21 to 25

Read about [Our Performance Review](#) on p. 38 to 39

Sector
Supply and demand fundamentals drive rental growth

Structure
Our REIT structure, strong governance, financial strength and management alignment

Platform
Our unique cloud-based, mobile-friendly and highly scalable operating platform is operated by our dedicated team

The Power of Space



Read about [Our Culture](#) on p. 30

Read about [Our Governance](#) on p. 86 to 119

Read about [Our Financials](#) on p. 127 to 177



Space that matters
We deliver value and growth opportunities for all of our stakeholders



Read about [The Value we create](#) on p. 12 to 13

Read about [Our Industrials Hive Platform](#) on p. 28 to 29



Read about [ESG at Industrials](#) on p. 64 to 83

Why

Why Industrials REIT exists

We believe in The Power of Space. Space to work, to think, to evolve, to grow and to succeed.

Space that matters to our customers, employees and communities.

This is **The Power of Space**

How

How we unlock **The Power of Space.**

Through a combination of technology and personal connection, we focus on delivering a quality experience for our customers. We do this by creating a straightforward, supportive, transparent and frictionless process.

What

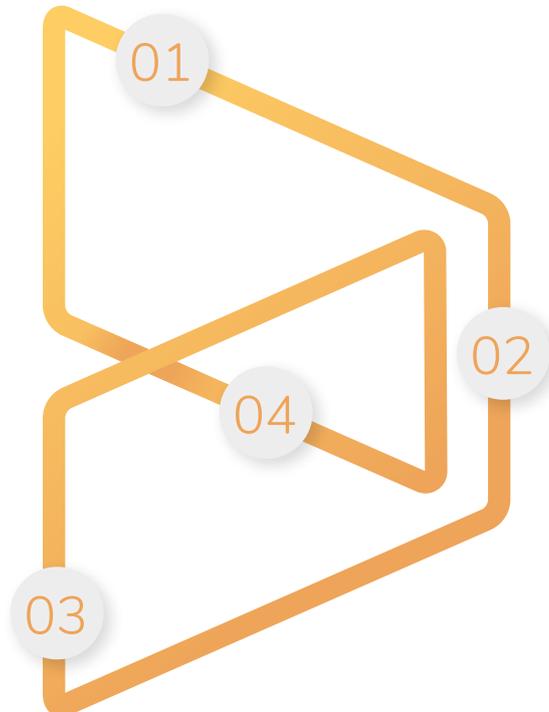
What we do

We deliver value and growth opportunities for all our stakeholders by utilising our Industrials Hive platform and Smart Lease product.



Read about [Our Industrials Hive Platform](#) on p. 28 to 29

Our Values



01

Ensuring a positive impact through focused action

We understand The Power of Space and how we make a difference in our marketplace. We set out to make an impact to ensure we achieve the best for our Company, our customers and our investors.

02

Contributing to the success of others

Individuals operating as one team, we speak our minds to ensure we weigh up every idea and option. We work with our customers to help achieve their ambitions, just as we work with our local communities with mutual goals in mind.

03

Creating space for success

The Power of Space is not just physical space for our customers and their clientele. It is also the space we provide to our talent, with the time and opportunities for learning and development, improving wellbeing and providing the possibilities for giving back to their communities or our charity of the year.

04

Finding the smarter way

We got to where we are today by finding a smarter way to pursue our vision and goals. Everyone in our business can play a role in making continual improvements, no matter how big or small.



Read about [Our Culture](#) on p. 30

At a glance

Our operating company

We are a specialist owner and operator of multi-let industrial properties, leasing them out to small and medium-sized businesses across the UK. We have a strong internal management system, enabled by our unique operating platform, Industrials Hive.

What is MLI?

Multi-let industrial estates typically comprise 5-50 units of 1,000 – 20,000 sq ft each and are let to a wide range of businesses. Each unit is similar, comprising a large open space and a small amenity area with toilets and a kitchen and/or office, depending upon the size. The unit is accessed via a large roller-shutter door and often a separate pedestrian door, while outside there is parking and a yard area with good access for large vehicles. Each estate will have common parts which are usually secure and landscaped, and include a common yard and road areas. The cost of maintenance is shared by the occupiers via a recharged service or maintenance charge.

MLI estates are typically located in and around densely populated urban areas, providing occupiers with access to a large local market and a ready labour supply. Demand for MLI units has grown since the turn of the century, largely due to e-commerce impacting upon the type of space most SMEs require, while supply has been constrained due to the lack of available land and high build costs.

Our customers:

Our customers operate in a diverse range of sectors. Demand for MLI space is growing, with new occupiers who never previously occupied MLI units seeking space. This is as a direct result of the advances in communications and technology, and the e-commerce revolution which is creating new industries (e.g. last mile grocery delivery) and changing the types of space that businesses choose to operate from (led by the shift to online sales compared to traditional retail).

Why invest in MLI?

MLI offers a unique opportunity to invest in an asset class where there is an ongoing structural shift in demand driven by the growth of e-commerce and the adoption of technology, while supply is severely constrained by high build costs and a lack of available land across towns and cities in the UK. We believe that this imbalance of demand and supply will lead to sustained rental growth over a long period of time.

Furthermore, we believe that the SME occupier market is poorly served by existing MLI landlords, who operate a traditional out-sourced management model which fails to meet their needs for greater flexibility and a simpler leasing proposition. By moving away from a traditional approach to management, we believe that we can deliver the power of space using a “serviced industrial” product which provides a step change in meeting the needs of SMEs, while simultaneously operating with greater efficiency and superior margins. Furthermore, the market dynamics above have contributed to industrials becoming the best performing real estate sector for the last five years.

Annual total returns for the three main property sectors over the full 21-year history of the Monthly Index



Source: CBRE

Our structure

Industrials REIT has a primary listing on the main market of the London Stock Exchange and a secondary listing on the main board of the Johannesburg Stock Exchange. The Company is a Real Estate Investment Trust (“REIT”), meaning that under UK law it is exempt from paying tax on UK property rental income profits and gains. A REIT must distribute 90% of tax exempt income profits (not capital gains) as a property income distribution. These features ensure strong corporate governance, high levels of transparency and enhanced liquidity in Industrials REIT shares.

Industrials REIT also benefits from strong management alignment, with an internalised management structure and a high level of shares owned by the Directors of the Company (>7% of issued share capital). Along with market standard incentive packages, which align to our corporate KPIs, this ensures that the management team think and act like investors, rather than being motivated by third-party management fees, performance fees or assets under management.

Finally, as a listed business with long-term horizons, Industrials REIT can invest in building an efficient, scalable and sustainable operating platform built upon strong asset fundamentals. This differentiates the Company in a marketplace dominated by short-term investors and delivers the opportunity to capitalise on a business model which generates customer value and long-term growth over short-term gains.

Key features of an MLI asset



Located near urban areas



Under single ownership



Comprised of different sized units let to multiple occupiers



Affordable, flexible space for a wide range of activities



The Power of Space: space to grow

Buildings owned by Industrials REIT are comparatively simple by design.

A steel frame is not only long-lasting, suffering low levels of obsolescence, but it also offers a high degree of flexibility. Open plan space can cater for a wide variety of needs and helps us maintain a diverse customer base to build things, store things maintain things and sell things, all from the same type of space.

Simple design also helps us cater for changing customer requirements. Our space is very versatile, capable of being reconfigured by some simple design changes.

Hera Beauty specialise in the manufacture of cosmetics and personal care. The Company originally took its first unit from us in Coningsby Business Park, Peterborough in early 2019. The business continued to flourish, and in September 2020, it doubled its footprint and expanded into space next door.

As Hera Beauty continued to create new product lines and build its customer base, their appetite for more

space was obvious. Our team of Customer Engagement Managers remained alive to its needs and have successfully supported its expansion into further space in March 2022.

Simple modifications to our space, such as removing walls and creating new openings, have helped us create a fully integrated solution for Hera Beauty across a combined area of 27,000 sq ft.



“Our need for more space has been driven by organic business growth combined with significant investments in machinery and facilities. Coningsby Business Park works for us given its location and access to a skilled local labour market. It has afforded us the opportunity to grow and take more space in newly refurbished and high-quality industrial accommodation”.

Andrew Kennedy

Managing Director for Hera Beauty

At a glance_{continued}

Working relentlessly to unlock The Power of Space

Industrials REIT has been transforming itself into a focused MLI operator.

Over the past four years, much of the narrative around our transition into a specialist MLI business has surrounded the recycling of capital into MLI assets. However, behind the scenes, a similarly significant transition has been taking place with material investment in the people, processes and technology necessary to support our aspirations of being a true MLI operating business.

Over the last 12 months, we have made several changes to our Industrials Hive platform and operational capabilities.

01 Internalisation of billing and management accounting. Billing and credit control are key touchpoints in the customer lifecycle, while the close management of financial data improves reporting and the flow of financial information back to customers.

02 Implementation of a new finance and operating platform. Our new Microsoft Dynamics Finance and Operations system acts as the centre of our technology platform, providing accurate and real-time data across all business areas, while also introducing necessary controls and rigour. The system is integrated with our sales and marketing platform and all systems share a common data architecture, which provides advanced business analytics capability.

03 Consolidation of our Stockport office. Approximately half of all office-based staff are now located in Stockport, with representation across all departments, including a significant proportion of senior management. The office has provided the Company with a much wider pool of prospective talent, while also giving staff the opportunity to locate in either the north or south of the country. Stockport also provides ready access to a large proportion of our assets, increasing the connection to customers.

04 Evolution of our sales & marketing function. We have given greater independence to our sales team to conclude lettings with smaller customers, freeing up time for our asset management team to work with larger occupiers. We have also streamlined our lead generation process, optimising digital marketing expenditure and speeding up taking vacant properties to market.

These changes, along with countless smaller initiatives, are designed to enhance the quality and consistency of service we deliver to our customers, while also enabling us to generate higher revenues at a lower cost. Over the next 12 months, we intend to consolidate and evolve the Microsoft Dynamics technology platform we have put in place, while also internalising the facilities and property management of our portfolio. These steps will see the completion of the next phase of our platform strategy, with full internalisation of critical business services and the implementation of an end-to-end digital platform for managing MLI within a single digital architecture. This will position the business for growth and profit maximisation, while also unlocking potential economies of scale when adding further MLI estates to the portfolio.

Our compelling customer proposition

We invest in a diversified portfolio of UK MLI properties and provide quality customer service on a cost-efficient basis that is driven by our Industrials Hive platform.

Our operating model is designed to deliver "serviced industrial" accommodation to our customers, something possible on small unit multi-let industrial properties, which is more difficult to offer on single-let larger assets on full repairing and insuring terms with no common services. We believe this benefits Industrials REIT by:

01 Providing customers with a simpler, flexible and transparent leasing proposition that better meets their needs, helping to make the properties more attractive, command higher rents and operate with lower levels of vacancy;

02 Simplifying the process of leasing via the Smart Lease which cuts transaction times by using short form and digital documentation. This cuts the dead time between agreeing a letting and occupation taking place, thereby generating more revenue and cutting costs for all parties;

03 Increasing the barriers to exit to existing customers by offering a service level that is difficult to replicate elsewhere. This enhances the lease renewal rate, driving down vacancy and the cost of new leasing, and

04 Opening up opportunities to potentially add revenue streams and enhance operating margins through the delivery of additional products, services and value to our customers.

Our unique operating platform

The delivery of a serviced industrial product requires an operating platform that supports the operating procedures, infrastructure and a range of products and services that we already provide, or are planning to do so.

Some elements of our serviced industrial offer are:



Strong branding under our industrials.co.uk name that drives enquiries and acts as a mark of quality for customers;



Face-to-face customer service driven by our network of on-the-ground customer engagement managers;



Transparent pricing where all costs are known up front to give clarity and confidence on expenditure over the period of a customer's lease;



Simplified leasing options and reduced transaction times with our Smart Lease product and clear customer journey mapping;



A proactive approach to environmental, social and governance ("ESG") issues for the benefit of our customers and the wider community. This highly scalable operating platform drives efficiencies through enhanced customer experience and data collection;



Multi-channel communications including live chat, our 0800 call centre and web forms; and



Direct access to empowered staff by removing third-party advisers, agents and brokers through the internalisation of key customer-facing activities such as billing, maintenance and leasing.



Read about [Our Industrials Hive Platform](#) on p. 28 to 29



The power of technology and personal connection:

Building a sustainable competitive advantage

Our new finance and operating system, which went live on 1 April 2022, provides a scalable, end-to-end, unified and integrated digital system of software applications, which is able to run multiple business processes.

Microsoft D365 is at the core of the software, providing the finance functionality required for our day-to-day operations and month-end reporting. It is integrated with Flexproperty software specialising in property management and all leasing elements. There is a further integration between our customer relationship management ("CRM") module and Flexproperty. This integration removes duplication of effort, improves efficiency and reduces errors.

Other software integrations have been designed to improve operational efficiencies across banking, budgeting, billing and collections, as well as reporting; with functionality which, in some cases, is unique to Industrials.

With this unified system and our skilled, integrated team, Industrials REIT is structured for growth and fully focused on improving operational efficiencies, collection rates and billing accuracy, while delivering an industry-leading customer service and real-time centralised reporting.

Space that matters

The Power of Space: space to work, to evolve

Plattsville Bakehouse – Compass Industrial Park, Liverpool

“Plattsville Bakehouse is a micro-bakery producing artisan breads. We bake mainly sourdough, as well as a number of other speciality breads including baguettes, focaccia, banh mi, hoagie rolls and classic bloomer loaves.

The business was born in the lockdown of April 2020. Having lost all my work as a freelancer in the adventure activity industry, I started a local community bake scheme in an effort to do something nice for our neighbours and help lift spirits in tough times. I couldn't believe how well the idea was received! The neighbours were amazingly supportive and word spread really fast. Neighbours and other locals would come to collect the bread

from our make-shift bread stall on the front of our terrace house. After only a few months, I was baking six days a week from the home kitchen, putting our oven through its paces and churning out around 40 loaves each day! By this stage, I had a number of restaurant and deli clients interested, which prompted me to secure a space with Industrials in September 2020. I installed proper bread ovens, a 60L spiral mixer and a big fridge and was ready to take things to the next level. Just over a year later and things have not slowed down. I now employ two other bakers.

We bake for a number of local independent restaurants, cafés and delis across south Liverpool. Having outgrown our original unit with Industrials, we have just this month moved into a bigger space on the Compass site and are absolutely loving it!

It's really exciting to have room to grow again. Who knows where we'll be in another year's time!"

Customer: Andy Cook (Founder, Plattsville Bakehouse)





The Power of Space: space to succeed

Briggs Automotive Company's expansion at Compass Business Park

It is safe to say Briggs Automotive Company ("BAC")'s story is one of remarkable success: how an unconventional driving dream became reality in Britain before taking all four corners of the world by storm. First launched in 2011, the BAC Mono is the realisation of two brothers' vision of a road vehicle that offers the most authentic and pure driving experience possible, while implementing the very latest racing technology.

BAC approximately doubled their original floor space at our Compass Business Park estate, to 21,400 sq ft in 2018. It has proudly called Liverpool home for almost a decade, adding to the city's reputation as a centre of automotive excellence and innovation. The company and its products have become synonymous with Liverpool itself and BAC takes every opportunity to give back to the city, while continuing to fly the

flag around the world. Every single BAC Mono to have been delivered across 45 countries globally started its life in the city of Liverpool within the BAC Manufacturing and Innovation Centres.

In terms of manufacturing, BAC has been responsible for a number of world-firsts in the car industry that have brought about impressive performance and weight-saving enhancements on the Mono. BAC was the first company in the world to develop hybrid carbon-composite wheels in collaboration with British performance wheel manufacturer, Dymag. The brand remains true to its British roots. In fact, of the 1,250 bespoke components used to build Mono from 100 suppliers, 95% are based in the UK – 45%, meanwhile, are from local companies in Liverpool and the North West region.



Our MLI portfolio

Key Statistics:

MLI as a % of total portfolio

95%



Read about [our transactions](#) on p. 42

No single tenant accounts for more than

2%

of rent

94%

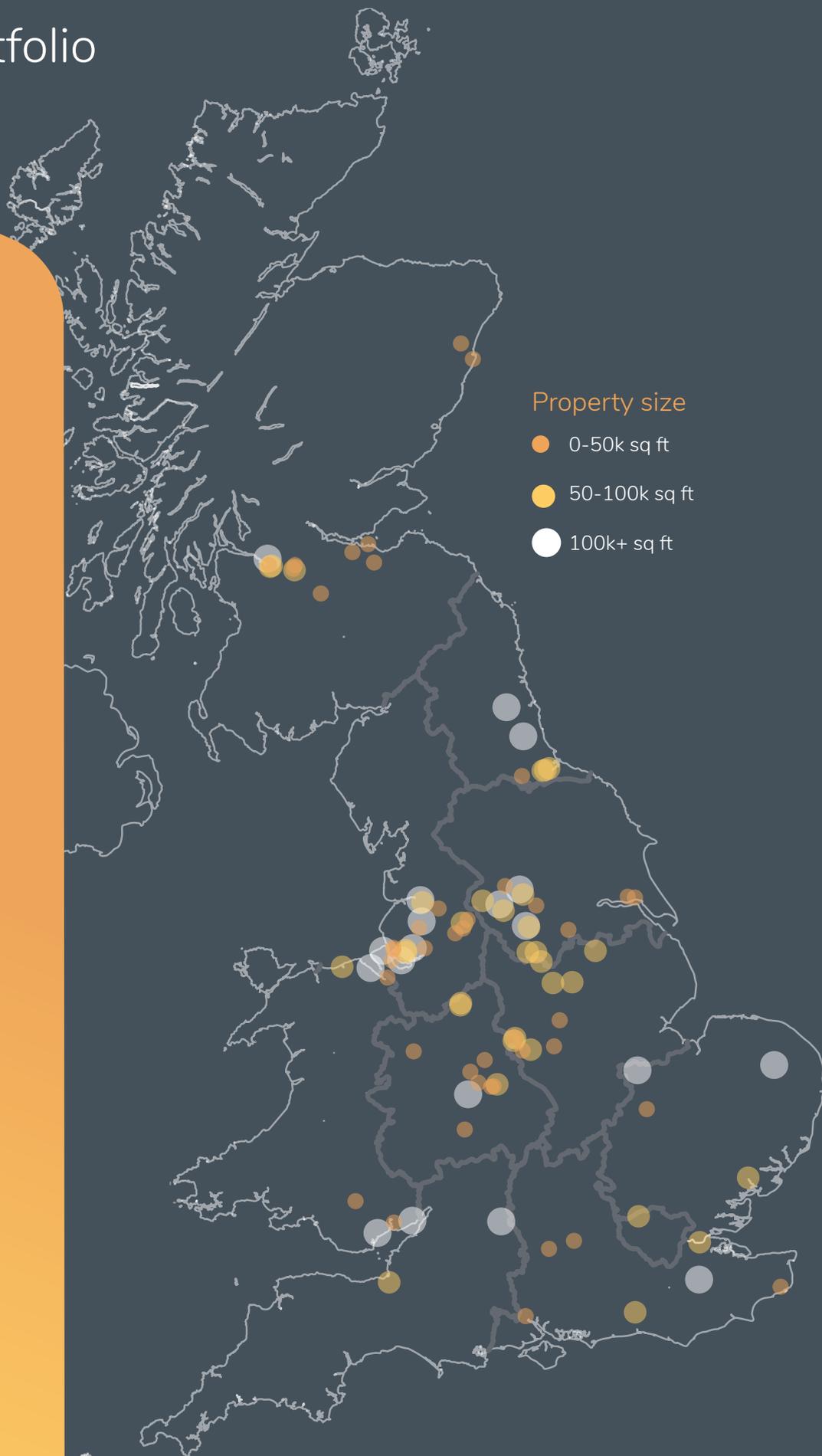
occupied

1,512

tenants

20.8%

increase in like-for-like MLI portfolio property value from 31 March 2021



Property size

- 0-50k sq ft
- 50-100k sq ft
- 100k+ sq ft



“Our portfolio is fully diversified in terms of the number of tenants, their business sectors and its geographical spread across the UK.”

Paul Arenson
CEO

The largest six business sectors of our customers



27.3%
Wholesale and retail trade; repair of motor vehicles and motorcycles



23.2%
Manufacturing



10.9%
Administrative and support service activities



6.8%
Construction

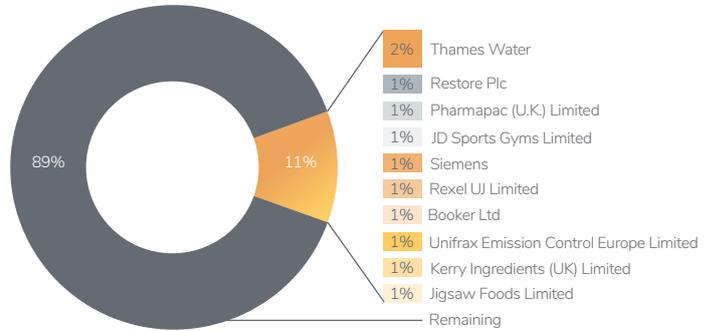


6.5%
Private individuals

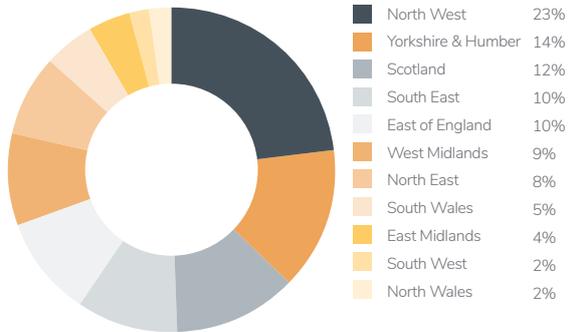


6.0%
Professional, scientific and technical activities

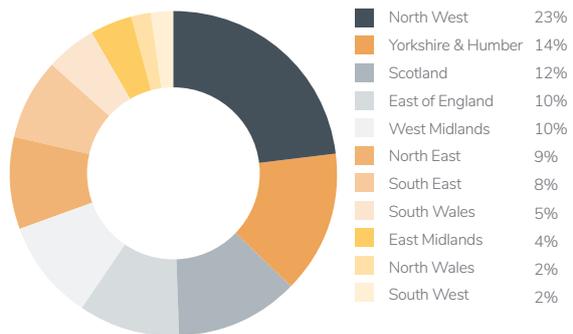
Top 10 tenants by contractual rent



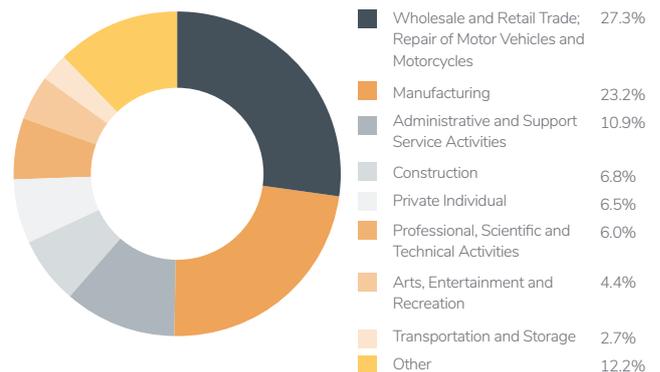
Geographic breakdown by floor area



Geographic breakdown by contractual rent



Contractual rent £ pa by industry type



The value we create

We are here to unlock The Power of Space.



For Shareholders

Our value proposition

Favourable market dynamics

e-commerce has driven a structural shift in the demand for MLI units across the UK, while supply is constrained by lack of available land and prohibitively expensive new-build costs. This imbalance is leading to strong rental growth, with little potential for new supply in the short to medium term.

Outperforming asset class

Total return generated by the industrial sector has outperformed other property classes such as retail and office, over the last 35 years.

Well-positioned for capital and earnings growth

We can acquire existing fully-let MLI properties for less than replacement cost. We believe that they will generate strong and stable income as a significant proportion of total return, while our scalable Industrials Hive operating platform brings efficiency savings and opens up further revenue streams.

10% + Target TAR

Efficiencies from operating platform

Our cloud-based, mobile-friendly operating platform offers an enhanced customer experience, and puts relevant data in the hands of sales and customer-facing staff. Highly scalable with growth, we constantly update it with the latest innovations from Microsoft and other providers.

Healthy capital structure

We have a Group LTV of 25.6%. At 31 March 2022, the portfolio had a loan-to-value covenant headroom of 45% and average debt expiry of 4.0 years. The loan structure is ring-fenced across different lenders offering scope for efficiencies through consolidation and refinance as the portfolio grows.

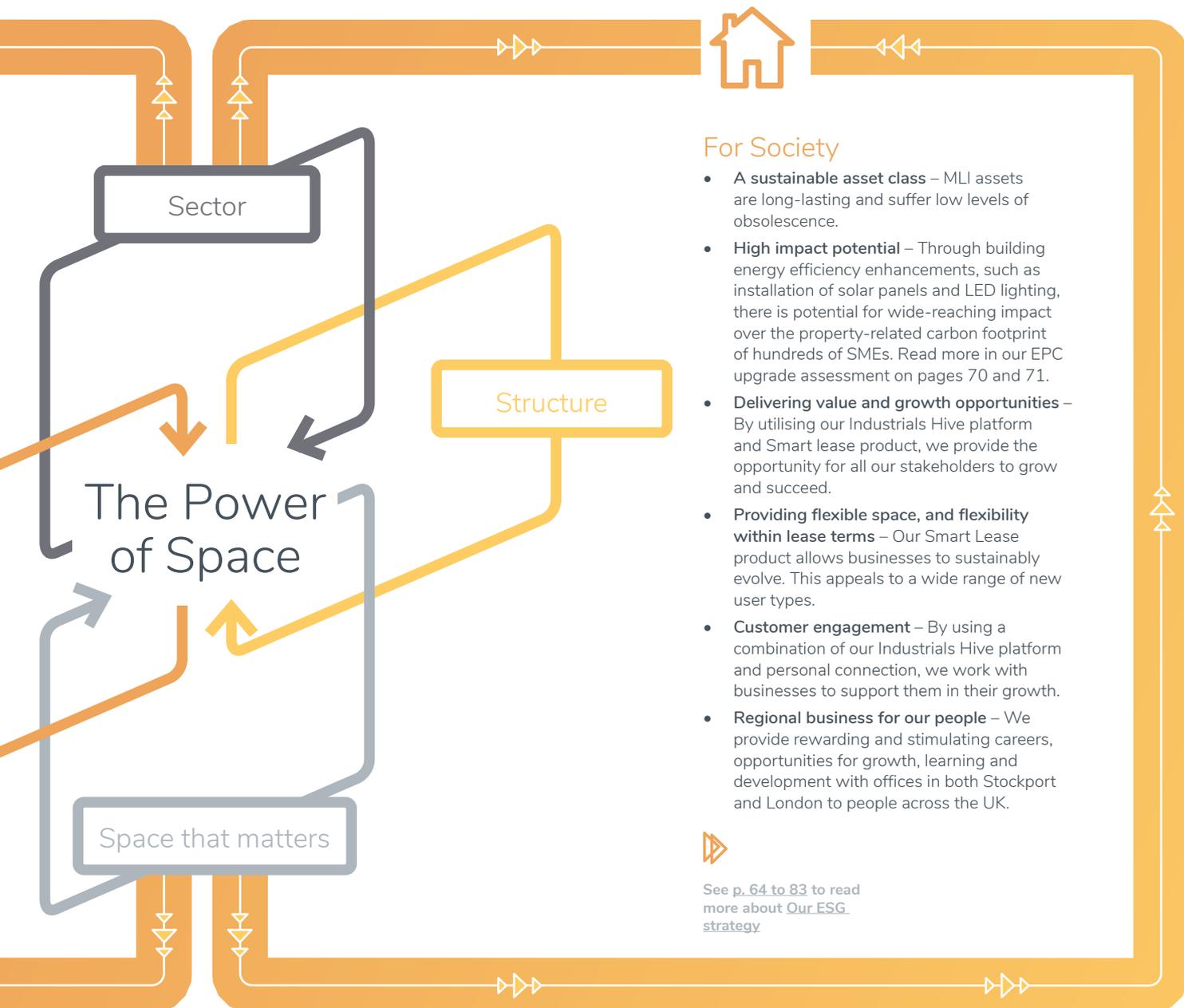
Aligned and proven management team

A high level of shares are owned by the Directors who have a strong record of identifying value in property. The Directors have overseen the execution of our MLI transition in four years and, in that time, disposed of £592.7 million of assets at an average 8.0% premium to valuation, and reduced Group LTV to 25.6%.

Permanent capital

Listed, tax-efficient REIT with long-term investment horizons, resulting in strong corporate governance, high levels of transparency and enhanced liquidity.

Platform



For Society

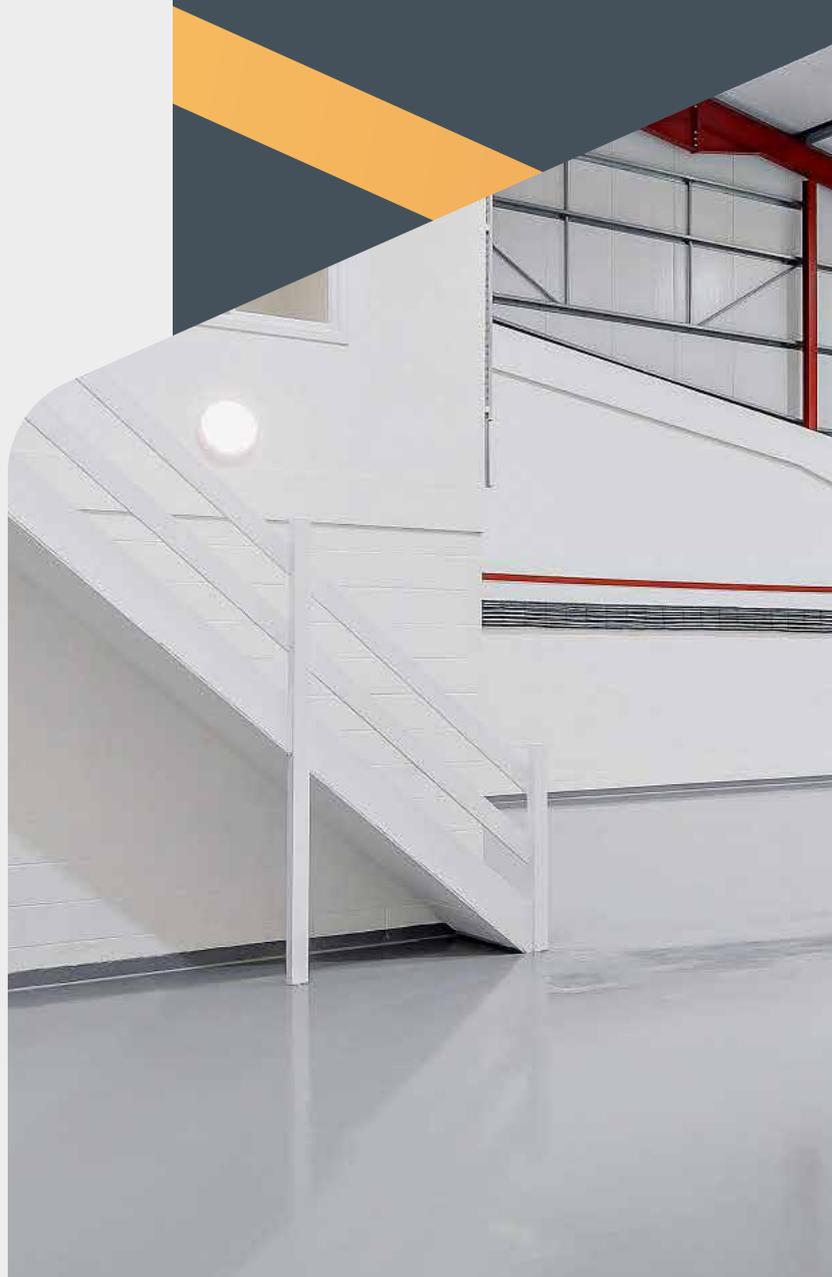
- **A sustainable asset class** – MLI assets are long-lasting and suffer low levels of obsolescence.
- **High impact potential** – Through building energy efficiency enhancements, such as installation of solar panels and LED lighting, there is potential for wide-reaching impact over the property-related carbon footprint of hundreds of SMEs. Read more in our EPC upgrade assessment on pages 70 and 71.
- **Delivering value and growth opportunities** – By utilising our Industrials Hive platform and Smart lease product, we provide the opportunity for all our stakeholders to grow and succeed.
- **Providing flexible space, and flexibility within lease terms** – Our Smart Lease product allows businesses to sustainably evolve. This appeals to a wide range of new user types.
- **Customer engagement** – By using a combination of our Industrials Hive platform and personal connection, we work with businesses to support them in their growth.
- **Regional business for our people** – We provide rewarding and stimulating careers, opportunities for growth, learning and development with offices in both Stockport and London to people across the UK.



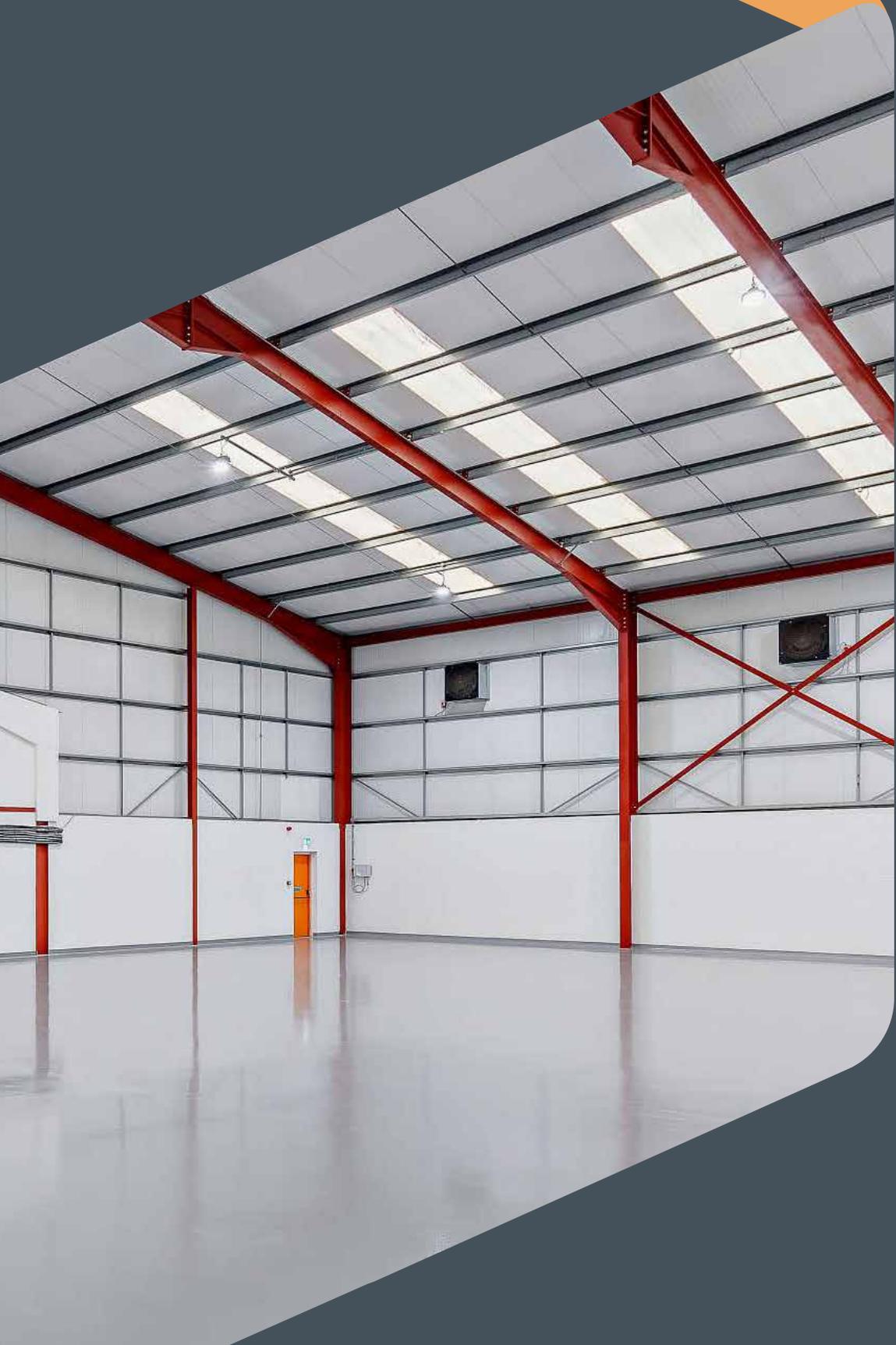
See p. 64 to 83 to read more about [Our ESG strategy](#)

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Strategic Report



Chairman's statement



Richard Grant

Independent Non-Executive Chairman



“Our plans for the future are based on building from the strategic competitive advantages which we already hold.”

This is my fourth chairman's statement since I became chairman of what was then Stenprop Limited in May 2018. At that time we set ourselves a considerable challenge, to transform the Company's entire business over a three to four-year period. This would involve the complete disposal of the existing commercial property portfolio and the creation of a new operating property business focused on multi-let industrial estates within the United Kingdom. It also required adoption of the UK REIT tax regime and the transition of our primary stock market listing from the Johannesburg Stock Exchange to the London Stock Exchange.

It is obviously most pleasing to be able to start my statement this year by acknowledging that we have effectively completed this major business transition, and I would like to congratulate the management team on driving forward this transition to a successful conclusion.

At 31 March 2018, our portfolio was valued at £734 million and comprised approximately 50 commercial property assets across a variety of sectors located in the UK, Germany and Switzerland, together with our first portfolio of 25 multi-let industrial estates in the UK. At 31 March 2022, our property portfolio is valued at £685.8 million, and includes 104 multi-let industrial estates providing a total of just over 7,600,000 sq ft of lettable space in England, Scotland and Wales. Apart from our residual joint venture holding in four German care homes, the portfolio has been completely transformed.

The four-year transformation included a strategy to steadily reduce leverage as we repositioned the portfolio. Accordingly, the business now has a stronger balance sheet and we are pleased to be reporting a loan-to-value ratio of 25.6%, down from 46.2% at 31 March 2018.

Since our initial listing on the London Stock Exchange in June 2018, the market capitalisation of the company has increased from £334 million to £579 million at 31 March 2022 and this increase in value was achieved with no issues of new equity. During this period the number of our employees has more than doubled from 20 to 52 and we have introduced a completely new and unique technology-based operating platform, which enables us to manage and operate a business which now has 2,011 units and 1,512 customers.

In addition to all the challenges posed by such a substantial business transformation, a significant portion of this period has been impacted by the COVID-19 pandemic. I am pleased to say that COVID-19 now seems to be largely behind us in the UK and for the most part the nation is learning to live with the virus. Overall, I believe that Industrials has navigated its way successfully through the pandemic and, while it has inevitably presented many challenges and difficulties, I believe that it has accelerated some economic and behavioural changes, which have ultimately benefited Industrials' business.

It is most pleasing to report that the financial results for the year just ended have continued to confirm the strategic rationale behind the business transformation. It is also reassuring to be able to report continued progress on our day-to-day operations, which is evident from the key metrics highlighted below. Of possibly more significance, the market fundamentals of the business continue to improve and these will support the opportunities which we seek to enhance returns from the business through further acquisitions and greater scale.

The two most significant financial highlights of last year's results are the 4.4% annual growth in rent levels and the 25.0% total accounting return delivered by the business. This is truly an exceptional level of return and obviously cannot be expected to continue at the same heightened level in future years. It largely reflects the substantial investment rerating of the industrial property sector, driven particularly by high levels of demand for MLI space in the UK economy.

I would also mention the improvement in our debt collection performance. Successive lockdowns during the early and middle phases of the pandemic inevitably created great concern among all businesses regarding the ability to collect revenues. I mentioned in my report last year that these challenges had consumed much management time and required varying degrees of flexibility, compassion and firmness when dealing with customers. I am pleased to report that thanks

to these efforts, the ultimate outcome is looking not nearly as pessimistic as we might have feared in the depths of the pandemic. We are now reasonably optimistic that collection levels will return much closer to traditional norms during the remainder of this financial year.

The continuing strong financial performance enabled us to increase our covered dividend and helps us to confirm our intention to achieve a rising and progressive level of dividends.

Looking forward, it is difficult not to be concerned about the continuing geo-political situation, most obviously the war in Ukraine, but also other global challenges, notably tensions between the US and China and the continuing fallout from Brexit. Such issues are behind rising inflation and interest rates in most Western economies, but these challenges often provide opportunities for entrepreneurial businesses such as Industrials, and for many of its customers.

As explained in more detail in Paul Arenson's Chief Executive's report, the key favourable market dynamics, which attracted the old Stenprop to the UK multi-let industrial market four years ago, not only continue in prospect but have also been supplemented by other developments which play into our hands. Most significant of these are the continuing transition of retail sales from bricks and mortar to online retailing, the widespread need for greater control over the supply chain and stock levels and the continuing supply and demand imbalance for small-scale industrial space.

These external market dynamics are supplemented by our own strategic initiatives which are intended to improve our competitive position and maximise Industrials' financial returns. In particular, and as explained in greater detail elsewhere in this report, our Industrials Hive platform provides us with the technological capability to carry out all aspects of property marketing, letting and management in the most cost-effective and efficient manner. No other provider of small scale industrial space has this advantage.

Our plans for the future are very much based on building from the strategic competitive advantages which we already hold. Our management platform has the capability to enable us to broaden the number and range of services which we can provide to our customers. This will not only provide opportunities for us to enhance our revenue streams, but will also assist in minimising tenant turnover and vacancy rates.

Probably of more significance to our future growth and development will be our ability to add scale to our operations. We have already developed most of the infrastructure which we will need to run a larger MLI business and the fragmented nature of ownership of MLI estates in the UK should continue to provide us with sufficient opportunities to grow through acquisition.

I look back on the achievements of the last four years with great pride and also believe that we have put Industrials in the best possible position to continue to generate further growth and attractive returns for the foreseeable future. Looking both forwards and backwards, I am extremely grateful to the management team within the business at all levels whose hard work and commitment have contributed to the Company's success and to the positive outlook for the Company's continuing progress. I should also like to place on record my thanks for the advice and support which I have received from both the executive and non-executive members of the board and the senior management team over the last year.

Richard Grant
Independent Non-Executive Chairman

9 June 2022



Chief Executive's statement



Paul Arenson

Chief Executive Officer



“Our people are passionate about Industrials REIT being a force for positive change, and we are excited about the potential for the business to make a positive difference to the 1,500+ SME companies that call our buildings their home.”

I am pleased to be reporting another strong year of progress for Industrials REIT. This year marks the end of our four-year transition strategy into a fully-fledged multi-let industrial (MLI) owning and operating business. Going forward, investors will experience the full impact of owning and operating a portfolio of £653.5 million (7.3 million sq ft) of purpose-built MLI, situated in and around numerous towns and cities across the UK.

During this year, our MLI portfolio continued to perform strongly delivering like-for-like rental growth of 4.4% for the year.

We remain confident our underlying rental growth rate of between 4% and 5% per annum is likely to continue for a number of years, particularly as we have delivered over 5% rental growth in each of the previous two years. Our confidence is based on the following factors:

- **Demand for MLI space remains strong and is increasingly diverse.** More importantly, the demand is coming from a large variety of non-industrial businesses which have never previously occupied MLI space. This is as a direct result of the advances in communications technology and the resulting e-commerce revolution, which has enabled many businesses to operate from MLI units and use the internet to access suppliers and customers in a way that could not be done before. Traditional industrial occupiers are simultaneously experiencing a revival, with less inclination for businesses to outsource manufacturing offshore due to increased transport costs and less reliable security of supply, resulting in more local production and increased stock levels. We believe the trends of e-commerce and deglobalisation are both likely to continue for the foreseeable future.

- **Supply of new MLI units remains constrained.** MLI units need to be situated in and around densely populated towns and cities and what little land is currently available in those locations tends to be developed for residential. Furthermore, even where industrial is the most viable use, it tends to be for single-let distribution units leased to strong tenants on long leases. An additional supply constraint is the fact that in all but very few locations, were a developer minded to build small MLI units speculatively, the level of current MLI rents and yields achievable relative to build costs would likely result in development losses. We estimate MLI build costs (excluding land) to be around £120 per sq ft compared to the current independent valuation of our portfolio of £90 per sq ft. For the foreseeable future, we continue to be able to buy MLI estates at around 70% of replacement cost.
- **Our average rents of £5.72 per sq ft are extremely affordable.** It means our average unit of 3,500 sq ft costs approximately £20,000 in annual rent which in relative terms is roughly the same amount most of our customers would pay some of their junior employees. Our research estimates the rent typically represents between just 1 and 3% of customer turnover and, in our view, occupiers can comfortably absorb rental growth.
- **MLI does not suffer from design or functional obsolescence.** There is little extra utility for an occupier between a new unit and an old one, with those having been built thirty years ago being virtually the same as those that would be built today. This makes the buildings highly sustainable with long economic lives, reducing the need and benefit of redevelopment and benefiting the investors, who can enjoy attractive returns over a long period with low levels of additional capital expenditure.

These factors have been driving rental growth of approximately 4-5% per annum on our MLI portfolio for the last four years. We believe this growth rate will continue for so long as supply remains constrained and demand continues. We estimate that at current yields and current build costs, development of new MLI units is only feasible if rents are at or above £10 per sq ft. Our current average rent is £5.72 per sq ft. At the current 5% rental growth, we estimate it will take between five to ten years for meaningful development to be feasible, assuming the unlikely eventualities

of there being no future increases in build costs, no land becoming available or adverse shifts in investment yields/multiples and/or a significant reversal in demand.

As a result of these fundamentals, we are confident we will be able to deliver on our total accounting return (TAR) target of a minimum of 10% per annum for the foreseeable future. TAR is the aggregate of the dividend paid plus the increase in net asset value we expect to achieve, as a percentage of the NAV at the start of the year. This year, we have delivered a TAR of 25% made up of dividends paid in the year of 6.75p plus an increase in NAV per share of 30p.

Our current EPRA cost ratio is 40.9%. This reflects the intensely operational nature of the MLI asset class. It also reflects the fact that we are internally managed and could potentially manage significantly more MLI assets with the platform we have in place. The MLI asset class is very management-intensive, as it comprises a large number of diverse individual occupiers on relatively short leases spread over a wide geographic area.

We have in excess of 1,500 different tenants in our portfolio, none of whom represent more than 2% of our annual rent roll, which gives the business fantastic income diversification but also makes management more onerous. Our average lease is approximately four years in duration and we turn over approximately 25% of all our leases each year. It is clear that risk and efficiency needs to be managed through scale.

It is also clear that scale cannot be achieved efficiently without a technology-enabled management platform, an asset which we have been steadily building over the past four years as we transitioned from being a passive allocator of capital to being an MLI operating company. We believe that by utilising this platform (assuming all other aspects remain constant) every additional MLI unit that we acquire, will come in at an EPRA cost ratio of approximately 20%, meaning that as the business grows in size, the EPRA cost ratio will fall.

The next phase of our strategy is to seek to enlarge our portfolio with further MLI acquisitions of approximately £100 million to £125 million per annum, enabling us to approximately double its size over the next four years. On this basis, all other things being equal, we estimate that our blended cost ratio should reduce from 40.9% to 30% with scope for further reductions as we increase the size of the portfolio further. We are well-positioned to achieve this, having built our management platform and having



demonstrated an ability to buy approximately £100 million of additional MLI per annum, while remaining disciplined in our investment criteria and only purchasing properties which are accretive investments in their own right (see our property investment report for more details on page 42).

Over the last four years, acquisitions have been funded through the sale of non-MLI assets and from debt. Going forward, the funds will need to come from a combination of new equity issuance and debt. Any future equity raises will be dependent on securing a suitable pipeline of acquisition opportunities which meet our criteria. More importantly, we are not in a position where we need to make acquisitions to deliver returns. We are confident we can still deliver a TAR in excess of 10% per annum based on the fundamental growth inherent in our existing portfolio without any new acquisitions. The additional acquisitions are more about enhancing earnings through the efficiency of a lower overall cost ratio by defraying many central costs over a larger asset base.

We expect further benefits to flow from our management platform through overall efficiency savings and increases in revenue by streamlining the leasing process through our digital and smart leasing activities and enhancing our customer service offering. These improvements will help cut the structural vacancy in the portfolio, which is created by the gaps between customers vacating and new customers taking occupation. It also cuts the costs of each lease by reducing the transaction fees paid

to agents and lawyers. In a business which renews or relets 25% of all leases each year and relatively short lease terms, these friction cost savings are critical and can only be achieved with a scalable operating platform.

A further anticipated revenue stream, which also demonstrates the power of an MLI operating platform, is the ability to show that the MLI asset class can be efficiently managed for third-party capital providers. At present, there is almost no ability for investors to access specialist MLI operating platforms, and as such the MLI asset class remains the highest yielding in the industrial sector, as it is perceived to have high leakage costs and is cumbersome to manage. We anticipate that once operating platforms become available in the MLI sector, the sector itself will re-rate just as other management-intensive sectors like student accommodation and self-storage have in the past. Listed operating companies in these sectors with proven management platforms and an ability to scale typically trade on significant premiums to NAV, while the underlying assets also trade on significantly lower yields than before the advent of the management platforms.



Read about
[Our performance](#)
on p. 38 to 39

Chief Executive's statement continued

As our portfolio grows, so will the diversification of our rental income which will further stabilise cash flows in much the same way as self-storage or residential operators, where cash flows are valued based upon their consistency rather than the underlying lease terms and covenant strengths. There is great strength in income granularity and occupier diversity, which coupled with strong demand for space relative to supply, should deliver secure and consistent revenue growth over the long term. An added benefit is that such cash flows are evergreen in the sense that there is never a cliff edge of lease expiries, as the operational nature of frequent lease churn ensures a consistent unexpired lease length.

We recognise the critical role that "ESG" factors play in delivering operational and financial performance. In this respect, we also understand that monitoring and disclosing the performance of our portfolio is fundamental to delivering value to our stakeholders and meeting their expectations around ESG. As you will see later in this report, during 2021, we continued to enhance the way sustainability is incorporated into business activities, with a strong emphasis on the social, wellness and diversity aspects. We also spent time gaining a better understanding of our carbon footprint, what can be done to improve the energy efficiency of our buildings and how climate change is likely to impact our business going forward. Our people are passionate about Industrials REIT being a force for positive change, and we are excited about the potential for the business to make a positive difference to the 1,500+ SME companies that call our buildings their home. There is still a lot of work to be done in this rapidly evolving landscape, and we are working hard to both enhance our reporting and implement practical initiatives across our business.

Despite the positive long-term trends we are seeing in MLI, as we move into the financial year ending 31 March 2023 we are cognisant of several challenges that are emerging which will require us to be vigilant.

The first of these is the cost inflation being seen across the entire economy, to which we are not immune. From our perspective, operating costs are increasing primarily because of wage inflation, which is significant across all disciplines but especially within the industrial property and technology skillsets. As an internally managed entity, this can impact overall EPRA cost ratios. Similarly, the cost of maintaining or building MLI units is also going up. We have very limited development exposure but estimate that the cost of building a new MLI unit has increased by over 20% in the last 18 months.

This further reduces the likelihood of any new supply coming on stream and should therefore be positive for future rental growth, which over time we also expect to occur in any case as a result of inflation.

The second challenge is central banks' response to these inflationary pressures through increasing interest rates and withdrawing quantitative easing. This is having a material impact on borrowing costs. Eighteen months ago, we were able to borrow at an all-in fixed rate for seven years at 1.66%. Now, five-year all-in fixed rate borrowings are costing approximately 3.75%. This means interest costs are now getting close to net initial yields (after operating leakage) and are no longer enhancing cash flow at the time of acquisition. Leveraged returns are becoming dependent on future rental growth and/or yield compression to provide enhanced returns. In this environment, we need to be more prudent on debt and LTV levels and are likely to target lower overall debt levels of around 30% rather than 40%. We would also seek lower levels of leverage on new acquisitions.

If top line revenue growth is unable to keep up, these increases in operating costs are likely to dampen earnings. However, we believe the potential for revenue growth remains strong due to the demand/supply imbalances and other factors in the MLI market referred to above. These give us the potential of passing on increased costs through higher rents and mitigating cost increases through future scale savings from our platform.

In this changing economic environment, there is a risk of a fall in GDP and a possible recessionary environment for a period. Under such conditions, we do not anticipate that vacancy levels will rise to levels experienced in previous severe economic downturns such as in 2008 and in the early 90s. Our thesis is that the structural change in the nature of demand from e-commerce related businesses has created a whole new class of businesses, who now need MLI space compared to the past where it was only the industrial manufacturing and service businesses. This growth in the universe and type of occupiers has taken place at a time of no new supply due to cost and land availability constraints. In our view, the existence of this additional new group of occupiers will go a significant way to offsetting the impact of vacancies due to a downturn. We saw this in the downturn caused by the pandemic, although we appreciate that the specifics of that downturn caused an acceleration of the growth in demand for online solutions.

Notwithstanding these challenges, I remain excited and passionate about the prospects for Industrials REIT and its stakeholders. MLI is an asset class which offers significant potential and is a big beneficiary of several important structural and societal changes taking place in the world around us. It is an asset class where we believe our operational platform-based approach to management provides us with a clear competitive advantage. We benefit from the combination of an aligned internalised management team with significant skin in the game and a long-term approach through our permanent capital structure. This enables us to invest in the technology, systems and staff required to deliver the platform. It also needs a team with vision to do things differently and be passionate about changing the way an industry operates with a focus on delivering the customer service and systems this requires. We have all of these in place and are building on our brand and vision. In executing our strategy, I am confident we will deliver superior returns with low risk over a long duration and growth opportunities and value for all of our stakeholders.

I take this opportunity to thank all of our stakeholders and our Board for their support. In particular, I wish to thank our people who have been so instrumental in executing on our vision and in managing the relationships with our customers and our suppliers throughout the year.

Paul Arenson

Chief Executive Officer
9 June 2022



Read about
[Our performance](#)
on p. 38 to 39

Marketplace

A structural shift in demand for MLI space, driven by macroeconomic factors

Since the turn of this century, there has been a structural shift in the level of demand for multi-let industrial units across the UK. Prior to this period, the predominant occupier base of the MLI market was manufacturing and service businesses, the former of which had been in decline for several decades as production moved offshore. However, with the advent of computing and other modern technologies (such as GPS), new entrants emerged who found that MLI's inherent characteristics of being in densely populated areas with a ready market of customers and workers, while also being highly flexible in nature, made them ideal for their modern business models. In addition, access to distribution channels created by e-commerce have enabled customers previously tied to traditional retail, to utilise MLI space. Over the past few years, this trend has accelerated, meaning that today, there is a deeper and more diverse occupier base for MLI units than ever before.

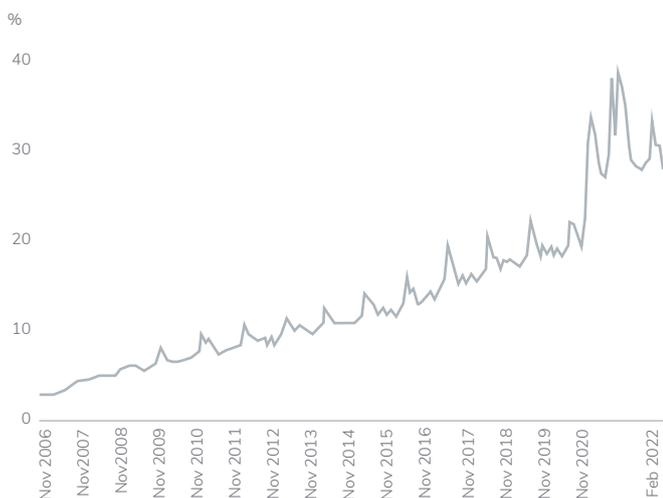
The key macroeconomic demand-side drivers for MLI are as follows:



e-commerce

The move to online retailing is driving demand for MLI space. e-commerce has brought new users into the MLI market such as dark kitchens and grocery delivery, while it has also pushed many traditional high street occupiers into the sector too. Furthermore, online trade has grown the available market for many regional businesses, leading them to expand. MLI demand is highly correlated to e-commerce penetration in the UK. While internet sales have fallen back from their peak in the midst of the pandemic, it did prompt an acceleration in the change that had been evident for the last 15 years.

Internet sales as a percentage of total retail sales (ratio) (%)



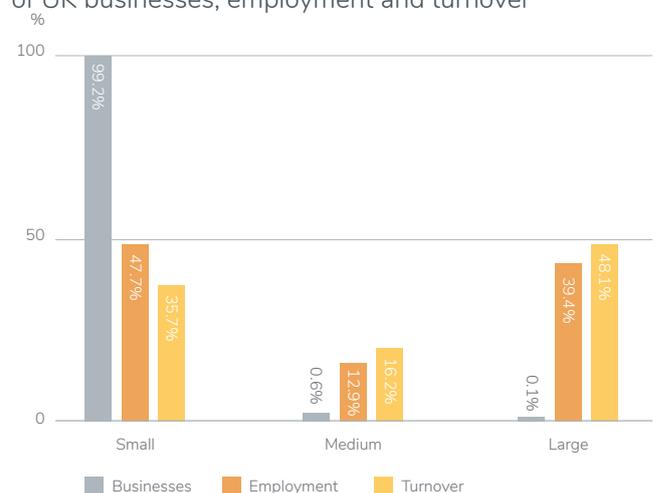
— Internet sales as a percentage of total retail sales (ratio) (%)

Source: ONS

Increase in small and medium-sized enterprises

The number of SMEs in the UK grew 73% between 2000 and 2020. MLI units have long been the home of many SMEs, leading to growing demand. The proliferation of SMEs has in part been attributed to the growing ability for small businesses to operate competitively due to the enhancements in communications and digital technology.

Contribution of different sized businesses to total number of UK businesses, employment and turnover



Source: ONS

Marketplace continued



New technologies which favour MLI

The internet and e-commerce has made MLI more relevant, as it can provide a place to make, store, process, sell and distribute products sold online. In addition, technologies like satellite navigation have played an important role, making MLI estates more accessible to consumers, opening estates up to new users from the leisure and retail sectors. Looking forward, new technologies such as virtual reality, electric and autonomous vehicles, data storage, power storage and grid balancing and 3D printing may find MLI highly suitable and drive further new demand for space.

Government policy and Brexit

The opening up of new markets and the closing of old ones looks likely to drive growth in localised supply chain management and manufacturing. Consumer preferences have also changed since Brexit, with greater emphasis on British designed and made products. Levelling Up is providing more investment in regional infrastructure and creating new jobs in local communities. Finally, Government policy towards meeting the UK's sustainability objectives will further encourage local supply chains over potentially less environmentally friendly/transport heavy alternatives.

COVID-19

There are several long-lasting trends which have resulted from the pandemic which positively impact demand for MLI space around the UK, including the acceleration of e-commerce penetration, the move towards "just-in-case" inventory management (rather than "just-in-time"), onshoring of manufacturing to reduce supply chain risk and greater workplace flexibility allowing individuals and companies to relocate to the regions and away from London.

Gentrification

MLI estates are more open to a wider range of users than ever before. It is common to find traditional users (e.g. vehicle repair, light manufacturing) occupying units alongside new breed occupiers (e.g. play centres, medical facilities, recording studios). This has made the assets more accessible, opening up the asset class to even more occupier types. Some of these are symbiotic in nature (e.g. trade counter, leisure or automotive occupiers), and can lead to excess demand in certain locations as customers seek to cluster together. Overall, the breadth and diversity of occupiers within the MLI sector is increasing, leading to more demand and greater income resilience for landlords.

Proportion of floorspace occupied by "modern" occupiers



Source: Gerald Eve

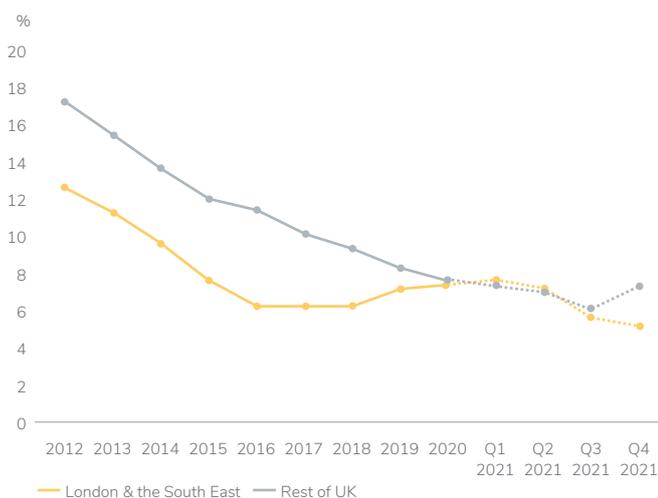
Growing MLI demand from new occupiers is suppressing vacancies

Vacancy rates for MLI outside of London are currently below 8%, the lowest level since data collection began in 2012 (source: Gerald Eve, 2022). This is coupled with the strongest annual rental growth seen since 2008 at 7.2% in the year to 31 December 2021.

Even with strong rental growth, we estimate, based on research we have undertaken within our portfolio, that rents remain highly affordable for most of our tenants and typically account for between 1 and 3% of turnover. This is further evidenced by MLI rents in Greater London, which on prime space is now close to £40 per sq ft, more than six-times the average rent across the Industrials REIT portfolio.

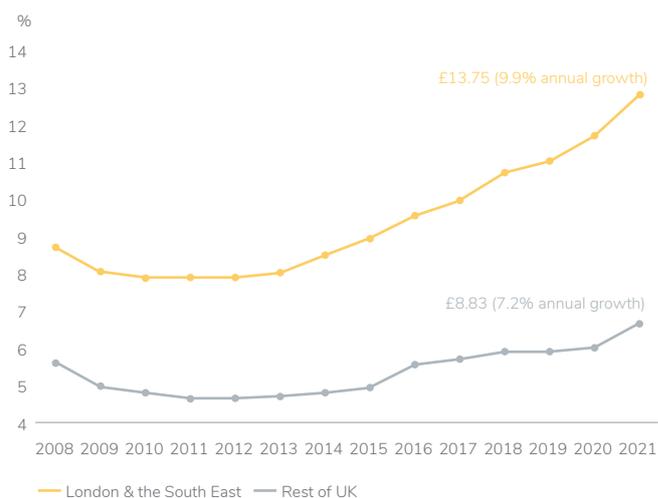
A key part of the rental growth story is the gentrification of the occupier base, meaning that there is now a more diverse range of occupiers competing with the traditional MLI customer base. The proportion of floorspace occupied by tenants considered more “modern” in their business activities has increased substantially over the past 12 years, as illustrated in the graph on the previous page.

Void rates by major geography



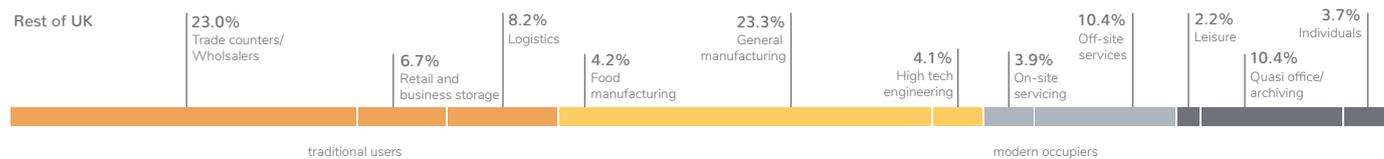
Source: Gerald Eve

All-grades ERVs by major geography



Source: Gerald Eve

MLI Occupiers across the UK (Outside of London)



Source: Gerald Eve

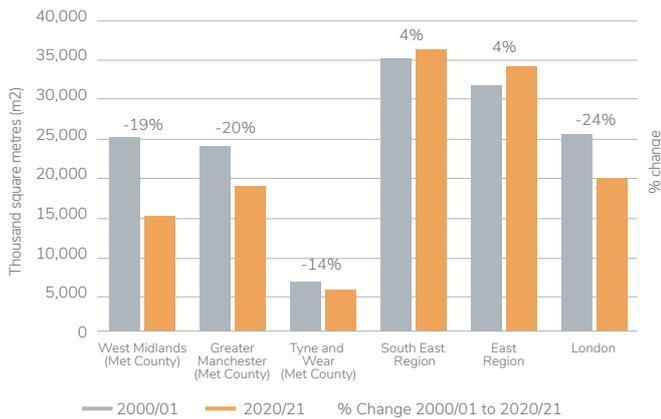
Marketplace continued

Supply remains inelastic and under pressure

MLI estates are typically located in and around towns and cities across the UK. In these locations, the supply of available land is very tight, planning is challenging, and high value uses (such as residential) compete for available sites. This heavily restricts the number of sites where industrial development is feasible. Furthermore, MLI assets are expensive to build (with many walls, utilities and doors), difficult to pre-let, and difficult to finance on a speculative basis, meaning that most industrial land is used to build larger single-let units where these issues are less acute. This constricts supply and means that demand looks likely to outstrip supply until rents have significantly increased from current levels.

According to a recent report by the Industrial Land Commission, industrial land availability has fallen in many regions across the UK, especially in the West Midlands, Greater Manchester and Tyne and Wear, all areas where we have assets in our portfolio. This reduction in supply, coupled with strong demand, is driving rental growth.

Industrial floorspace in 2000/01 and 2020/21, selected counties and regions



Source: VOA (2021). Non-Domestic Rates. Table FS4.1: Industrial sector – total floorspace by administrative area, data to 31 March 2021.

When there is surplus demand and limited supply, it would be normal to expect new stock to be developed. However, in the MLI market, build costs are high due to the additional complexity of the buildings. Furthermore, there has been significant build cost inflation over recent years, with material prices rising by 6.3% in the September quarter of 2021 and by 16.9% compared with a year earlier (source: BCIS). On top of this there are acute labour shortages, with site rates having risen sharply by 10% in the September 2021 quarter compared with a year earlier (source: Hays/BCIS All-in Site Wage Cost Index). This puts upward pressure on tender prices, and labour shortages may take over from material shortages as the major factor affecting costs over the next few years. (source: RICS)

Based on recent tenders received on our own development projects, build costs for small unit MLI schemes are c. £120-175 per sq ft, depending on location, quantum and specification. This excludes any cost of land or finance. This means it is necessary to secure rents in excess of £10 per sq ft on most schemes to make them viable, an increase of 50% on the average passing rent of our existing portfolio which is already of good quality and offers similar utility to customers when compared to a new build. All the above factors mean that scant new MLI is being developed across the UK.

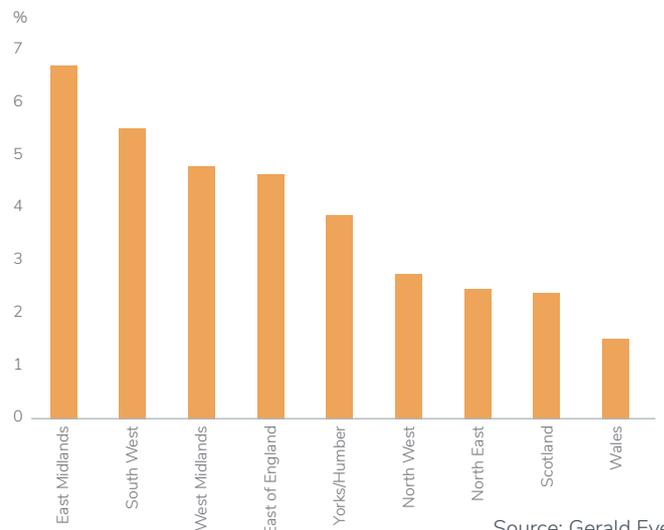
This makes it attractive to continue to buy, rather than build income producing stock. The average cost of investments acquired by Industrials in the 12 months to 31 March 2022 was £77 per sq ft, reflecting a discount of approximately 50% to replacement cost when land costs are included.

Strong demand and inelastic supply is driving rental growth

Market rental growth for MLI assets for the last 3-5 years has been around 5% per annum across the UK. This period includes the COVID-19 pandemic, a time during which the demand for MLI units significantly grew due to enhanced adoption of e-commerce across the country.

The graph below splits this growth rate out across the UK regions over the last five years.

ERV average annual growth rate, rest of the UK, 2015–2020

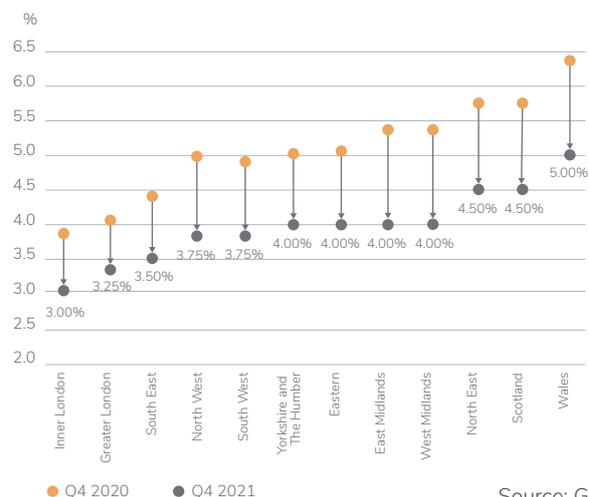


Source: Gerald Eve

The MLI investment market

In the 12 months to 31 December 2021, there was continued downwards pressure on MLI investment yields right across the UK, driven by a weight of capital inflows from property companies, UK institutions and overseas investors: all net investors into the sector.

Prime multi-let yields set against a year ago

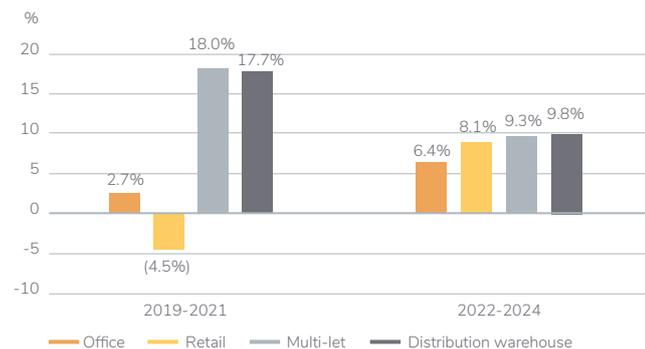


Source: Gerald Eve

The combination of attractive rental growth and investment yield compression has led to very strong returns and out-performance against other real estate sectors, even eclipsing the returns seen in distribution warehouse investment since 2019.

In 2021, total returns from Industrial property were three to four times higher than those recorded in the retail and office sectors (source: CBRE).

Average annual return by sector



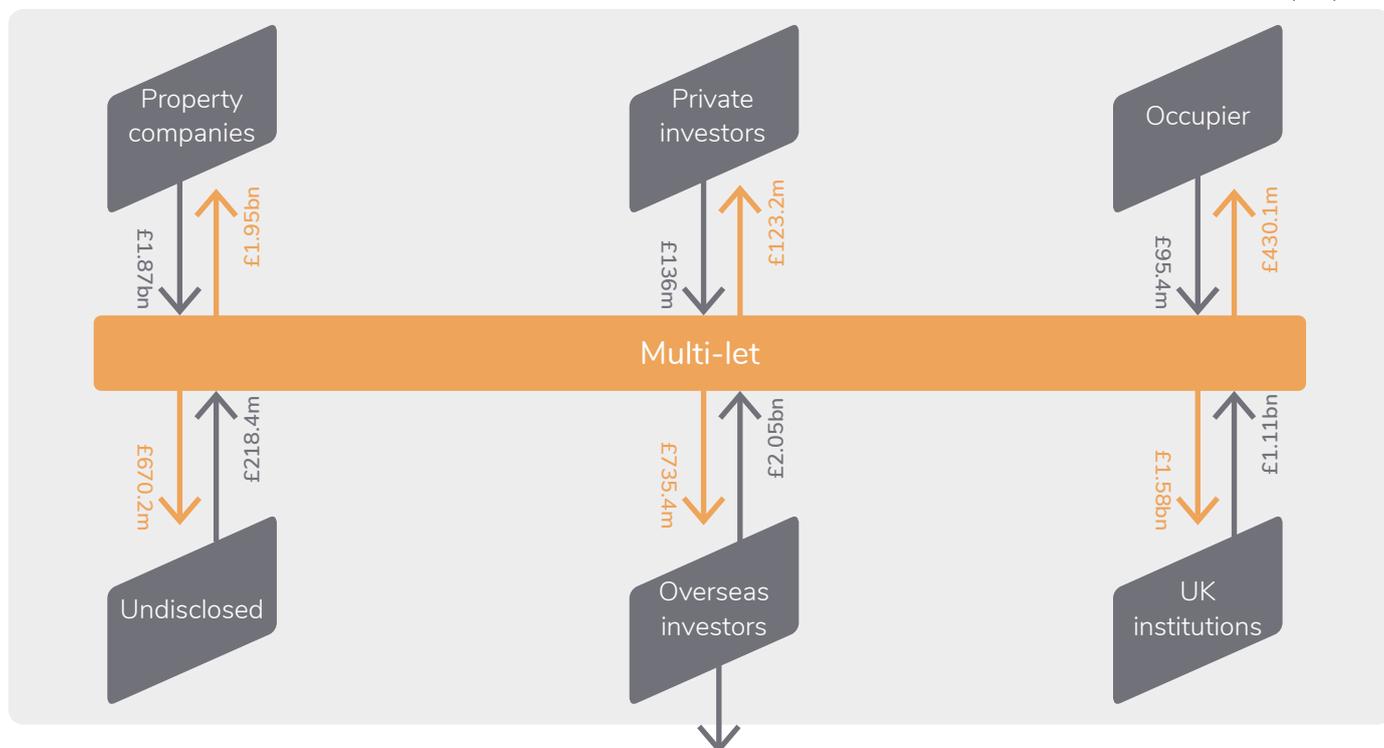
Source: Gerald Eve, MSCI

CBRE UK monthly index snapshot: 2021

Copy	All Property	Office	Central London Office	Retail	Industrial	Other
Total Return	19.9%	9.0%	10.6%	14.2%	41.3%	10.7%
Capital Value Growth	13.8%	4.3%	6.7%	6.3%	35.6%	4.7%
Rental Value Growth	2.5%	0.7%	0.2%	(1.7%)	9.0%	0.3%

UK Multi-let capital flows in 2021

Source: Gerald Eve, Property Data



Investment volume by investor sub-domicile

£980.5m North American	£540.2m German	£226.5m European	£197.2m Middle East	£48.3m Other
49.2% of overseas investment	27.1% of overseas investment	11.4% of overseas investment	9.9% of overseas investment	2.4% of overseas investment

Our business model

Inputs (key resources)

- 01** People and talent
Our skilled, experienced and motivated workforce is at the heart of the business with a strong alignment of interests.
- 02** Industry knowledge
Focus, and deep experience in MLI and an understanding of our customers' needs drives strategy and decisions.
- 03** Technology
The deployment of a comprehensive and integrated platform required to operate an MLI business, including a financial and operating system, customer relationship management system, and business intelligence solutions will drive efficiencies and maximise scalability potential.
- 04** Our assets
Resilient and sustainable assets well-located in densely populated urban areas provide flexible space to serve the evolving needs of a diverse occupier base in the long-term.
- 05** Permanent capital
Long-term investment horizons are underpinned by the liquidity of Industrials REIT shares, and strong long-term relationships with lenders.
- 06** Our brand (reputation)
Our strong branding under the Industrials.co.uk name differentiates us from our competitors.

Our focus on "Why" we exist (Our purpose-led approach)

What we do

We deliver value and growth opportunities for all our stakeholders by utilising our Industrials Hive platform and Smart Lease product.



Read about [Our Culture](#) on p. 30

Our culture

Platform

Our platform provides us with a competitive advantage. It lets us offer a consistent, efficient and comprehensive service to potential and existing customers, capture additional revenue streams, and scale our business costs effectively.



Read about [Industrials Hive platform](#) on p. 28 to 29

Unlocking The Power of Space

Our values



Read more [About us](#) on p. 2 to 3



Read about [Our values](#) on p. 3



Read about [Our sustainability strategy](#) on p. 68 to 69

Our focus on “space that matters” (Our ESG strategy)

People

Our highly skilled and multi-disciplinary team enables growth and the execution of our operating platform and business strategy.



Read about [Our people](#) on p. 72

How we unlock The Power of Space

Through a combination of technology and personal connection, we focus on delivering a quality experience for our customers. We do this by creating a straightforward, supportive, transparent and frictionless experience.

What we deliver



Our shareholders

A minimum 10% total accounting return each year as a target.



Our customers

We provide simple leases on flexible and transparent terms, and appropriate, quality premises – all designed to provide our customers with a best-in-class experience.



Our business partners, lenders and suppliers

Long-term, transparent and mutually beneficial relationships with quality operators across our business – aiming to be their partner of choice.



Our people

An attractive and caring work environment, with rewarding career opportunities and development.



Local communities

A positive community influence through our expanding ESG policy and environmental initiatives.

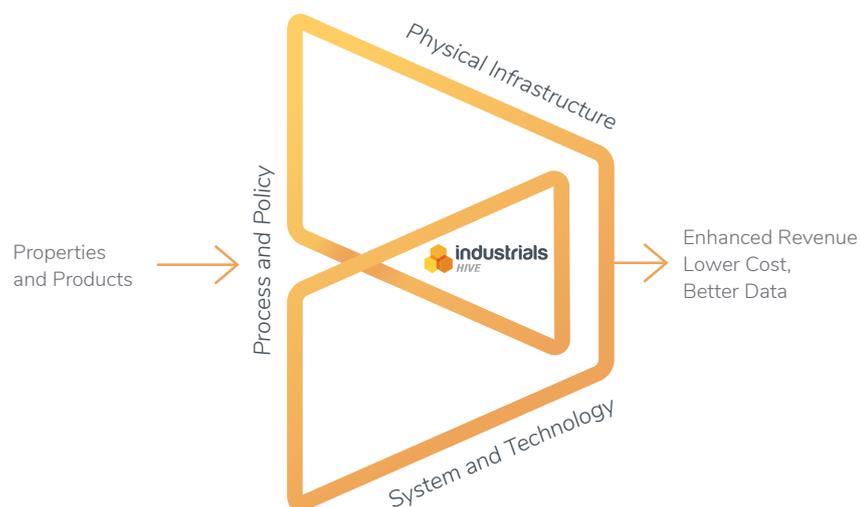


The environment

We recognise the need for us to operate more sustainably in order to reduce our impact on the planet and have the opportunity to assist our customers and communities do the same.

Industrials Hive platform

How does it work?



Industrials Hive is our operating platform. As a business, we sell leases over industrial space, and Industrials Hive manages this process, while maximising the revenue generated and minimising the costs incurred.

The Industrials Hive platform comprises three constituent parts:

1. Process and Policy

This element governs how we operate our business, the rules we stick to and the policies we have in place as to how we respond to specific circumstances. For example, within this element of our platform we would include our marketing and sales strategy, building maintenance policy, lease pricing methodology, debt policy and customer lifecycle strategy. This is the “how to” guide for managing MLI estates and dictates the experience that a customer will have when occupying Industrials REIT’s premises.

2. Systems and Technology

This element covers all the software and hardware that are required to operate our MLI business, including our finance and operating system, customer relationship management system, content management platform, websites, apps, third-party integrations, data model and business intelligence system. These critical pieces of software help govern and implement the processes and policies, while also capturing, cataloguing, and surfacing business data for users. Most of the technology in our stack is built by Microsoft, specifically the Dynamics applications, which provide an end-to-end digital environment for the leasing and management of leases all the way through to the consolidation and financial reporting at a corporate level.

3. Physical Infrastructure

These are the tangible elements of the platform that are required to operate, such as our UK-wide network of customer engagement managers, the on-site branding or our maintenance regime. For our customers, these are the visible elements that differentiate an industrials estate from our competitors.

Why do we need a platform?

The challenges managing MLI property include:

- The number of customers/tenants is high (typically 15 per asset), while the leases are relatively short (averaging four years), so on average we turn over 25% of our units each year (c. 350 leasing transactions annually).
- Each property is likely to have a service charge which the landlord must administer, invoice and report upon, while also delivering other services (such as utilities) in some locations.
- The properties are geographically diverse, making it challenging to be onsite regularly and resulting in a workforce who are often distributed across the UK.
- Problems inevitably occur and, with a high number of customers, being able to capture, process and resolve issues quickly and efficiently, is not always straightforward.

These issues are common amongst all MLI landlords, and so those which are able to overcome them the best can out-perform their competitors, both in terms of a lower cost of management and higher levels of revenue through offering a better customer service and proposition.

What has changed over the last year?

The Industrials Hive platform has evolved materially over the past year, but the most notable new functionality in the year to 31 March 2022 was:

1. The completion of our new ERP system (Microsoft Dynamics). This new system replaces three existing finance systems, and can bill rents, manage service charges, manage banking and complete financial reporting at all levels. The system is also fully integrated with our banking and CRM systems for the first time, providing a single digital ecosystem for managing the full life cycle of a lease.
2. Internalisation of property accounting. With the new ERP system, we were able to internalise our finance and property accounting functions from two outsourced partners. Internalising these critical customer-facing roles will enhance customer service and efficiencies across our organisation, while materially improving our core financial and asset data.
3. Launch of the “Vault”. The Vault is a bespoke marketing tool which integrates our internal property data with the online marketing sites where we advertise units to let (e.g. industrials.co.uk, zoopla.com etc). The Vault enables us to control all our online listings in a centralised place, manage our marketing collateral (text, images, drone footage etc), enhance the quality of our listings and bring units to market as soon as they become available to help cut wasted time from the marketing process.

The changes made over the last 12 months have consolidated several systems into one, reduced complexity and cost, improved data quality and availability, and enhanced the ability for the platform to manage significantly more MLI assets at minimal additional cost. The next year will see further enhancements to reduce the complexity of the platform, while improving functionality and the internalisation and onboarding of our facilities management functions.

How does our platform add value?

Industrials Hive adds value to our core stakeholder groups as follows:

Our customers

Industrials Hive delivers an enhanced customer service. This means you can find new space more easily, transact more quickly with fewer costs, or easily request a copy of your most recent rent invoice. It all adds to enhancing the customer experience.



Our people

Our Industrials Hive platform empowers our people to spend less time completing administrative tasks and more time to spend on rewarding work and/or with our customers. It also puts the information you need where you need it, allowing our team to make better decisions in less time.

Our investors

By speeding up the leasing process, improving customer renewal rates and removing unnecessary administration, our Industrials Hive platform is designed to cut the costs of managing MLI and to maximise revenue. This will deliver growth without purely relying upon the underlying market dynamics, helping Industrials deliver sustainable and growing earnings in the long term.

The environment

Our Industrials Hive platform is designed to capture a lot more data than a traditional property system. This is increasingly important for, amongst other things, ESG reporting and helps monitor, measure and manage carbon emission and other environmental metrics (such as biodiversity). Furthermore, by being a digital-based, it reduces the waste created by Industrials REIT, and has saved 2,039 kg of carbon and 141 kg of waste through the use of digital signatures in the last year alone.

The Power of the Platform: Smart Leases

We created the Smart Lease to make leasing quicker and easier, with no hidden costs or hidden clauses and with the automated process entirely taking place online. This means that companies looking for space can secure a short or long-term lease in as little as 48 hours, with no legal fees. All tenancy facilities costs – such as insurance and maintenance – are included at a fixed price. The average Smart Lease takes less than 14 days to complete from start to finish, compared to more than 6 weeks for a traditional letting using lawyers.

The three-page Smart Lease document uses short, clear sentences and everyday words without unnecessary legal jargon. It has hence become a popular choice for customers as its simple terminology makes it easy for them to understand their rights and obligations, with most opting not to use a lawyer as a result. This helps deliver a frictionless experience by saving time and delivering a significant up-front cost saving, which makes securing space quicker and more affordable. Most notably, the ability to transact electronically has helped Industrials REIT's customers lease space more quickly and efficiently by being able to sign their Smart Lease online from the convenience of their PC or smart phone.

This was an important feature during the COVID-19 lockdown restrictions, when tenants had to secure space to support business operations, without being able to conduct viewings. The Smart Lease allowed Industrials REIT to operate remotely very quickly, with the Company being able to market its space digitally and engage efficiently online with prospective customers.

This unique approach to tenant engagement has enabled Industrials REIT to generate more value from its assets by maintaining high occupancy levels, while also better meeting customer needs.

 Read about [Plattsville Bakehouse who utilised the Smart Lease on p. 8](#)

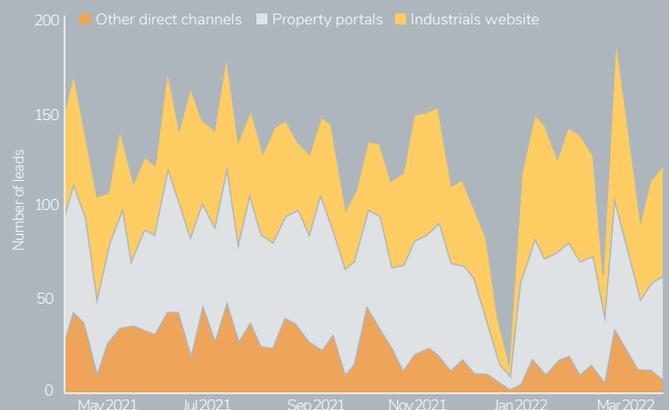
Unlocking The Power of Space:

Platform driving efficiency with our enquiries data

In around 55% of leasing situations, new customers come directly to Industrials via one of our direct marketing channels, such as our 0800 number or website. When these in-bound enquiries arrive, we capture them in our Industrials Hive platform as open leads, before disqualifying anywhere the prospective customer is not suitable (such as when they fail to pass our ESG criteria or are not seeking the kind of quality or space we provide).

Where we have an appropriate unit and the prospective customer is a suitable occupier, we then qualify the enquiry and arrange a viewing. We recently enhanced this process by introducing a new outbound lead management team, who work alongside our existing inbound team. Where we receive leasing enquiries where we do not have units available at the time, we store these in a waiting list for that location, property or unit for future reference. These waiting list customers now account for approximately 75% of all open leads in the system, giving us a large dataset of prospective future customers. When a suitable unit becomes available our outbound lead team gets back in contact with the waiting list for that unit to see who is still looking. We have been surprised at how successful this has been, with nearly 20% of people we call from the waiting list booking in for viewings, and in several instances, we have been able to arrange block viewings with multiple waiting list customers before we have even taken an available unit to market. This has resulted in shorter vacancy times and enables us to maximise the value of every enquiry we receive into Industrials Hive.

Combined with the Vault, these changes have reduced the time taken to re-let units by applying a mixture of technology solutions, intelligent processes and the right human resources to maximise revenue and cut costs.



Our culture

The Company changed its name from Stenprop Limited to Industrials REIT Limited on 10 September 2021 to align its corporate identity with its Industrials operating brand (industrials.co.uk) and investment strategy. Our Company culture captures our identity, and has been refined in consultation with our people to demonstrate our Group's strengths and value creation within the MLI landscape.



Read about [Employee Engagement](#) on [p. 93](#)

Read about [s172 Stakeholder Engagement](#) on [p. 57](#)

Our values

01

Ensuring a positive impact through focused action

02

Contributing to the success of others

03

Creating space for success

04

Finding the smarter way



Read about [Our values](#) on [p. 3](#)

We are a friendly team, where everyone receives a warm welcome in a sociable environment and where even the most senior members are approachable and accessible.

At Industrials it is natural to be genuinely inclusive and supportive – understanding, encouraging and reassuring each other, and looking for ways to nurture and inspire colleagues when they need help. This is the basis of wellbeing within our organisation. We care, and we show we care.

A collaborative approach prevails, with an emphasis on trust, transparency, and accountability, supporting clear communication and effective co-operation. A problem shared is a problem halved. All our work is teamwork.

We take pride in what we do, showing resilience and determination when the going may get tough. We do what we say we will do, which earns us credibility, externally and internally.

In everything we do, we aim to be innovative, using imagination and forward thinking to develop original, progressive – even unconventional – projects and initiatives.

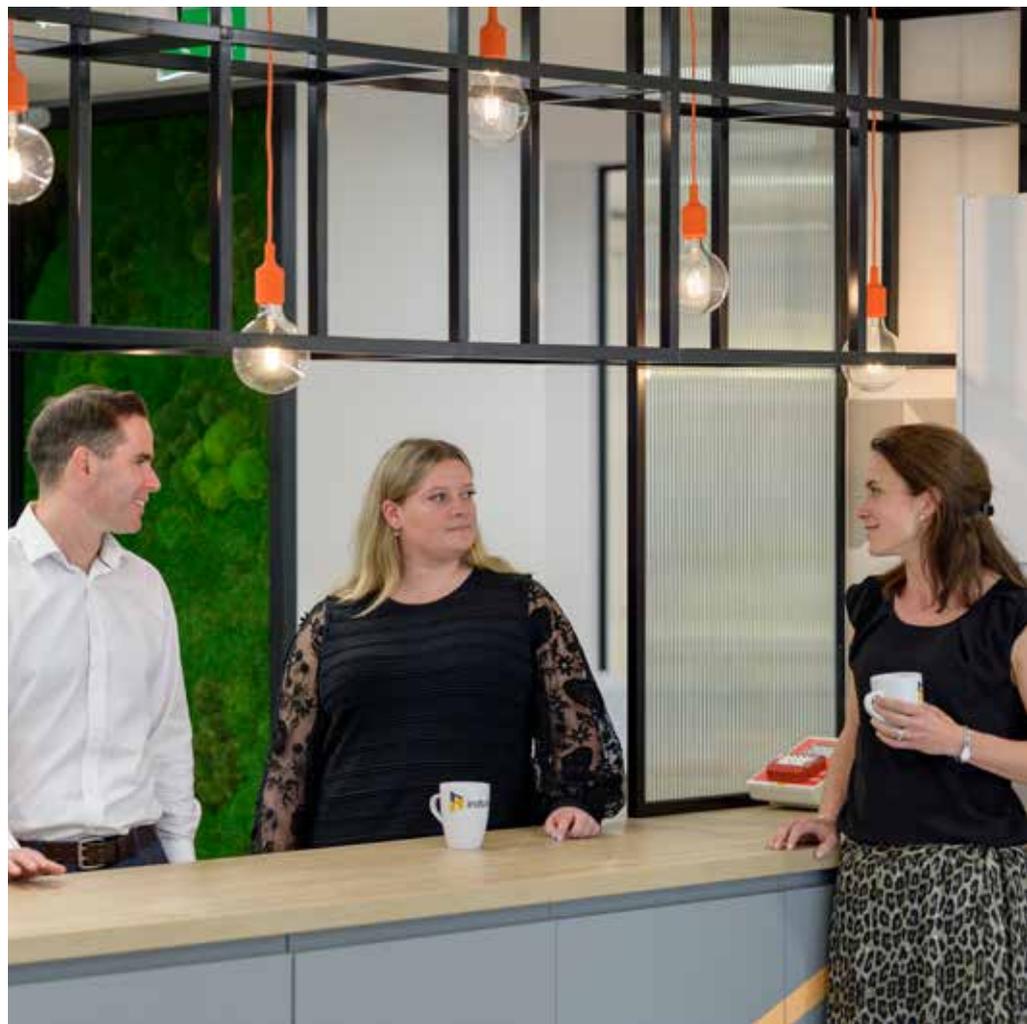
We are results-driven, always motivated to improve our performance and achieve the best possible outcome for us and our customers.

We often need to find new ways of working, which means we must be inquisitive – always learning new skills, gaining more knowledge and absorbing new ideas. This is how we grow and evolve, as individuals and as a business.

Above all, we are ambitious. We see clearly where we are heading and remain orientated towards our targets and goals.



Read about [Our people](#) on [p. 72](#)





The Power of Space: space to work, to think, to evolve, to grow and to succeed

Enhancements to our office space

As the return to the office now looks more permanent and we look to embed new working practices into our daily lives, the lease expiry in our London office and growth in Stockport provided an opportunity to enhance our office space in both locations.

We undertook a workplace consultancy study in June 2021 to ensure we make the most out of our new space and encourage engagement and innovation of design from our people. The key themes that were highlighted as part of this study and subsequently incorporated into the office design are:

- Promotion of collaboration and social interaction;
- Creation of uniformity between London and Stockport offices;
- Technology to support hybrid working;
- Efficient use of space; and
- Active promotion of our culture.

We partnered with Arke Creative to initially deliver our new space in London having decided to renew the existing lease at 180 Great Portland Street. The new space was designed to deliver an agile work set up in line with the workplace study, providing numerous different types of space from fixed desks, hot desks, a collaborative café hub space through to meeting rooms and booths, lounge area and a quiet room. The variety of different types of space was designed with collaboration and employee wellness in mind, promoting frequent movement around the office and social interaction. The provision of high-quality meeting rooms with Teams-focused audio visual equipment help deliver a more seamless hybrid working set up and enhance communication between our offices.

We sought to reuse as many materials as possible together with existing office furniture to reduce waste. We also incorporated energy efficient features where possible such as LED lighting, automatic lighting and air conditioning controls. As far as possible any waste generated has been recycled.

We have developed a group of “office champions” to promote the new agile work model and to meet regularly to ensure we continue to evolve how the office is used. We have agreed heads of terms on a new office in Stockport which we expect to move into in the second half of 2022 and which will mirror the design and utility of our office in London. Our Stockport office will be set up to mirror the London office ensuring familiarity with space layout and consistency of experience.



Read about
[ESG and employee
wellbeing on p. 72](#)



Read more about
[our Hybrid Working model
on p. 58](#)

Our strategy

Strategy overview

Our strategy is to invest in MLI due to its favourable, sustainable dynamics and deliver value and growth opportunities for all our stakeholders by utilising our Industrials Hive platform and Smart Lease product.

We have four strategic pillars. They give us the focus to relentlessly pursue our purpose to provide space to work, to think, to evolve, to grow and to succeed; space that matters to our customers, employees and communities.

Our objectives are driven by these four strategic pillars.

01 Sector



Quality properties

Supply and demand fundamentals drive rental growth.

Acquisitions

We own and acquire buildings that work for our customers. These are in secure urban locations, with a regular layout and offer value for money. This enables us to maximise demand and convert this into higher occupancy and rents.

Demand and supply

MLI offers a unique opportunity to invest in an asset class where there is an ongoing structural shift in demand driven by the growth of e-commerce and the adoption of technology, while supply is severely constrained by high build costs and a lack of available land across towns and cities in the UK. We believe that this imbalance of demand and supply will lead to sustained rental growth over a long period of time.

02 Platform



Investing in our specialist operating platform

Our unique cloud-based, mobile-friendly and highly scalable Industrials Hive operating platform is operated by our dedicated team.

Technology

We have built a scalable and sustainable operating platform for our business to operate more efficiently. It is flexible in meeting our customer's daily needs, while enabling our business to grow at a reduced marginal cost.

Customer experience

We deliver a quality experience for our customers. This experience is driven by making the process of leasing space simple and frictionless.

Link to FY23 objectives: [A](#) [B](#)

Link to FY23 objectives: [C](#) [D](#)

Key objectives for the year ending 31 March 2023

- A Cut time and cost from the leasing process
- B Generate new MLI acquisitions
- C Enhance customer service
- D Improve operational efficiencies
- E Embed sustainability into all business activities
- F Refine and develop our organisational culture



Read more about [our objectives](#) for the year ending 31 March 2023 on [p.35](#)

03 Structure



Structured for growth

Our REIT structure, strong governance, financial strength and management alignment.

Permanent capital

With a long-term investment horizon, the Company provides the opportunity to capitalise on a business model which generates customer value and long-term growth over short-term gains. We believe that the fundamentals of UK MLI should enable us to grow rents and values by 4–5% a year, which, after modest leverage, should achieve our target of a minimum 10% total accounting return.

Listed REIT

Being a listed REIT facilitates strong corporate governance, high levels of transparency, a 90% distribution of tax exempt income profits and enhanced liquidity in Industrials REIT shares.

Our people

Corporate and personal goals are aligned with an internalised management structure and >7% of issued share capital owned by management. Market standard incentive packages are aligned to the Company's corporate KPIs.

Link to FY23 objectives: [D](#) [F](#)

04 Our approach to sustainability



Space that matters



We provide space that matters to our customers, employees and communities.

Customers

We have a unique opportunity to promote sustainable working practices to over 1,500 SMEs servicing 104 communities across the UK.

Our space

The MLI asset class has good green credentials, which can unlock opportunities in the short term, with the correct management and focus.

Our ESG focus

We aim to be a responsible, sustainable business that achieves its financial targets while balancing the needs of, and creating value for, all of our stakeholders.

Link to FY23 objectives: [E](#) [F](#)

Our strategy continued

Objectives

Review of objectives set for the financial year to 31 March 2022

The financial year ended 31 March 2022 was the final year of our four-year transition into a specialist MLI operating company. We are pleased that the transition has been substantially delivered on time and plan, while also delivering on our goal to build a market-leading MLI operating platform, which will deliver long-term, sustainable growth for our business. Our future objectives will therefore move away from transition and be more focused on operational performance as we seek to maximise the value which can be delivered from our MLI assets through Industrials Hive.

The business performed well against the financial year ended 31 March 2022 objectives, as follows:

01 Complete transition to 100% MLI

As at 31 March 2021, the portfolio comprised 78% multi-let industrial and urban logistics assets, with a target to reach 100% by 31 March 2022. This was to be achieved through acquiring £100 million of new MLI assets and selling £127.2 million of existing holdings in Switzerland, Germany and Guernsey. By 31 March 2022 we had acquired £97.6 million of new MLI assets and sold £92.8 million of existing assets at a 2.4% premium to March 2021 valuations, but are still holding an interest in the Care Homes portfolio in Germany via a joint venture, valued at £32.3 million. Therefore, we finish the year with MLI holdings representing 95.3% of the total portfolio.

Link to KPIs: 03 05 07 08 09 10 11

Link to risks: 01 04

02 Maintain dividend

The target dividend for the year was 6.75p in line with previous transition years, and this has been increased to 6.85p for the financial year ended 31 March 2022. Furthermore, the dividend remained fully covered.

Link to KPIs: 01 02 04 09 10 11

Link to risks: 01 03 04 05 06 09

03 Industrials Hive operating platform

We achieved our platform goals for the year of rolling out our new integrated ERP platform and data architecture, while simultaneously evolving our sales and marketing processes and customer service functionality. See our Industrials Hive platform section on page 28 for further information on progress on Industrials Hive in the financial year ended 31 March 2022.

Link to KPIs: 01 02 04 06 10 11

Link to risks: 02 03 05 06 07 08 09 10

04 Liquidity and brand

We completed our goals of moving the Company from the Specialist Fund Segment to the Premium Segment of the Main Market of the London Stock Exchange, while also changing the status of our JSE listing from Primary to Secondary. We also successfully rebranded the Company from Stenprop to Industrials REIT, helping to clarify our strategic direction and create greater alignment with our Industrials.co.uk customer-facing brand.

Link to KPIs: 07 09 10 11

Link to risks: 01 02 07 08

05 Sustainability

We made significant progress during the year with our ESG strategy, including achieving a Bronze Award for reporting in line with the EPRA Sustainability Best Practice Recommendations ("sBPR"), and an EPRA sBPR award for Most Improved company. Our disclosures were consistent with the Task Force on Climate-related Financial Disclosures ("TCFD"). We calculated our scope 3 emissions as part of an exercise to better understand our carbon footprint, and identified our key climate risks and opportunities and how these impact our business. Several ESG initiatives were rolled out across the Company as detailed in our Sustainability section. Much remains to be achieved, and we look forward to pushing ahead with our ESG strategy to deliver value and growth opportunities for all our stakeholders over the coming years.

Link to KPIs: 12

Link to risks: 02 05 10

Objectives for the next financial year

Our objectives for the financial year ending 31 March 2023 are driven by our four strategic pillars:

A Cut time and cost from the leasing process

We have made significant strides in this area with our Smart Lease, which has drastically reduced the complexity, time taken and cost of leasing, on over half of our transactions. The objective for the financial year ending 31 March 2023 is to roll this concept out across more complex and larger lettings by standardising and limiting the scope of traditional leases.

Link to strategic pillar: [01](#)

Link to KPIs: [01](#) [02](#) [06](#) [09](#) [11](#)

Link to risks: [05](#) [06](#) [08](#) [09](#)

D Improve operational efficiencies

Having built an operating business over the last four years, the focus is now upon optimising how the organisation functions on a day-to-day basis. This year, we are undertaking a process mapping exercise which will streamline and improve the most important and repetitive activities, while helping to identify and implement opportunities for technology to improve them.

Link to strategic pillars: [02](#) [03](#)

Link to KPIs: [01](#) [02](#) [06](#) [09](#) [11](#) [12](#)

Link to risks: [02](#) [04](#) [05](#) [06](#) [07](#) [08](#) [09](#)

B Generate new MLI acquisitions

With the transition largely complete and Industrials Hive functional, Industrials is well-positioned to scale the business to achieve economies of scale. However, any growth needs to be predicated on a strong investment pipeline of potential opportunities. We have recently increased capacity within our investment team to support this.

Link to strategic pillar: [01](#)

Link to KPIs: [01](#) [02](#) [03](#) [04](#) [07](#) [08](#)

Link to risks: [01](#) [04](#) [10](#)

E Embed sustainability into all business activities



Bringing awareness to all of our stakeholders around thinking sustainably, is an important facilitator of change. During the year ending 31 March 2023, we will be looking to identify key targets to focus this thinking and prioritise our actions, particularly around environmental initiatives. We will continue to embed sustainable thinking into all our business activities from our engagement and procurement, to our capital expenditure programmes in order to implement solutions that deliver value and growth opportunities for all our stakeholders. Read more on our focus for 2023 in ESG Strategy on pages 68 and 69.

Link to strategic pillar: [04](#)

Link to KPIs: [12](#)

Link to risks: [02](#) [04](#) [05](#) [06](#) [07](#)

C Enhance customer service

A key to quality customer service is managing the touch points with customers through their life cycle with Industrials. At the end of the financial year ended 2022, we internalised all property accounting and billing activities with a view to generate efficiency savings and deliver enhanced customer service in the management of customer contracts. The next stage of this process is to internalise our facilities and property management functions, which will allow us to deliver a better-quality service with regards to building maintenance and management, while also generating efficiencies through greater alignment in our workforce. Our new Head of Facilities Management started in March 2022 with a view to in-sourcing this work during the second half of the financial year ending 2023.

Link to strategic pillar: [02](#)

Link to KPIs: [01](#) [02](#) [09](#) [11](#)

Link to risks: [02](#) [05](#) [06](#) [07](#) [09](#) [10](#)

F Refine and develop our organisational culture



Business culture requires constant effort and improvement if it is going to support the wider ambitions of the business. We recently redefined our core cultural goals, and have identified a number of initiatives for the financial year ending 31 March 2023 in order to deliver upon them, including providing a working environment that reflects and promotes our culture.



Read about [Our culture on p. 30](#)

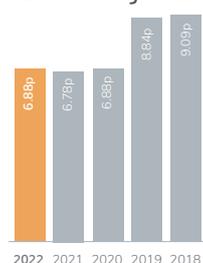
Link to strategic pillars: [03](#) [04](#)

Link to risks: [02](#) [06](#) [10](#)

Key performance indicators

Financial KPIs

01 Adjusted earnings per share (pence)



Definition

Calculated as EPRA earnings after Company-specific adjustments. Adjusted earnings per share provides an indication of underlying operating earnings that support dividend payments. It excludes components not relevant to core earnings performance of the portfolio such as property and derivative fair value adjustments and gains/losses on disposals. This earnings measure is applied against all dilutive share options (see note 14 to the financial statements).

Year ended 31 March 2022 review

Despite the continued headwinds of COVID-19, we reported strong adjusted earnings of 6.88 pence per share, an increase from 6.78 pence a year earlier.

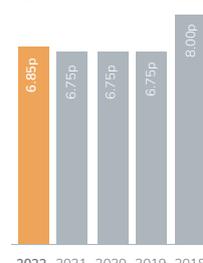
Link to FY22 strategic objectives:



Link to risks:



02 Dividends per share (pence)



Definition

The total dividends per share that Industrials REIT makes to shareholders in respect of the financial year. Dividends are paid twice yearly.

Year ended 31 March 2022 review

The 2022 full year dividend of 6.85 pence per share (2021: 6.75 pence) is fully covered by adjusted earnings and reflects a yield of 3.9% on the year end EPRA NTA of £1.77p per share.

Link to FY22 strategic objectives:



Link to risks:



03 EPRA Net Tangible Assets (NTA) per share



Definition

EPRA NTA is aligned with IFRS NAV in that it includes deferred tax liabilities with regard to properties classified as held for sale. EPRA NTA per share represents the net assets, as calculated by IFRS, but excludes the mark-to-market on derivative financial instruments, the carrying value of intangibles and deferred taxation in relation to fair value adjustments of investment property and financial instruments not held for sale. EPRA NTA is adjusted for the dilutive impact of share options.

Year ended 31 March 2022 review

The annual increase in NTA of 20.4% reflects the increase in value of our MLI portfolio which increased by £94.7 million (20.8%) on a like-for-like basis since 31 March 2021.

Link to FY22 strategic objectives:



Link to risks:



04 Total accounting return %



Definition

Total accounting return is the ratio of growth in EPRA NTA per share plus dividends paid (cash and scrip) as a percentage of opening EPRA NTA per share.

Year ended 31 March 2022 review

The total accounting return is driven by the EPRA NTA increase of 20.4%. We target a total accounting return in excess of 10% per annum.

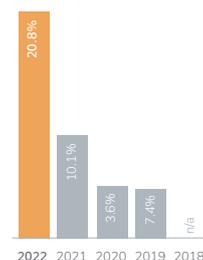
Link to FY22 strategic objectives:



Link to risks:



05 Like-For-Like MLI valuation increase %



Definition

The growth in property valuations of our MLI properties, owned throughout the current and previous periods under review.

Year ended 31 March 2022 review

Our like-for-like MLI portfolio valuation increased substantially as a result of the capitalisation of strong yield compression (80%) and growth in rents during the year (20%). The MLI asset class has performed well, driven by the fundamentals of strong demand and limited supply.

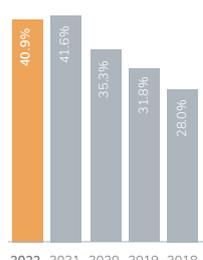
Link to FY22 strategic objectives:



Link to risks:



06 EPRA cost ratio %



Definition

Administrative and operating costs expressed as a percentage of gross rental income.

Year ended 31 March 2022 review

The EPRA cost ratio has decreased marginally over the year. As we continue to grow the MLI portfolio, the costs associated with our platform and people will grow in smaller increments. We expect our EPRA cost ratio to continue to decline going forward.

Link to FY22 strategic objectives:



Link to risks:



Key to FY22 strategic objectives

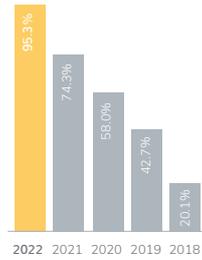
- 01 Complete transition to 100% MLI 02 Maintain dividend 03 Industrials Hive Operating Platform 04 Liquidity and brand 05 Sustainability

Key to Risks

- 01 Macroeconomic and political uncertainty, including the impact of the COVID-19 pandemic
 02 Complete the transition into 100% focused MLI business
 03 Bank covenant
 04 Availability and cost of finance
 05 Costs of development of the Industrials Hive operating platform
 06 Inability to operate the Industrials Hive operating platform
 07 Asset management
 08 Information security and cyber threat
 09 Reliance on service providers
 10 People
 11 Climate-related risks

Operational KPIs

07 MLI portfolio %



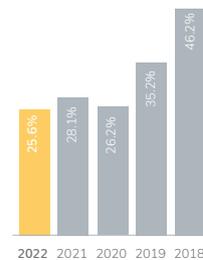
Definition

The percentage of Industrials REIT's total property portfolio reported in sterling as represented by MLI properties.

Year ended 31 March 2022 review

We continued on our transition to being fully invested in UK MLI property. We acquired £97.6 million of UK MLI property and divested £92.8 million of non-UK MLI property. The only non-UK MLI asset remaining is the German care homes joint venture, which we expect to sell in the next financial year.

08 Group loan to value (LTV) %



Definition

The Group LTV is the ratio of the principal value of gross debt, less unrestricted cash, to the Group's aggregate value of properties.

Year ended 31 March 2022 review

The Group LTV at 31 March 2022 was 25.6%. The reduction in LTV during the year reflects valuation increases as well as acquisitions of MLI properties unencumbered by debt.

Link to FY22 strategic objectives:

- 01 04

Link to risks:

- 03 04 10

Link to FY22 strategic objectives:

- 01

Link to risks:

- 03 04 05 06

09 MLI occupancy %



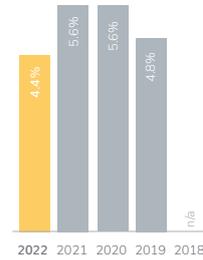
Definition

Occupancy of the MLI portfolio as a percentage of total lettable area.

Year ended 31 March 2022 review

Occupancy remained stable at 93.6% (2021: 93.7%) driven by our strategy to reduce transaction times and introduce fixed pricing into leases, with our Smart Lease.

10 Like-for-like MLI rental growth %



Definition

The growth in the passing rent of the MLI portfolio owned at the start of the financial year.

Year ended 31 March 2022 review

Like-for-like rental growth was 4.4% for the year, despite a small reduction in occupancy of 0.3%. Much of this growth was captured in the first and last quarters of the year which saw strong take up of units and high levels of leasing activity.

Link to FY22 strategic objectives:

- 01 02 03 04

Link to risks:

- 01 05 06 07 09 10

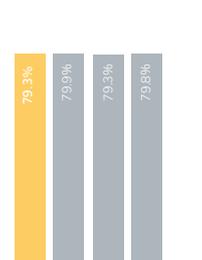
Link to FY22 strategic objectives:

- 01 02 03 04

Link to risks:

- 01 02 05 06 07 10

11 MLI Lease renewal rate %



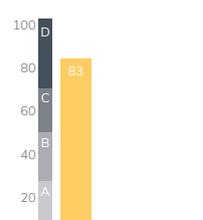
Definition

The percentage of tenants who have chosen to remain in occupation post a contracted lease expiry or break option, during the current financial year.

Year ended 31 March 2022 review

Tenant retention remained flat for the year, driven by a combination of quality customer service from the Industrials Hive platform and a lack of supply in the market, illustrating how resilient MLI has been to the economic shocks created by the pandemic.

12 Average Energy Performance Certificate ("EPC") rating



Definition

The average energy performance certificate ("EPC") score across all leased MLI units within our portfolio.

Year ended 31 March 2022 review

The average EPC rating of our MLI portfolio is currently a D with a score of 83 for non-domestic buildings. The Company has implemented this as a KPI for the first time in order to track our portfolio's efficiency and compliance with future EPC regulations, with a view to implement measures to improve this rating in the short term.

Link to FY22 strategic objectives:

- 01 02 03 04

Link to risks:

- 01 05 06 07 09 10

Link to FY22 strategic objectives:

- 05

Link to risks:

- 02

Property report and investment

MLI performance overview

Performance of the MLI portfolio over the 12 months to 31 March 2022 was strong and in-line with expectations, driven by constrained supply and growing demand for multi-let industrial units across the UK.

Occupancy across the portfolio was stable (93.6% vs. 93.7% in March 2021), maintaining upward pressure on rents for available units and giving existing customers limited options upon lease renewal. Consequently, we have witnessed strong rental growth, rental incentives remaining at historically low levels and competitive tension for new lettings, as new entrants into the MLI market compete for limited available space. During the year we signed 265 new leases on over 1 million sq ft of space, delivering an average uplift in rent of 22% when compared to the previous passing rent.

During the year, we continued with our strategy of reducing transaction times and introducing fixed pricing into leases with our Smart Lease, which will help reduce overall vacancy levels and deliver guaranteed growth of c. 3% per annum in rents during the lease term. This strategy will deliver contractual uplifts of 5.5% from current passing rents during the remainder of existing leases. Furthermore, the average passing rent remains 13% below the estimated rental value of currently leased units, giving plenty of baked in future rent growth when leases come to expiry if occupancy levels remain stable.

Overall, passing rents grew 4.4% during the year and remain highly affordable at £5.72 per sq ft. The overall ERV of the portfolio grew by a similar 4.3% over the year, and again remains affordable at £6.41 per sq ft providing plenty of potential for further rental growth in the future.

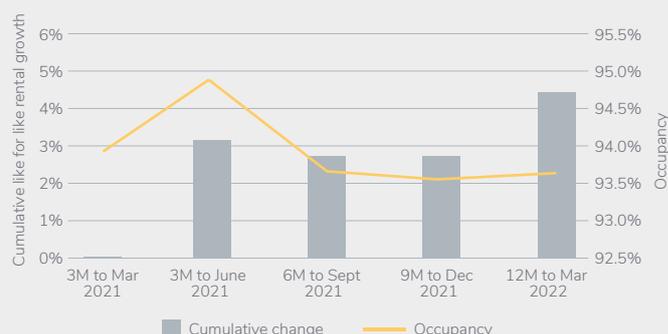
Portfolio overview

Over the 12 months ended March 2022, the total income from the MLI portfolio increased by £7.9 million, of which approximately £4.7 million was from new acquisitions. The total occupancy of the portfolio remained broadly stable over the year, finishing the year at 93.6%, peaking in the June 2021 quarter at 94.9%.

During the year, we let or renewed 265 leases, one of which resulted in the reletting of space previously occupied by our largest tenant to multiple smaller occupiers. As a result, the portfolio is now even more diversified, with no single tenant accounting for more than 2% of total revenue and the top ten tenants accounting for just 11% of total revenue. This diversification also extends to the geographies where the properties are located and the types of occupiers within the portfolio, where again there is no significant reliance on any one area, industry or customer type. We continue to see further diversification within the customer base as traditional occupiers are displaced by new entrants into the market, largely trading via successful and growing e-commerce platforms.

The graph below shows the cumulative growth in rental income achieved through the 12 months ended March 2022 from lease renewals, new lettings and the leasing up of vacant space on a like-for-like basis (hence excluding new acquisitions). The yellow line shows portfolio vacancy at each period end.

Rental uplifts – cumulative rental growth (like-for-like) 4 quarters against target of 4-5%



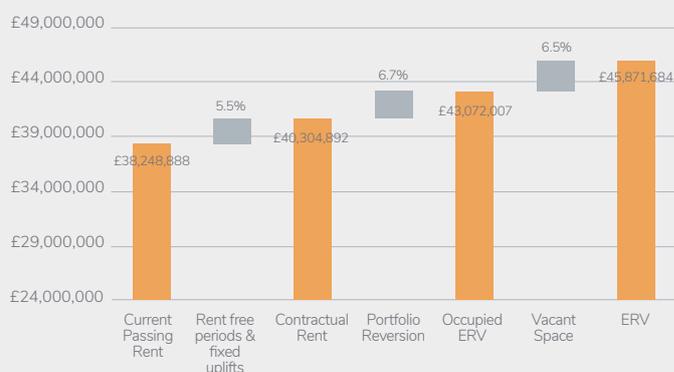
Rents

Like-for-like rental growth was 4.4% for the year, despite a small reduction in occupancy of 0.3%. Much of this growth was captured in the first and last quarters of the year which saw strong take up of units and high levels of leasing activity. The majority of leases signed during the year included 3% annual uplifts in rent, which is now translating into average contractual uplifts within all leases of 5.5% during the remainder of the lease term.

ERVs grew by 4.3% during the year resulting in a 12.6% premium between the passing rent and the ERV on currently occupied units, providing baked-in future revenue growth so long as rents remain at the current levels. The total ERV on the portfolio offers a further 6.5% growth from this level, which would be captured through the leasing up of space currently held vacant.

The graph below shows the potential rental growth achievable from current passing rent through securing contractual uplifts within existing leases, uplifts to ERV on existing leases and uplifts to ERV across all units (including currently vacant space).

Rent Bridge as at 31 March 2022



Demand and leasing activity

Overall demand for space in financial year ended 31 March 2022 was up approximately 50% on the previous year as the positive impacts of the pandemic on customer demand took hold (see our marketplace section on page 24). In addition, we made significant improvements to the quality of the enquiries generated through Industrials Hive resulting in greater efficiency through the leasing process (see case study: platform driving efficiency with our enquiries data on page 29).

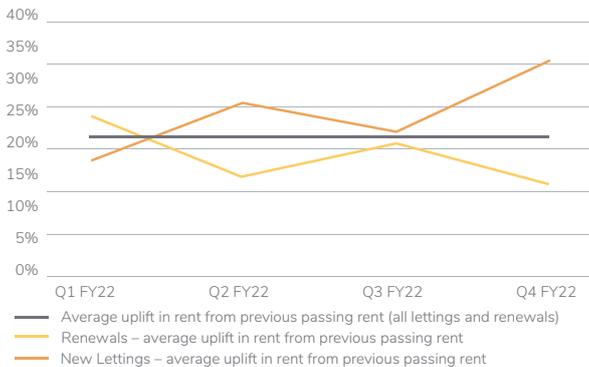
On completed new lettings and renewals, we saw rents rise on average by 21.9% from the previous passing level. Increasingly strong new lettings drove this performance with an average uplift of 26.1% vs. 18% for renewals, a sign of the high levels of competitive tension in the market from new occupiers who are often able to pay higher rents than incumbent businesses. Strong new lettings of vacant units on an estate also set a new rental tone which can then be rolled out across the remaining units at lease renewal, illustrating how important a controlled level of structural vacancy is for driving rental growth.

Lease terms remained consistent through the year at c. 4.5 years with a break after 3.5 years, while rent incentives remain very low at one month rent free (normally taken as two months half rent) for signing a new lease. Smart Lease transactions accounted for 53% of all new lettings and renewals and continue to transact significantly quicker than traditional leases thereby shortening void periods and cutting costs.

Despite the impacts of COVID-19, tenant retention remained flat at 79% for the year illustrating how resilient MLI has been to the economic challenges created by the pandemic. After a strong first six months of the year, tenant retention fell marginally in the second half of the year to 76%, but this was counteracted by strong leasing activity to new occupiers on vacant space, which took the overall retained or re-let percentage to a normal level of 89%. Some of the tenants leaving over this period were victims of the pandemic as it became clear that their businesses were no longer viable in the post-COVID-19 economy, but the speed that these same units were relet to counteract their departure illustrates the depth of demand for MLI space from new entrants with more modern and profitable business models.

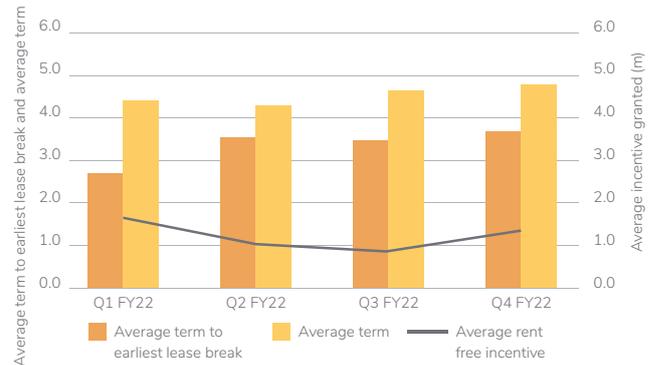
Average uplifts in rent from previous passing rent upon new lettings and renewals

This graph shows the weighted average uplift in rent vs the previous passing rent across all renewals and/or relettings during the period.



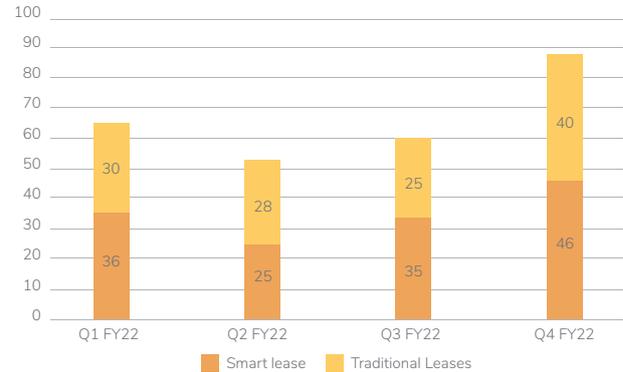
Average lease terms (years) and incentive (months)

This graph shows the average lease term to expiry or first break option during each period, and the average rental incentive given to sign a lease in months rent.



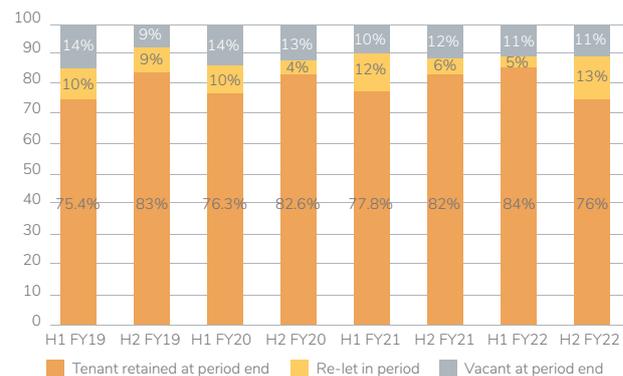
Smart lease vs. traditional leases

The number of Industrials Smart Leases signed vs Traditional Leases signed in each period.



Tenant retention 2019-2022

This graph shows the % of units where there were lease events during the period (lease break or expiry) where tenants remained in situ, where tenants had vacated and the unit had been re-let, or where the tenant had vacated and the unit was vacant at period end.



Property report and investment continued

Unlocking The Power of Space:

Enhancing the sustainability and quality of our space – Brasenose Industrial Estate, Bootle

Our customers want to source space online, view and move in, often within very short time frames. To enable this we take the friction out of the leasing process and deliver high-quality space that is ready to move into, straight away.

Our digital marketing platform at industrials.co.uk provides rich and high-quality content and an immersive experience for prospective customers when browsing for suitable space online.

Our Smart Lease is tried and tested in its effectiveness to enable our customers to sign up to lease space without fuss or hassle.

To deliver best-in-class product, our team of experienced Asset Managers identify opportunities to enhance both quality and the utility of our space. By delivering best-in-class product, we are able to obtain the best price for that space.

We identified an extensive capital improvement scheme at Brasenose Industrial Estate in Bootle, a strategic location less than three miles from Liverpool city centre.

The income profile reflected a discount to the market rate for better quality space. This was the result of an historic lack of investment prior to our ownership – an issue that was compounded by many occupiers seldom understanding or adhering to their repairing obligations.

As the original leases approached their natural expiry, it unlocked an opportunity to grow rents significantly by investing in the fabric of the asset via a capital investment programme. The scheme covered c. 42,000 sq ft of space across 15 units and comprised of an upgrade to cladding on the roofs and elevations as well as the replacement of a number of roller shutter doors and windows.

The new cladding improved thermal performance of the space, while new GRP roof lights provided increased levels of natural light into the space. To further enhance energy efficiency, any units that became vacant benefitted from a full internal refurbishment including the installation of more efficient LED lighting.

Demand for the newly refurbished space has been significant and competitive tension has helped us secure further growth in rents. As the scheme draws nearer to completion, seven new letting or lease renewal transactions have already concluded at levels in line with, or in excess of, ERV. This has secured almost 50% of the additional revenue stream initially targeted, all in advance of taking practical completion of the works.

Moreover, the upgrade to the external cladding is delivered with a 15-year insurance backed guarantee. With each new lease agreed being on an internal repairing and insuring basis, our customers will contribute to maintenance and repair via our fixed maintenance charge, but we will retain ultimate control to ensure it remains operationally effective and in good condition via a planned repair and maintenance regime. This removes the repairing burden for our customers so they can focus on running their business, while giving us control to care for our property directly.

The drive to offer better quality space has also meant that we have seen the customer base gentrify, as new demand seeks well-presented and functional space to call home for their business.

We have since let space to specialists in bespoke furniture and e-commerce. In addition, a last-mile grocery delivery business decided to let a space from us due to the site's close proximity to Liverpool city centre and the significant residential catchment in the immediate vicinity.



Read about [the platform driving efficiency with our enquiries data on p. 29](#)



Unlocking The Power of Space:

Converting risk to opportunity

Industrials REIT's portfolio is diverse by nature. We have over 1,500 customers occupying 2,011 units with no single customer contributing to more 2% of annual rent.

In March 2022, a lease expired to our largest customer by square feet let and annual rent payable. This lease was held at Dana Trading Estate, Paddock Wood in Kent.

Dana Trading Estate is strategically located close to London's orbital M25 Motorway. The property comprises of over 198,000 sq ft of industrial accommodation spread over 14 units. The property also features a further 11,000 sq ft of office space arranged in two self-contained units and several small office suites.

The entire property was held on a single lease which commenced in 2002 and followed a sale and leaseback arrangement where our customer continued to lease the property as a manufacturing facility.

During the lease term, the property became surplus to requirements and was sublet in its entirety to a range of different occupiers and users of the space, each on contracts which had been due to expire in line with the main lease.

This presented a complex challenge, with one single lease expiring on a significant floor area to the largest single contributor to annual income across our MLI portfolio.

This required a suitable strategy that sought to address two key issues:

1. Repair risk – The return of the property in the condition required
2. Income risk – The income risk due to the single lease expiry event.



Our strategy sought to ensure that the property was returned to us in the condition required under the lease. It sought to hedge the income risk through the early implementation of our digital marketing campaign to capture new demand, leads and opportunities, while also engaging with each sub-tenant to ascertain who wished to continue to lease space on site.

To manage the repair risk, a series of repair notices were issued specifying the works that were required to be remedied prior to lease expiry. This was an alternative approach to dilapidations by using landlord self-help rights enforceable under the lease. This approach allowed us to enforce physical improvements across the property prior to lease expiry.

To manage the income risk, we engaged with each sub-tenant to audit their business, their need for the space and their wider lease requirements. This enabled us to be selective, and review how our space would be used in future by continuing to partner with businesses who use our buildings in ways that we find acceptable.

This strategic approach meant that we could enforce certain repairing requirements to safeguard and enhance the quality of the asset but ultimately position us to agree to an early surrender in return for a suitable financial settlement to offset outstanding liabilities for breach of repair. It was also agreed that a future dated option to acquire the freehold title would be brought forward and was successfully executed.

We have since re-let or agreed terms on 98% of the property by floor area, while capturing over 24% of rent reversion when compared to previous passing rent.

Our selective approach to customer engagement yielded just one vacant unit. This empowered us to test the market and work with the existing occupiers to generate a waitlist of demand and use competitive tension to drive best price on the open market. Crucially, it aligns this asset to our business model – diversified income delivered by a varied customer base.

Property report and investment continued

Transactions: acquisitions

During the financial year to 31 March 2022, we completed £97.6 million of acquisitions across 14 separate transactions. The graphs below illustrate the geographic split in assets right across the UK. We continue to be disciplined in our approach to investment, and all acquisitions meet our strict investment criteria of only buying purpose built MLI estates in densely populated urban areas. It is common in the market to find portfolios trading at a 10% premium to individual asset values, so we have concentrated on acquiring single assets to maximise returns utilising a wide network of regional and London-based agents. One third of our acquisitions were acquired “off market”, where we did not need to enter into a competitive bidding situation. We acquired £27.2 million of assets without an agent advising us.

ESG is an important aspect of our acquisition due diligence process. We undertake environmental and flooding surveys and assess for ESG risks including building age and year of construction, asbestos, EPCs (age and rating), proximity to social infrastructure and greenfield / brownfield land. The leases are also scrutinised for unfair or restrictive covenants or clauses and tenant ‘Blacklist Activities’.

Transactions: sales

We completed the sale of Trafalgar Court, Guernsey in September 2021, for a consideration which valued the property at £55 million by way of the sale of all of the issued share capital of an SPV. This was an important transaction and represented the last major sale in our transition of properties where we have a 100% stake. This sale increased the proportion of our portfolio that was MLI by 9%, and we have subsequently re-invested the proceeds in-line with our investment strategy.

Non-MLI: joint venture

We continue to be in negotiations for the sale of the Group’s interest in the joint venture holding of a care homes portfolio in Germany. In the meantime, the independent valuation of the Care Homes Portfolio has increased from €38.9 million at 31 March 2021 to €39.1 million at 31 March 2022. For so long as we continue to hold our share of this portfolio, we earn a 10% preferred return on our investment.

The value in this investment represents approximately 4.7% of the Group’s total asset value at 31 March 2022.

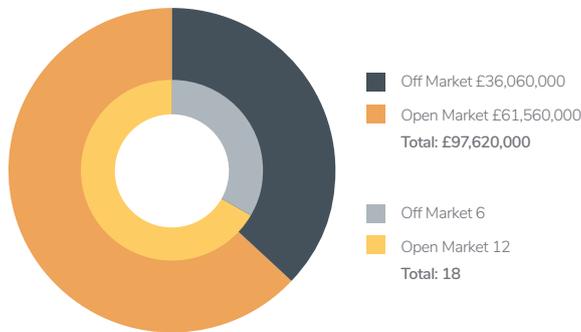
Summary of MLI acquisitions made over last four years

	Purchase Price	GIA	Cap Val	NIY (inclusive of guarantees) assuming 6.5% costs	Rent (inclusive of guarantees) at acquisition £ per sq ft
FY18/19	£103,519,650	1,689,498	£61.27	6.90%	£4.75
FY19/20	£38,181,770	503,691	£75.80	6.85%	£5.98
FY20/21	£91,535,000	1,087,625	£84.16	6.64%	£6.21
FY21/22	£97,620,000	1,268,676	£76.95	6.44%	£5.50
Total/Average	£330,856,420	4,549,490	£72.72	6.67%	£5.44

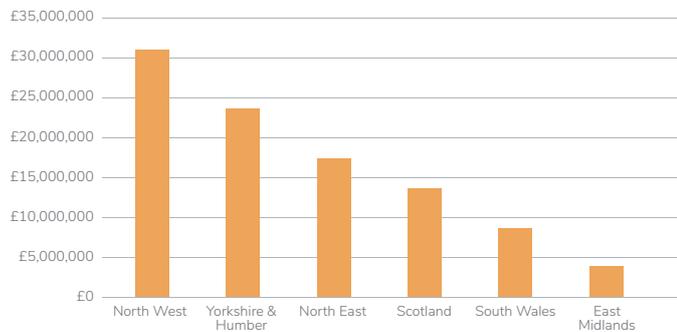




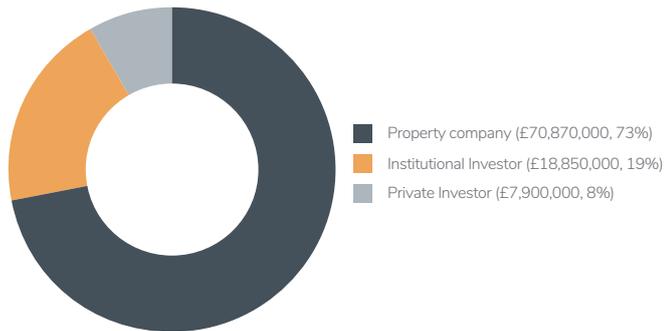
Purchases made by vendor marketing method



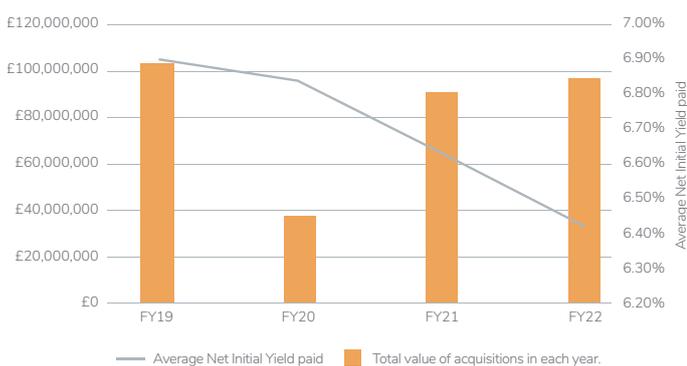
Acquisitions by region in the 12 months to 31 March 2022



Acquisition value by vendor type in the 12 months to 31 March 2022



Summary of MLI acquisitions made over the last 4 years



Unlocking The Power of Space:

Acquisition of Bradley Hall

We acquired Bradley Hall, Wigan in July 2021 for £20.6 million, reflecting a NIY of 6.4% and a capital value of £67 per sq ft. This estate had a very granular income profile, with 120 leases at acquisition. The site had a number of complex issues to deal with and that, combined with the volume of leases, meant that there were significant barriers to entry for interested parties. Our efficient, scalable and sustainable operating platform made this type and nature of acquisition viable and we anticipate that our Industrials Hive operating platform and smart leases will capitalise on a business model which generates customer value and long-term growth over short-term gains. The estate also presented a number of short, medium and long-term development opportunities, to further enhance returns and the energy efficiency of the buildings. We have employed an experienced Senior Development Manager who is focusing on opportunities like this across the portfolio and we have designed the first phase of development at this estate, a 16,500 sq ft, seven unit MLI scheme on an underutilised car park area.

Since acquisition, we have seen strong performance and high occupancy levels, with less than 1% currently vacant. At the most recent valuation, the asset was valued at £24.15 million, representing an increase in value of £3.55 million and 17.2% since acquisition date.

Financial review



James Beaumont

Chief Financial Officer



“We have delivered a record total accounting return of 25.0% up from 11.4% a year ago.”

Overview

We are pleased to be reporting strong results notwithstanding the continued headwinds of COVID-19. We delivered like-for-like rental growth of 4.4% and like-for-like valuation uplifts in our MLI portfolio of 20.8%. We declared a final dividend of 3.475 pence per share, taking the covered full year dividend to 6.85 pence per share. Dividends paid in the year were 6.75 pence per share, which, together with a 20.4% increase in EPRA NTA, resulted in a record total accounting return of 25.0%, up from 11.4% a year ago.

Rent collections and speed of payments have continued to improve during the financial year and we are confident that the impact of the pandemic on collections is all but behind us. We continued to see strong demand for our space with like-for-like annual MLI rental growth of 4.4% (2021: 5.6%) achieving our target of 4%-5%, and occupancy of 93.6% (2021: 93.7%). Information on our leasing strategy can be found in our property report

on pages 38 to 39 and more information can be found on the wider MLI market in our marketplace section on pages 21 to 25.

We are also pleased to report that in March 2022 we completed the implementation of a significant upgrade to our finance and operations technology within the Industrials Hive operating platform. We look forward to unlocking the efficiencies that this will bring as both it, and the business, evolves and grows from here. More detail on Industrials Hive can be found in our Industrials Hive platform section on page 28. This achievement signifies the formal commencement of in-housing of all property accounting, billing and credit control and allows us to build stronger relationships with our customers. We aim to have concluded the in-housing of property and facilities management later this year so all key operational roles will be controlled and managed by Industrials REIT.

Presentation of financial information

The consolidated financial statements are prepared in accordance with IFRS. The Group's subsidiaries are consolidated at 100% and its interests in joint ventures are consolidated using the equity method of accounting. In addition to information contained in the Group financial statements, Alternative Performance Measures (“APMs”), being financial measures, which are not specified under IFRS, are also used by management to assess the Group's performance. Definitions for APMs are included in the glossary, with further descriptions and the most directly comparable IFRS measure identified on page 178.

Industrials REIT discloses APMs based on EPRA Best Practice Recommendations, in line with our peers in the real estate sector. These include earnings and NAV metrics which are referred to throughout this report and which can also be seen in the EPRA key performance measures table on page 178.

Industrials REIT presents adjusted earnings per share as an APM to assess the Group's dividend distributions. The metric is based on EPRA earnings, adjusted for significant non-recurring items, such as the listing costs incurred in the current year.

Income statement

Profit for the year doubled to £107.5 million (2021: £53.0 million), driven by MLI valuation uplifts of £89.5 million compared with £26.9 million in the prior year. The increase was primarily driven by yield compression as investors continue to rate the strength of the MLI market, but also included the impact of sustained rental growth across our MLI portfolio where we have seen annual like-for-like rental growth of 4.4% (2021: 5.6%). Diluted IFRS EPS was 36.68 pence (2021: 18.57 pence). After EPRA adjustments and specific adjustments associated with the finance and operating system implementation, and the one-off costs associated with transferring our listing to the Premium Segment of the Main Market of the LSE, adjusted earnings were 6.88 pence per share (2021: 6.78 pence). A reconciliation of IFRS profit to EPRA earnings and adjusted earnings for the year is shown in note 14 to the financial statements.

Net rental income for the year from continuing operations was £32.8 million (2021: £23.1 million) reflecting the impact of acquisitions in the current and prior year and the enlargement of our MLI portfolio.

	2022	2021
Statement of comprehensive income		
Dividend per share	6.85p	6.75p
Diluted IFRS earnings per share	36.68p	18.57p
Adjusted earnings per share ¹	6.88p	6.78p
EPRA earnings per share ²	6.30p	6.62p

¹ See note 14 for reconciliation to IFRS earnings per share. Adjusted earnings per share was previously named "Diluted adjusted EPRA earnings per share"

² Reduction in year due to one-off listing costs of £1.0 million (0.33 pence per share) relating to step-up to Premium Segment of London Stock Exchange.

	2022	2021
Statement of financial position		
Portfolio valuation (incl. JV)	£685.8m	£582.3m
Like-for-Like portfolio valuation increase in year	+19.4%	+6.3%
Diluted IFRS NAV per share	£1.78	£1.48
EPRA NTA per share ³	£1.77	£1.47
Loan-to-value ratio	25.6%	28.1%

³ See note 15 for reconciliation to IFRS NAV per share (and for all future references in this report to IFRS/EPRA NTA).

FX rates in period

Average foreign exchange rates in the year: £1.00:€1.1758; £1.00:CHF1.2552

(2021: £1.00:€1.1202; £1.00:CHF1.2057)

Year-end foreign exchange rates: £1.00:€1.1816; £1.00:CHF1.2129

(2021: £1.00:€1.1738; £1.00:CHF1.2985)

Our continued focus on rent collections resulted in a reduction in the bad debt expense to £1.3 million (2021: 2.0 million). We expect normalised bad debts to trend towards pre-pandemic levels of c. 2% as we progress through the remainder of 2022.

Management fee income was less than £0.1 million (2021: £0.7 million) and is expected to fall away completely in the coming year.

Operating expenses for the year, after adjusting for the one-off £1.0 million cost of transferring our listing to the Premium Segment of the Main Market of the LSE, were £12.4 million (2021: £9.7 million). The increase to prior year includes £1.8 million related to the staff remuneration costs. Half of this figure reflects a provision recognising future employer's national insurance, due on exercise of all previously vested share-based payments awards. The other half is linked directly to the increase in staff. The average number of employees during the year was 46 (2021: 33), with office-based staff numbers now split equally between our London and Stockport offices. The coming year will see the in-housing of all property and facility management functions, the costs of which will largely be recharged to customers as part of normal service charge procedures. This final phase of our resourcing plan will signify an important evolution in Industrials REIT with all

major and customer facing operational roles fully in-sourced. The finance and operating ERP project expense associated with testing and training increased by £0.3 million to £0.7 million as we completed the final stages of the project prior to our formal go-live on 1 April 2022.

The EPRA cost ratio (including direct vacancy costs) was 40.9% for the year ended 31 March 2022 (2021: 41.6%). Operational gearing associated with managing MLI is inherently high and reflects the granular operational nature of our MLI business. Our Industrials Hive platform allows us to manage a high number of customers efficiently, while also delivering quality customer service and well-presented MLI units to lease. We are confident that our platform, together with the nature of our central cost base which has been positioned for scale, will allow us to add additional estates to our portfolio at a reduced EPRA cost ratio of approximately 20%. This is based on analysis of the direct and indirect costs required for managing additional estates and we expect to see a gradual reduction in the Group EPRA cost ratio as the portfolio grows.

Finance costs for the year were £3.9 million (2021: £4.5 million). The reduction of £0.6 million reflects the impact of the two refinancing events that were concluded in

December 2020, most notably the seven-year £66.5 million fixed rate facility with ReAssure with an all-in rate of 1.66% compared to 3.2% on the previous facility. We are now seeing big changes in the interest rate environment and with the Bank of England increasing rates to 1.0% in May 2022, and further increases anticipated, the cost of debt is becoming more expensive. Industrials REIT has maintained its conservative policy of fixing or hedging against interest rate exposure in relation to at least 75% of its debt. Notwithstanding this, all future refinancing activities will inevitably be at higher all-in rates of interest and an increase in finance costs is to be expected.

Dividends

The total dividend for the year was 6.85 pence per share, comprised of a final dividend of 3.475 pence per share for the six months ended 31 March 2022 and an interim dividend of 3.375 pence per share. The dividend is fully covered by adjusted earnings per share of 6.88 pence (2021: 6.78 pence) and can be taken as a cash payment or scrip share alternative. A further announcement informing shareholders of the salient dates and tax treatment of the dividend will be released in due course.

The dividend of 6.85 pence per share represents a dividend yield of 3.8% on the share price at 6 June 2022 of £1.80, and a yield of 3.9% on the EPRA NTA per share at 31 March 2022 of £1.77.

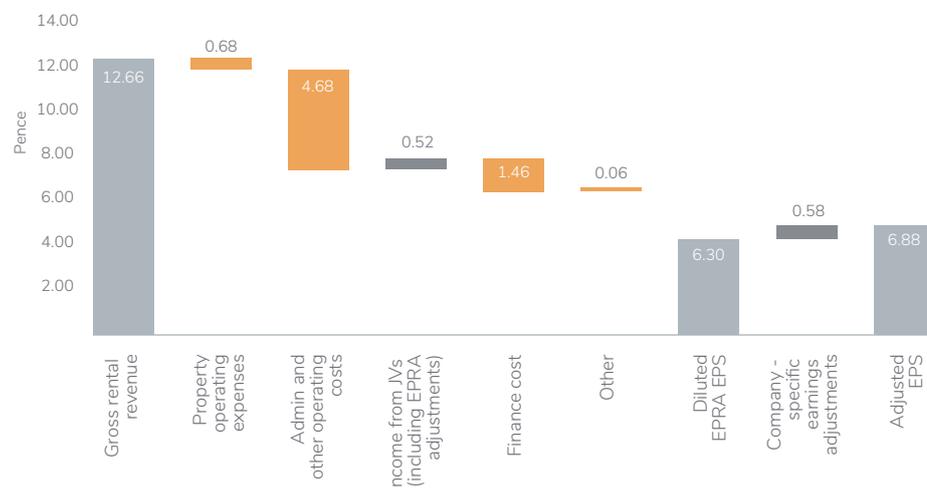
Net asset value

The IFRS basic and diluted net asset value per share at 31 March 2022 was £1.79 and £1.78 respectively (2021: basic £1.49; diluted £1.48) (see note 15). The increase in the year was driven by like-for-like valuation increases of our MLI portfolio of £94.7 million, offset by £6.0 million acquisition costs of purchasing £97.6 million of new MLI in the year. At year end, Industrials REIT owned 104 MLI properties valued at £653.5 million.

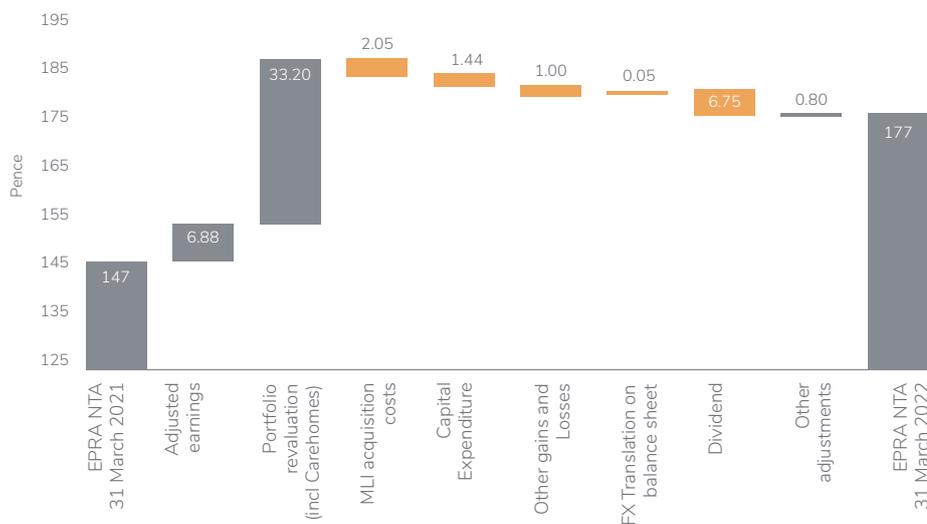
The EPRA NTA per share at 31 March 2022 was £1.77 (2021: £1.47). A reconciliation of this against IFRS NAV is shown in note 15 to the accounts. The EPRA NTA excludes £3.5 million of intangible assets related to the development of our Industrials Hive operating platform, £1.9 million in relation to the fair value of derivative financial instruments and the deferred tax liability of £1.6 million in respect of the care homes joint venture.

Financial review continued

EPRA earnings per share (pence) year to 31 March 2022 (refer to note 14)



EPRA NTA per share (pence) movement since 31 March 2021



Portfolio valuation

As at 31 March 2022, the Group's investment properties were valued at £685.8 million (31 March 2021: £582.3 million). On a like-for-like basis, excluding the impact of additions and disposals in the year, the valuation of the portfolio since 31 March 2021 increased by 19.4%.

Combined Portfolio (including share of joint ventures)	Market value 31 March 2022 (£'000)	Portfolio by market value (%)	Properties (number)	Area (sq ft)	Annualised contracted gross rental income (£'000)	Net initial yield (Weighted average) (%)	Voids by area (%)
UK multi-let industrial	647,460	94.4	103	7,120,135	37,530	5.5	6.4
UK multi-let industrial – Held for sale	6,015	0.9	1	30,176	718	11.2	–
Total – wholly owned	653,475	95.3	104	7,150,311	38,248	5.5	6.4
Share of joint ventures	32,285	4.7	4	208,066	2,477	7.2	–
Market value total	685,760	100	108	7,358,377	40,725	5.6	6.2

United Kingdom MLI portfolio

We acquired a further 18 assets during the year for a total consideration of £97.6 million and at year end, the MLI portfolio, comprising 104 industrial estates and approximately 7.3 million square feet of lettable space, was independently valued at £653.5 million. On a like-for-like basis, the valuation of the portfolio increased by £94.7 million, or 20.8%, on the valuation at 31 March 2021. We calculate that yield compression is driving approximately 80% of this change, with the residual 20% being due to the capitalisation of continued rental growth achieved in the portfolio. Like-for-like rental growth was 4.4% (2021 5.6%) following another strong year of leasing transactions and associated average uplifts in passing rent. Refer to pages 38 and 39 for more detail on our leasing activities in the year.

Joint venture

The Care Homes portfolio in Germany, comprising four care homes, was independently valued at €39.1 million, an increase of €0.3m compared with the 31 March 2021 valuation.

Debt

Total borrowings at 31 March 2022 were £196.2 million with an LTV ratio of 25.6% compared with 28.1% at 31 March 2021. The reduction in LTV was driven by the valuation gains recorded in the year together with the effects of disposals in the year, offset by a reduction in unrestricted cash held at year end. In the current economic climate, the Group is likely to target a level of borrowings at around 30% of its gross asset value, rather than 40%.

Group debt metrics (including share of joint ventures)	31 March 2022 £m	31 March 2021 £m
Nominal value of debt	(196.2)	(214.5)
Unrestricted cash	20.7	50.7
Net debt	(175.5)	(163.8)
Market value of investment property	685.8	582.3
LTV (%)	25.6	28.1
Weighted average debt maturity (years)	4.0	3.9
Weighted average interest rate (%)	2.16	1.93
Loan facilities hedged / fixed (%)	76	76

At the start of the year, Industrials REIT held approximately £50 million of unrestricted cash, the majority of which was earmarked for deployment in acquiring MLI property. We acquired £36.5 million of MLI in the first half of the year, while also banking proceeds of approximately £42 million from the sale of our Guernsey office asset and Hermann retail centre in Berlin. These sale proceeds allowed us to continue purchasing MLI without drawing on the NatWest debt refinancing which completed in September 2021. The NatWest tranche of £29.0 million, subsequently drawn in January 2022 resulted in an all-in interest rate of 2.66% across the whole facility at year end. The facility matures in November 2025. At the end of the financial year, Industrials REIT held £20.7 million of unrestricted cash.

Subsequent to year end, on 13 May 2022, we completed two further loans with NatWest as follows:

- A new £27 million tranche was concluded at a margin of 175 bps and loan maturity in November 2025. An interest rate swap coterminous with loan expiry was purchased in relation to this loan at a rate of 2.206%.
- The revolving credit facility ("RCF") provided by Investec Bank was not used in the year and expired in May 2022. The facility was replaced with a new NatWest £25 million RCF on 13 May 2022, with expiry in November 2025. The NatWest RCF has a commitment fee of 1.13% and a margin of 2.25%.



Financial review continued

When considered in isolation, our MLI portfolio has a weighted average debt maturity of 4.2 years, with the next maturity occurring in February 2025. We will continue to proactively manage our debt maturity profile as well as reviewing and diversifying our lender base as we grow the UK MLI portfolio. Our MLI all-in contracted weighted average cost of debt was 2.19% at 31 March 2022, compared with 1.97% at the previous year end. This reflects the increase in interest costs on our floating interest rate debt and is expected to move further out as we progress through the financial year ending 31 March 2023.

As part of our debt finance strategy, we actively discuss our ESG programme with our lenders and keep under review the opportunity to incorporate green frameworks into our facility agreements.

Industrials REIT has been in full compliance with its lending covenants throughout the year.

Cash flow

Industrials REIT acquired £102.7 million of assets in the year inclusive of acquisition costs and received net sales proceeds of £46 million from the disposal of the final three wholly owned non-MLI assets. The balance required to complete these acquisitions came from opening unrestricted cash balances of £50 million and debt drawn in the year of £29 million.

At year end Industrials REIT held unrestricted cash balances of £20.7 million and on 13 May 2022 concluded the drawdown of a further £27 million tranche of debt. It remains our strategy to deploy cash as swiftly as possible on new MLI assets, while also maintaining our disciplined underwriting criteria on acquisitions.

Conclusion

We have reported another set of strong financial results for the year ended 31 March 2022, demonstrated by a record total accounting return of 25.0%. We have also largely completed our repositioning into a fully focused MLI operating business. Demand for our space remains strong and further evolution of Industrials Hive will allow us to capitalise on efficiencies and initiatives.

We are seeking to deliver similar levels of MLI rental growth in the coming year assuming the supply/demand fundamentals remain favourable. These sustained fundamentals are due to supply constraints with build costs not justified by current MLI rent levels, and high demand from the increasingly diverse customer base who are competing to occupy our flexible space. However, the UK economy is experiencing inflationary pressures and increasing interest rates look set to continue for some time which will impact consumers and businesses. We remain confident that

the structural switch of occupiers to MLI as a result of e-commerce trends is likely to be a strong counterbalance to these headwinds as the universe of occupiers expands. We remain confident that our existing MLI portfolio will continue to perform well and still deliver on our targeted total accounting return hurdle of at least 10% for the coming year.

We commence the new financial year with enthusiasm as we aim to build on our achievements in transitioning into an MLI operating business. We are particularly focused on capitalising on our operating platform and look forward to our next four-year goal of doubling our MLI portfolio such that we can benefit from scaling our operation, reducing our cost ratio, and growing our dividend for investors.

James Beaumont

Chief Financial Officer

9 June 2022



Risk management

Effective risk management is fundamental to how we do business. It is an integral part of our strategy and culture and will ensure the long-term sustainable success and resilience of the Group.

In last year's report, we explained that a review of our risk management framework would be conducted during the reporting period to ensure that it remained robust and effective in light of our transfer to the Premium Segment of the LSE's Main Market, transition from a traditional real estate business to a fully operational business and continued growth. Following this review, we refined our approach to risk identification and management with a formal top-down strategic review of risks combined with a bottom-up operational review. We also enhanced our risk governance framework with the nomination of risk champions across all areas of the business. It is through the application of this risk management framework that we ensure

effective implementation of our five-step risk management plan and the early identification of risks, including emerging risks, their assessment, management and monitoring. Our approach is not intended to eliminate risk entirely, but to manage risk exposure across the business, while making the most of business opportunities that have the potential to create value.

Roles and responsibilities

The Board has overall responsibility for the oversight of risks and maintaining sound risk management and internal controls systems. It also reviews and determines the Group's risk appetite, bearing in mind the opportunities that often accompany risks and can drive performance.

The Audit and Risk Committee is responsible for providing oversight and advice to the Board in relation to current and potential future risk exposures of the Group. It routinely considers risk at each quarterly meeting, reviews the risk profile of the Group and the significant risks identified alongside mitigating factors and action plans. The Board is also supported by the Social and Ethics Committee, which complements the

Audit and Risk Committee with a particular emphasis on reviewing and discussing ESG-related risks. The responsibilities of the Social and Ethics Committee also include ensuring compliance with legal and regulatory requirements associated with ESG matters such as applicable rules and principles of corporate governance and applicable industry standards.

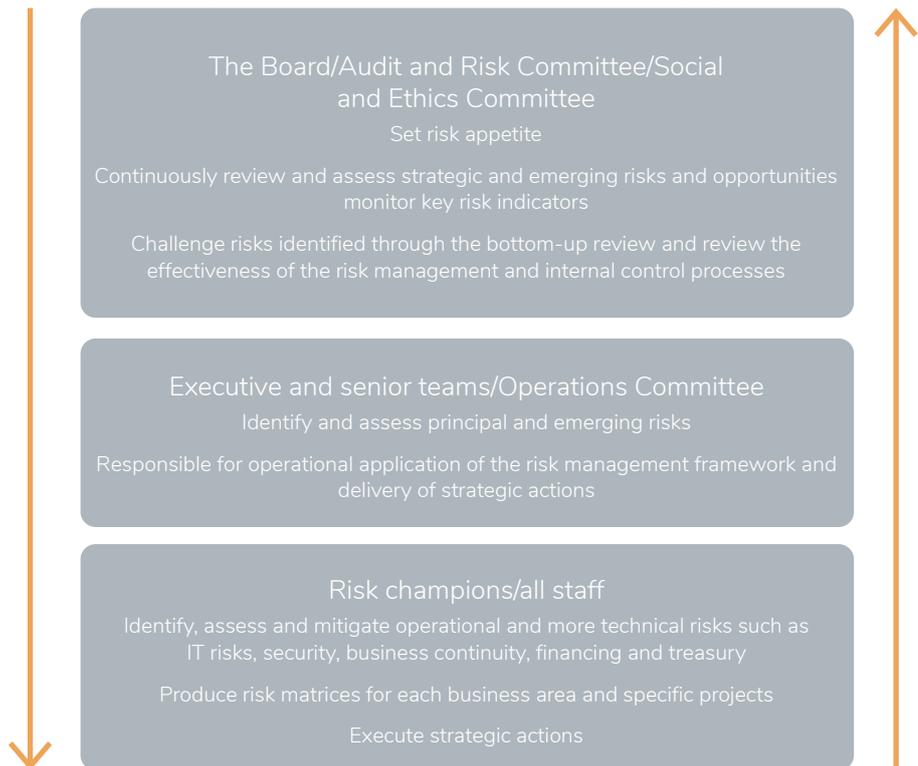
The Executive Directors are responsible for delivering the Group's strategy and manage risk in accordance with the risk management framework and the risk appetite set by the Board. They are assisted by the Operations Committee which meets once a month and routinely discusses and assesses principal and emerging risks as parts of its activities.

Detailed discussions are held at operational levels and risk matrices are produced for each business area and specific projects with the support of the executive team, the Company Secretary and Group General Counsel and the Risk Champions. The effective day-to-day identification and management of risks is embedded within all operations and forms an integral part of all activities; new and existing risks are identified, assessed and managed by all staff with a focus on operational and technical risks such as information technology, business continuity, GDPR, treasury, etc.

Risk management framework

Top-down strategic review

Bottom-up operational review



Annual assessment of risk

At the Board meeting in June 2022, the Board completed its annual assessment of risks. This followed the Audit and Risk Committee's formal assessment of risks and their review of the effectiveness of internal controls. The Board concluded that an effective system of risk management remains in place.

More information regarding the work of the Board, the Audit and Risk Committee, the Social and Ethics Committee and the executive and senior teams on risk management during the year ended 31 March 2022 can be found in the Corporate Governance Overview from page 89.

Risk management

Five-step risk management plan



Culture

The Board and the Executive Directors promote a risk awareness culture coupled with an open and accountable culture in which employees at all levels of the organisation are encouraged to participate in the risk identification process and to maintain an open dialogue with their colleagues and managers, as opposed to a blame culture. This ensures the early identification and management of risks.

Our risk focus and risk appetite

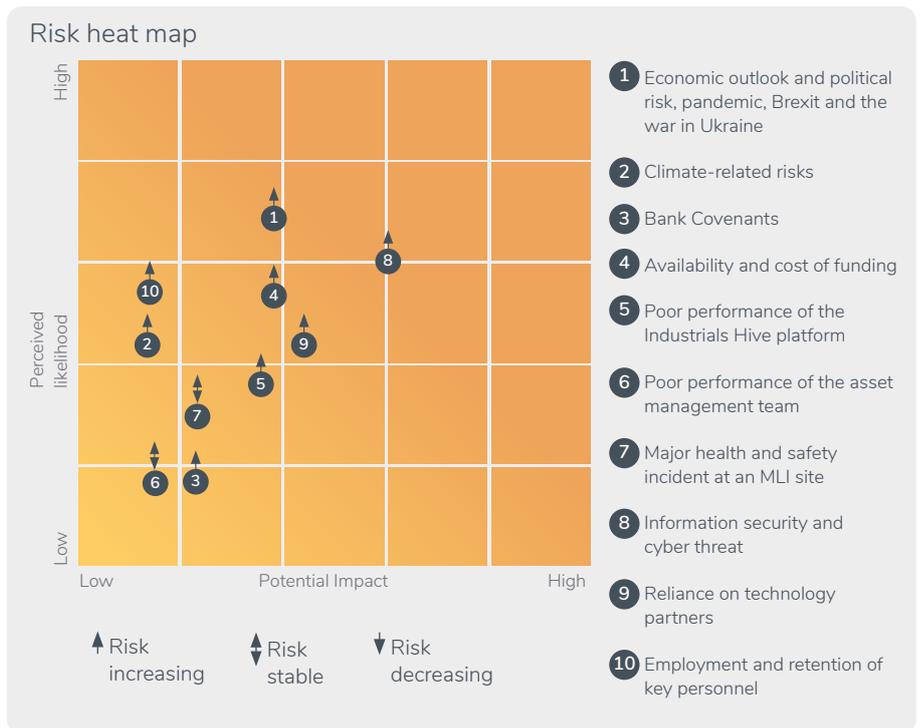
The Company took a proactive and pre-emptive approach to managing the business in response to the continuous challenges linked to the pandemic, particularly regarding customers and the impact of the pandemic on their business, and the wellbeing and safety of staff. The Board received updates on certain key indicators to monitor these risks throughout the period, such as rent collection levels, voids and employee engagement and satisfaction. Other key risk indicators regularly reviewed by the Board include updates on MLI acquisitions and anticipated pipelines, updates on budget, valuations, banking covenants, and key operational projects and financial metrics. Areas of focus in the reporting period included IT risks and disaster recovery/business continuity and sustainability and climate-related risks and opportunities.

The Company's overall risk appetite during the year broadly remained unchanged. The long-term strategic objectives of the Group remain unchanged, and the Group's financial model will continue to be used to assess the impact of key decisions on its prospects with appropriate sensitivity analysis. This will guide and form the basis of any changes in the Group's risk appetite. At the time of preparing this report, the Board is carefully considering the changing economic environment including raising inflation and interest costs and a more prudent approach to risks compared to FY 2022 is being considered.

More information on the assessment of prospects and viability undertaken by the directors in accordance with provision 31 of the 2018 UK Code is set out on page 51.

Robust assessment of principal risks

The Board has carried out a robust assessment of the principal and emerging risks facing the Group. These are the risks that would threaten its business model, strategic objectives and future performance, solvency and liquidity. The process for how the Board reviews these risks is explained above and the key risks identified are presented on pages 52 to 55, including an assessment of their potential impact and controls and mitigating factors.



Some of these risks have changed since the last report. Now that the transition to a fully focused UK MLI business is complete, potential challenges in sourcing MLI acquisitions are no longer perceived by the Board as a principal risk. The Board believes that, although further acquisitions would enable the business to benefit from economies of scale, the Company has the ability to deliver a TAR in excess of 10% per annum based on the fundamental growth inherent in the existing portfolio without new acquisitions.

In addition, excessive reliance on external property accounting and property management functions are no longer a key risk to the Group. On the other hand, with the launch of the Industrials Hive platform, reliance on technology partners for the efficient operations of the business has increased and remains an area of scrutiny for the Board and the executive team. With the internalisation of the property and facilities management functions expected to complete over the next few months, health and safety is another priority.

Finally, the Board is mindful of the growing number of environmental, social and governance (ESG) risks in general and the critical nature of climate-related risks in particular, which have been categorised as strategic and market risks. During FY 2022, the Company partnered with sustainability specialist Carbon Intelligence to implement the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD"). To date, we have completed a comprehensive assessment of material climate-related risks and opportunities. The findings can be found in our TCFD disclosure on page 60. Next, we will take the top material climate-related risks and opportunities through scenario analysis. The Company intends to set a science-based emissions reduction targets before the end of the next financial year, developing a clearly defined path to reduce emissions in line with the goals of the Paris Agreement and has completed its second ESG materiality assessment, engaging with both internal and external stakeholders to identify the most material issues to them and confirm that these are addressed by our ESG policy and strategy. Our internal ESG Steering Group, comprised of senior leaders from across the business, meets regularly to ensure progress against our ESG strategy and compliance with our ESG policy. Please see page 64 to page 71 for additional information on our ESG strategy and policy.

Viability statement

In accordance with provision 31 of the UK Corporate Governance Code, the Directors have assessed the prospects of the Group for a period of five years to 31 March 2027. The Board considers this period to be appropriate as the Group's financial review and business plan forecasts cover a five-year look forward period.

The Group's five-year plan is supported by a detailed financial model which considers the effects of the Group's business model and strategy on earnings and dividends, taking appropriate account of the Group's principal risks. See pages 52 to 55 of the report for further details on the business model and strategy of the Group.

The forecast model is kept under regular review by management and the Board and is updated at least on a quarterly basis against actual performance.

Consideration of significant risks and uncertainties faced by the Group

The principal risks and uncertainties faced by the Group are outlined on pages 52 to 55. The Directors have carefully considered the significant risks and uncertainties within the context of the Group's viability and prospects, with specific emphasis placed on the challenges posed to the business and the Group's occupiers as a result of the pandemic, and other economic risks, such as rising interest costs and inflation.

The model was subjected to sensitivity analysis including a 20% reduction in income across the portfolio resulting from softening of demand and expenses subject to a 10% increase above base case inflation assumptions. The sensitivities were designed to be severe but realistic and to take into account the likely effectiveness of mitigating actions that the Group would have at its disposal. The significant risks and uncertainties identified as relevant to the Group and its ability to continue to meet its obligations as they fall due, relate to the timing and quantum of acquisitions and disposals, financing of acquisitions, debt maturity and compliance, the increasing cost of debt, high inflation, rental growth rates, void periods and REIT obligations.

Assumptions

The Group has cash resources at the start of the look forward period of £20.7 million which is a key factor in assessing the viability of the Group.

Key assumptions underlying the base-case scenario of the model were as follows:

- The Group has no refinancing requirements until 2025 and has utilised interest rate swaps/caps (or fixed rate borrowing) to fix or hedge 75% of borrowing, thus lowering exposure to a volatile interest-rate environment. It has been assumed that debt facilities can be refinanced as required in normal market lending conditions,
- Despite the disruption in the economy caused by COVID-19 and the uncertain economic outlook with high inflation and increasing interest rates, we do not expect the risk of default under our debt facilities to have increased and no breach cures have been assumed in the forecast model. This is considered appropriate in light of the strong relationships with our facility providers, and, at the time of publishing this report, significant headroom for all interest cover ratio and loan to value ratio covenants.
- The assessment has considered the downturn in the economic outlook, in part as a result of the war in Ukraine, as well as the potential impact of Brexit and wider global recessionary concerns. The effect of increased voids, lower rental growth and increased costs would suppress operational performance, although the strong fundamentals within the MLI sector and the diversity of our customer base are expected to mitigate the potential negative business impact.
- In respect of the pandemic, we believe that the demand for MLI space will remain strong and that we will ultimately collect the majority of rents due as shown by our rent collection trends since the start of the pandemic. The model anticipates that bad debts will fall back to pre-COVID-19 levels of c.2.0%. We believe that the scenarios included in the model suitably address the low impact of COVID-19 on our business.

Viability statement

In light of this review the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the five-year period of their assessment.

Risk management continued

Principal risk	Potential impact	How we monitor and manage the risk	Movement in the period	Trend	Link to KPIs
Strategic and market risks					
<p>1</p> <p>Economic outlook and political risk, including rising inflation and interest rates, the impact of the COVID-19 pandemic, Brexit and the war in Ukraine</p> <p>Link to FY23 strategic objectives</p> <p>A B D</p>	<p>Macroeconomic conditions can impact both the delivery of our strategy and our financial performance. The economic disruption resulting from the COVID-19 pandemic affected some of our tenants and impacted our rent collection levels, although not in a material manner. However, significant political events, including decisions related to Brexit and the economic sanctions imposed on Russia following the war in Ukraine, could further impact the health of the UK economy, contributing to rising inflation and interest rates, affecting both our tenants and our business with higher operating costs and borrowing costs.</p>	<p>The Board considers economic conditions and political uncertainty when setting strategy, as well as when overseeing the implementation of the strategy and setting the Group's risk appetite. It remains prudent when considering debt and LTV levels and maintains a policy of hedging against interest rate exposure at least 75% of its debt. The executive and senior teams are highly experienced and have a strong track record of understanding the property market. It ensures effective forecasting and scenario planning as well as the maintenance of appropriate liquidity levels.</p>	<p>The impact of the pandemic on the business has not been as severe as originally feared and rent collection levels are trending back to pre-pandemic levels.</p> <p>However, our customers could be affected by the changing economic environment, and an increase in both operational and financing costs is to be expected for the Group.</p>	↑	<p>01 02</p> <p>04 05</p> <p>06 09</p> <p>10 11</p>
<p>2</p> <p>Climate-related risks</p> <p>Link to FY23 strategic objectives</p> <p>C D E</p>	<p>The inability to efficiently assess, monitor and report on the impact of the Group's activities on the environment with a view to limit that impact over time is expected to impact investors' and other stakeholders' confidence in the Company, and ultimately impact on its ability to deliver on its long-term strategic goals. Climate change risks also include regulatory risks (ongoing development of climate-related regulations), physical risks (the impact of extreme weather events) and transition risks (associated with the transition to a low-carbon economy).</p>	<p>We worked with our sustainability partner, Carbon Intelligence who have performed a risk assessment in line with TCFD guidelines. See pages 61 for further information on the results of that assessment. In the current financial year, we intend to embed the results of this risk assessment into our business operations, set scientific led targets for a reduction in our carbon emissions and improve further on the quality of our reporting. In addition, ESG metrics have been incorporated into performance targets for the purpose of our long-term incentive plan. See page 115 for additional information.</p>	<p>We acknowledge that risks associated with the impact of carbon emissions and climate change continue to increase and that businesses that are not responding to these risks are likely to experience financial and reputational damage.</p>	↑	<p>10 12</p>

Principal risk	Potential impact	How we monitor and manage the risk	Movement in the period	Trend	Link to KPIs
Financial risks					
<p>3</p> <p>Bank covenants</p> <p>Link to FY23 strategic objectives</p> <p>B</p>	<p>This may result in the acceleration of the Group's obligations to repay borrowings and the disposal of assets at discounted values.</p>	<p>Loan facilities usually incorporate covenant headroom and cure provisions. Management closely monitors compliance with bank covenants and continuously assesses the likelihood of future breaches based on valuation and rental income.</p>	<p>We believe that this risk is increasing due to the rapidly changing economic environment. However, we continue to maintain significant headroom for loan covenants. See page 47 for Group debt metrics.</p>	↑	<p>01 02</p> <p>03 04</p> <p>07 08</p>
<p>4</p> <p>Availability and cost of funding</p> <p>Link to FY23 strategic objectives</p> <p>B</p>	<p>The inability to raise adequate funding in the form of equity or debt finance, or refinance existing facilities, would impact the ability of the Group to grow the MLI portfolio and increase the costs of borrowing.</p>	<p>The Group maintains strong relationships with investors and top-rated financial institutions. We operate a conservative gearing policy with gearing equal to 28.1% as at 31 March 2022 and we continue to proactively manage our debt maturity profile and reviewing and diversifying our lender base.</p>	<p>Our MLI portfolio has a weighted average debt maturity of 4.2 years, with the next maturity occurring in February 2025. However, our all-in contracted weighted average cost of debt has increased over the period (2.19% at 31 March 2022 v. 1.97% at 31 March 2021) and is expected to increase further in the current financial year.</p>	↑	<p>01 02</p> <p>03 04</p> <p>06 07</p> <p>08</p>
Operational risks					
<p>5</p> <p>Poor performance of the Industrials Hive platform (including property accounting and marketing)</p> <p>Link to FY23 strategic objectives</p> <p>A C D E</p>	<p>Operational inefficiencies and increased costs, including impact on billing, rent collection and poor marketing, reducing earnings or preventing growth.</p>	<p>We have designed the platform with industry experts. Following the strategic decision to internalise the property accounting function, we have hired a team of professionals, who, together with our experienced and dedicated team of asset managers and marketing experts, bring deep expertise in managing MLI properties. They are supported internally by our in-house tech team and data analysts, and externally by our technology partners.</p>	<p>We have successfully launched our new ERP system on 1 April 2022. We perceived this as an increased area of risks as we implement new systems and processes. However, we are confident that we have the appropriate controls in place to mitigate this risk and have recruited the right team of professionals. See pages 28 and 29 of this Report for additional information.</p>	↑	<p>01 02</p> <p>04 05</p> <p>06 08</p> <p>09 10</p> <p>11</p>

Key to Trend

↑ Increase ↓ Decrease ⇕ No change

Link to FY23 Strategic Objectives:

A Cut time and cost from the leasing process **B** Generate new MLI acquisitions **C** Enhance customer service
D Improve operational efficiencies **E** Embed sustainability into all business activities **F** Refine and develop our organisational culture

Link to KPIs

01 Adjusted earnings per share (pence) **02** Dividends per share (pence) **03** EPRA Net Tangible Assets (NTA) per share **04** Total accounting return %
05 Like-for-like MLI valuation increase **06** EPRA cost ratio % **07** MLI portfolio % **08** Group loan to value (LTV) % **09** MLI occupancy %
10 Like-for-like MLI rental growth % **11** MLI Lease renewal rate % **12** Average Energy Performance Certificate ("EPC") rating

Risk management continued

Principal risk	Potential impact	How we monitor and manage the risk	Movement in the period	Trend	Link to KPIs
Operational risks					
<p>6</p> <p>Poor performance of the asset management team</p> <p>Link to FY23 strategic objectives</p> <p>A C D E</p>	<p>This may result in the inability to meet rental growth targets, increased voids and leakage costs and negatively impact earnings.</p>	<p>The Group relies on an experienced team of professionals who actively engage with tenants and monitor payments. All prospective tenants go through a robust credit check and deposits are usually required. In addition, the MLI platform focuses on a high-quality customer service culture. With the development of the Industrials Hive platform, the interaction with the tenants is increased, potential difficulties spotted early, solutions discussed and remedial actions taken early, reducing arrears and irrecoverable expenditure.</p>	<p>See pages 28 to 29 of this Report for additional information on our MLI operating platform.</p>	<p>↕</p>	<p>01 02 04 05 06 08 09 10 11</p>
<p>7</p> <p>Major health and safety incident at an MLI site</p> <p>Link to FY23 strategic objectives</p> <p>C F</p>	<p>A major health and safety incident at one of our MLI sites would affect our customers, contractors and employees and cause reputational damage to our industrials.co.uk brand and loss of trust.</p>	<p>All health and safety matters are currently outsourced to our property manager for UK MLI estates and closely monitored by our internal asset management team. Going forward with the planned in-housing of property and facilities management, we intend to partner with a health and safety expert to increase health and safety compliance and service delivery to our customers.</p>	<p>Despite the challenges of the pandemic and changes in building regulations, this risk is deemed to have remained constant during the period with no major incidents reported. However, the Board is aware of the challenges presented by the planned in-housing of facilities management and for this reason is closely monitoring existing and future planned practices.</p>	<p>↕</p>	<p>03 04 05 09 10 11</p>
<p>8</p> <p>Information security and cyber threat</p> <p>Link to FY23 strategic objectives</p> <p>A C D</p>	<p>This could lead to disruptions in effective asset management, impeded access to systems for tenants and business partners, loss of business or confidential data and reputational damage.</p>	<p>The Group engages external information technology experts to ensure the systems operate effectively and that the Company responds adequately to the evolving IT security environment. IT systems are audited and tested periodically, and a comprehensive business continuity and disaster recovery plan is in place. All staff receive regular training and we have improved awareness for employees on information risks of working from home.</p>	<p>This risk is increasing due to the increased reliance of the Group on technology as part of the Group's long-term strategy and due to recent changes in working practices as a result of the pandemic.</p>	<p>↑</p>	<p>01 02 04 05 06</p>

Principal risk	Potential impact	How we monitor and manage the risk	Movement in the period	Trend	Link to KPIs
Operational risks					
<p>9</p> <p>Reliance on technology partners</p> <p>Link to FY23 strategic objectives</p> <p>A C D</p>	<p>Although the Group's strategy is to in-house key operational functions such as property accounting and property and facilities management, it is now more heavily dependent on external technology partners for continued successful and effective operations and financial reporting.</p>	<p>Our in-house technology team vets all technology partners before they are engaged and works in close collaboration with them to ensure an appropriate level of oversight.</p>	<p>This risk is also increasing due to the increased reliance of the Group on technology which sits at the core of the Industrials Hive operating platform.</p>	<p>↑</p>	<p>05 09</p> <p>11</p>
<p>10</p> <p>Employment and retention of key personnel</p> <p>Link to FY23 strategic objectives</p> <p>B C E F</p>	<p>The departure of key individuals and the inability to recruit suitable replacement could negatively impact the ability of the Group to develop and operate its Industrials Hive platform. It could impact performance and earnings.</p>	<p>The Company maintains policies and procedure to support and develop all employees. See page 30 for additional information on our corporate culture, page 72 on our people as well as the Remuneration Committee Report on pages 100 to 115 for additional information on the Company's remuneration policy and incentive schemes.</p>	<p>This risk has increased during the period. The Company is proud of its caring working culture, which focuses on the wellbeing of its employees as well as results. It continues to promote team working, trust and accountability, learning and innovation, and offers a supportive environment in which all employees are able to develop and make a meaningful contribution to the success of the Company. However, it is widely recognised that the employment market in the sector is currently employee-led and highly competitive.</p>	<p>↑</p>	<p>01 02</p> <p>04 05</p> <p>06 07</p> <p>09 10</p> <p>11</p>

Key to Trend

↑ Increase ↓ Decrease ⇕ No change

Link to FY23 Strategic Objectives:

- A** Cut time and cost from the leasing process **B** Generate new MLI acquisitions **C** Enhance customer service
D Improve operational efficiencies **E** Embed sustainability into all business activities **F** Refine and develop our organisational culture

Link to KPIs

- 01** Adjusted earnings per share (pence) **02** Dividends per share (pence) **03** EPRA Net Tangible Assets (NTA) per share **04** Total accounting return %
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10 Like-for-like MLI rental growth % **11** MLI Lease renewal rate % **12** Average Energy Performance Certificate ("EPC") rating

Section 172 statement and stakeholder engagement

The Board understands and believes that the long-term success of the Company is intrinsically linked to the interests of its stakeholders. A summary of how we engage with our stakeholders is provided on page 57 with examples and additional information disseminated throughout this report.

When making decisions, the Board is committed to complying with the duty set out in section 172(1) of the UK Companies Act 2006 ("Section 172(1)") which imposes a statutory obligation on each Director to act in the way that they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its stakeholders as a whole having regard to certain factors. As required by the 2018 UK Corporate Governance Code, we explain in the case studies below how the Directors considered the matters set out in Section 172(1) when discharging their duties to the Company and its stakeholders by reference to some of the key activities and strategic decisions made during the year.

Additional information on the operation of the Board and its key activities during the year are also set out on pages 89 to 93.

Section 172(1) statement

The Board confirms that, during the year under review, it has acted to promote the long-term success of the Company for the benefit of its Shareholders, while having due regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006, being:

- (a) the likely consequences of any decision in the long term;
- (b) the interests of the Company's employees;
- (c) the need to foster the Company's business relationships with suppliers, customers and others;
- (d) the impact of the Company's operations on the community and the environment;
- (e) the desirability of the Company maintaining a reputation for high standards of business conduct; and
- (f) the need to act fairly between members of the Company.

Case Study:

Transfer to the Premium Segment of the LSE's Main Market

On 11 June 2021, the Board announced its intention to transfer the Company's listing on the LSE from the Specialist Fund Segment to the Premium Segment of the Main Market (the "LSE Transfer").

The Board considered that the LSE Transfer would reflect the Company's transition to a focused UK MLI operating business and the rotation of its shareholder register to primarily UK and EEA investors. The Board also anticipated that the LSE Transfer would broaden the Company's share register, enhance access to capital and allow the Company to focus on being an operational real estate company under Chapter 6 (commercial company) of the FCA's Listing Rules.

The LSE Transfer took effect on 20 December 2021. Additional matters were discussed and decided by the Board during the reporting period, all closely linked to the LSE Transfer. They included the rebrand from Stenprop to Industrials REIT, also believed to promote the long-term success of the Group, the constitution of the Disclosure Committee to assist the Board with its obligations with respect to the disclosure of information to the public, and the launch of the Industrials REIT ShareSave Scheme.

The Industrials REIT ShareSave Scheme is accessible to all employees at all levels and allows them to save monthly over three years with the option to acquire shares of the Company at a discount at the end of the three-year saving period. The Board considers that the scheme provides better long-term alignment between the interest of all employees and those of other shareholders. With the LSE Transfer, it also provides employees with liquid assets at a discount and allows them to participate in the success of the Group.

Section 172(1) matters considered in these decisions:

- (a) the likely consequences in the long term;
- (b) the interests of the Company's employees;
- (c) the desirability of the Company maintaining a reputation for high standards of business conduct; and
- (d) the need to act fairly between members of the Company.



Read about our [corporate governance overview](#) on p. 89 to 93

Why we engaged

How we engaged

What we did following engagement

Shareholders

Our value proposition includes delivering consistent total returns to our investors, while meeting investors' expectations around sustainability, social responsibility and governance.

- Release of annual and half-year results as well as quarterly trading updates, each followed by webinars with Q&A sessions
- Investor meetings and presentations
- 2021 annual general meeting and February 2022 general meeting
- Property tours
- ESG materiality assessment (see page 66)
- Publication of Industrials REIT news and regular updates via RNS and SENS, Industrials REIT website, social media and press articles
- Analyst/investor reports
- Feedback from corporate brokers
- Dedicated shareholder email address

Feedback from our shareholders has influenced decision-making in general, with the following as particular examples:

- We transferred the Company's listing to the Premium Segment of the LSE's Main Market and rebranded the Company to Industrials REIT
- We continued our engagement with our sustainability partner, Carbon Intelligence and are implementing our ESG strategy, which includes the setting of science based targets for carbon emissions

Our customers

We want to understand our customers, their needs and expectations. This is key to delivering a high-quality experience to them and delivering the vision of The Power of Space, providing space that matters.

- Network of regional customer engagement managers who, together with our asset managers and in-house property accounting team, continue to interact and transact directly with our customers
- Customer surveys
- Dedicated multi-channel communications including live chat, our 0800 call centre and web forms

We have continued our Smart Lease roll-out in England and Wales, as well as Scotland.

We constantly and proactively adjust our sales and marketing strategy based on feedback received. We have also made the strategic decision to inhouse property and facilities management to enhance customer service and have provided flexibility on rental payments where appropriate.

Our people

Our people are at the heart of our business. The Power of Space is also providing space that matters for them, to allow them to grow and thrive. We strive to promote a strong culture where they feel proud, passionate and motivated to be part of the Industrials REIT journey.

- Weekly live updates from our CEO, MD and CFO including presentations on strategy and goals
- Annual and semi-annual performance review interviews
- Employees surveys and working groups on various subjects such as culture, ESG, hybrid working and the new offices, as well as an annual "Have Your Say" survey
- Presentation by our dedicated NED for employee engagement, including a discussion on the results of the 2022 Have Your Say survey, and opportunity for one-on-one private discussions

We launched a new hybrid working policy and reviewed and refined our culture. We also launched the Industrials REIT ShareSave Scheme, improved the structure of the weekly live updates from the executive team, and expanded on the content and training materials made available on our intranet via our Employee Hub.



Read more on [hybrid working on p. 58](#)

For information on the presentation by our dedicated Non-Executive Director for employee engagement and the outcome of that presentation, see page 93.

Business partners, lenders and suppliers

We understand the importance of building trusted relationships with our business partners, lenders and suppliers to deliver on our strategic goal and promote the long-term sustainable success of the Group.

- Close and constructive relationships with our business partners, lenders and suppliers
- Clear and transparent reporting on key metrics and targets, both from us to them and them to us
- ESG materiality assessment (see page 66)

We constantly review and adjust our processes to increase efficiencies and reduce costs for us and our partners. In September 2021, we successfully concluded a NatWest debt refinance and throughout the reporting period we have continued and developed our partnership with our technology partners to support Industrials Hive.

Local communities

We believe in The Power of Space to support local communities. It is part of our values and culture to contribute what we can to their development and growth, and we believe that they contribute to our long-term success.

- Engagement with our charity partner for the year

We continued to support our Charity of the Year, via marketing initiatives and social media campaign to increase awareness amongst our people, customers, partners and the community, as well as various fundraising initiatives throughout the reporting period (see page 73).

The environment

We understand that our long-term success is dependent on our ability to operate sustainably, identify and mitigate climate risks while taking advantage of the opportunities they present.

- Engagement with Carbon Intelligence to analyse and improve our understanding of climate risks and opportunities
- Engagement with key stakeholders to understand their primary concerns around sustainability
- Work towards understanding our carbon footprint and pathways to improving the energy efficiencies of our space

Our ESG steering group continued its work for the promotion of ESG actions across the Group throughout the reporting period, under the oversight of the Social and Ethics Committee and the Board. See page 116 for additional information on the work of the Social and Ethics Committee and pages 64 to 73 for additional information on our approach to sustainability and planned areas of focus for the current financial year.

Section 172 statement and stakeholder engagement continued

Case study:

Hybrid working

In the summer and autumn of 2020, a workgroup was constituted with employee representatives from all departments and levels, to discuss the advantages and disadvantages of working from home versus working from the office, as experienced in the first stages of the pandemic.

Building on the results of this consultation, transforming the way we work to align to our employees' needs while supporting the operations of the Group, our customers, partners and shareholders and with the long-term success of the Group in mind, has been a key priority during the reporting period. The Board, supported by the Social and Ethics Committee, oversaw the process that led to the adoption of a new hybrid working policy of the Group.

A "test and learn" approach was adopted, prioritising safety and wellbeing throughout. The Company trialled three forms of hybrid working during the year, each with varying degrees of flexibility given to staff to choose when to work from the office and when to work from home. All employees were asked to feedback on their experience following each trial and comment on how their work and personal life were impacted.



The feedback received was carefully considered and a new hybrid working policy, giving greater flexibility to employees than the three models trialled during the year, was rolled out. The Board noted the need to ensure that all employees are treated equally, whether they are working from one of the Company's offices or remotely, and that hybrid working is carried out safely and in accordance with Company policies and current legislation. With the new model, the Board also considered the evolving culture and values of the Group (see page 3 and page 30), how to enhance workplace collaboration when working in the office to promote innovation, connection and providing a sense of belonging (see case study on the enhancements made to our office space on page 31), staff wellbeing more generally and the impact on customers and suppliers.

Section 172(1) matters considered in this decision:

- (a) the likely consequences in the long term
- (b) the interests of the Company's employees
- (c) the need to foster the Company's business relationships with suppliers, customers and others
- (d) the impact of the Company's operations on the community and the environment
- (e) the desirability of the Company maintaining a reputation for high standards of business conduct
- (f) the need to act fairly between members of the Company.



Case study:

Facilities management

Following the roll-out of our new integrated ERP platform and the in-housing of the property accounting function, the Board made the strategic decision during the reporting period to cease outsourcing the facilities management operations for the entire MLI portfolio.

The Group has recruited a Head of Facilities Management who will manage the implementation of this decision during the current financial year. It is expected that a network of regional facilities managers will be recruited to oversee our portfolio, region by region, and that customers will benefit from a better customer service provided by Industrials' own staff unlocking The Power of Space. It is also expected that suppliers will be required to complete Industrials' own vetting and onboarding programme ensuring that they adhere to the Group's values and high standards of business conduct. Other factors considered by the Board included the evolving requirements and expectations of all our stakeholders in relation to sustainability and climate risks. By creating and nurturing direct relationships with our suppliers, we can ensure that they support our ESG strategy and work with us to reduce the environmental impact of our operations.

Section 172(1) matters considered in this decision:

- (a) the likely consequences in the long term
- (b) the need to foster the Company's business relationships with suppliers, customers and others
- (c) the impact of the Company's operations on the community and the environment
- (d) the desirability of the Company maintaining a reputation for high standards of business conduct.



Read more on our [Why, How and What](#) section on [p. 03](#)



Read more on [understanding our stakeholders](#) on [p. 66](#)

Task Force on Climate-related Financial Disclosures

Unaudited

In accordance with Listing Rule LR 9.8.6 (8), Industrials REIT discloses its alignment with the Task Force on Climate-related Financial Disclosures ("TCFD") Recommendations.

This marks our second TCFD disclosure and is the culmination of in-depth risk identification and assessment with climate risk experts Carbon Intelligence. Below, we set out our progress against the four pillars of the TCFD framework.

1. **Governance:** How we ensure robust governance of climate-related risks and opportunities
2. **Risk management:** What the actual and potential impact of climate-related risks and opportunities are in our business, strategy and financial planning
3. **Strategy:** How we identify, assess and manage climate-related risks and opportunities
4. **Metrics and targets:** How we measure progress in reducing our greenhouse gas (GHG) emissions and address other climate-related risks and opportunities.

We continue to improve and align our internal processes and public disclosures with the TCFD's recommendations on climate-related financial disclosures.

Governance

Board Oversight

The Board of Industrials REIT has overall responsibility for climate-related risks and opportunities.

The Board monitors climate-related risks alongside other business-specific risks through its Audit and Risk Committee. This committee meets at least four times a year and reports to each Board meeting. The committee monitors and reviews climate risk using the Company's risk matrix and the risk management plan, where it has been considered a strategic and market risk for the business.

On behalf of the Board, the Social & Ethics Committee reviews and approves strategy and policy for climate and ESG. The committee also monitors implementation of this strategy and policy. This committee meets at least twice a year.



Further information on our risk matrix can be found in the [Risk Management](#) section on [p. 52 to 55](#).

Management Role

At management level, the CEO has overall responsibility for Industrials REIT's response to climate-related risks and opportunities. On a day-to-day basis, the cross-functional ESG Steering Group is responsible for identifying, assessing and managing climate-related risks and opportunities. The Head of Debt and Special Projects chairs the group and members include the Managing Director, General Counsel and Company Secretary, Head of Investment, a Senior Finance Manager, the Head of Facilities Management and an Asset Manager. The group meets and reports to the Social and Ethics Committee of the Board on a quarterly basis.

At an investment level, both the CEO and Managing Director consider climate risks and opportunities during the underwriting of potential acquisitions.

Risk management

Identification, Assessment and Management

Industrials REIT considers climate change to be a principal risk which could impact multiple areas of the business and has incorporated this within the risk management framework. The top five climate-related risks identified as potentially material to the Group have been included in the Company's risk register. We regularly review risk registers to ensure that all relevant risks and changes to risks are up to date and that necessary mitigation plans have been put in place.

We identify and assess climate and other risks using our risk framework. Risks are classified as low, medium or high, based on the likelihood of occurrence and materiality of impact. Based on this, we decide whether to mitigate, transfer, accept or control climate-related risks. Any risk that could lead to a potentially material impact triggers a detailed review.

During the reporting period, workshops with our specialist sustainability consultant have taken place with stakeholders across the business to further understand the potential physical and transition risks of climate change. This is an evolving area of focus. At asset level, the relevant asset manager is responsible for reviewing climate-related risks. In addition to climate-related risk management, our ESG Policy guides the processes of investment decisions and ongoing asset management; it also informs procurement decisions, asset review forums and forward-looking business plans.

In addition to being a principal risk to Industrials REIT, climate change also presents certain opportunities. The Company plans to leverage the most significant climate-related opportunities.

Overall Risk Management

Evaluation of climate-related risks and opportunities is integrated into core areas of the Industrials REIT business. This includes safeguarding assets; operation of adequate and effective systems; internal and financial control processes; preparation of materially accurate financial reporting information and statements in compliance with all applicable legal and regulatory requirements and accounting standards; and oversight of the external audit appointments and internal audit function.



Further information on our risk management process can be found in the [Risk Management](#) section on [p. 49](#)

Strategy

Risks, Opportunities and Impact

In early 2022, Industrials REIT conducted a materiality assessment of climate risks and opportunities. First, we developed a comprehensive list of risks and opportunities based on an in-depth data review. We then engaged internal stakeholders across the Industrials REIT business to review these risks and opportunities and assess their potential impact.

This process yielded a long list of 33 material climate risks and opportunities. The risks included physical risks (both acute and chronic) as well as transition risks (legal, current and emerging regulation, technology, market, reputation and services).

To narrow down these risks and opportunities, we assessed their likelihood and impact on our business over three time frames: short (current financial year), medium (1-5 years) and long term (risks over the asset lifetime of 30+ years). These time frames correspond to our capital planning and the life of our main assets. Using multiple time frames also challenges our business to consider climate risk over the long term.

As a result of this process, we developed a list of the top six risks related to climate change and the top four opportunities. These can be found in the tables below.

Risk type	Description	Potential impact	Timeframe	How we monitor and manage this risk *
Transition: Policy and Regulations	The rise in regulations (e.g. new requirement of an EPC C rating by 2027) and increasing pressure to disclose further on environmental performance (e.g. SBT, TCFD, CDP) pose costs to our business and even risks to assets.	Meeting evolving regulatory requirements could lead to growing resourcing and operational costs. The rise of regulations poses a risk to assets potentially becoming stranded.	Short term: 2022	We are working towards improved EPC ratings and continuously monitor and review legal requirements, working with Auditors and Sponsors to fulfil growing expectations. We also seek legal advice on regulations regarding premium listing requirements.
Transition: Market	Environmental performance requirements of premium-listed companies could rise. Real or perceived poor climate performance could influence Industrials access to capital, ratings scores and negatively impact investor relations.	Concerns around Industrials' business model and pace of migration to a more sustainable business and products could negatively influence Industrials' ability to attract new investors or funding from equity and debt markets. As preference in ESG capital allocation increases, access to debt facilities might be hampered.	Long term: 2028-2050	Although we do not currently use green-badged financing, we actively consider all available opportunities in the market.
Transition: Reputation	Despite rising expectations for climate and ESG performance, Industrials may not successfully implement our ESG strategy. We may also fall behind our peers in ESG performance.	Failure to meet stakeholder expectations of our emissions reduction strategy and ESG performance could damage Industrials' ESG ratings and rankings. This could influence market valuation, decrease stock price and damage investor relations, ultimately impacting Industrials' reputation and credibility.	Medium term: 2023-2027	We are developing metrics to track and communicate our key performance and progress towards targets. We are also committed to implementing green solutions to facilitate low-carbon performance where it is feasible.
Transition: Reputation	If customers have significant carbon footprints, this could jeopardise Industrials' ability to meet our own performance targets.	Customer electricity consumption and GHG emissions could affect Industrials' performance and progress towards our targets. This could have a negative impact on our reputation.	Medium term: 2027-2035	We have recently conducted a customer engagement survey to understand our customer needs and will be looking to enhance our customer engagement programme over the course of 2023.
Physical: Acute	Increasing intensity and frequency of floods and storms in the UK could damage Industrials' estates, leading to asset loss and/or damage. Simultaneously, it could affect customers by damaging leased space and inventory, disrupting their business continuity.	Damaged or lost assets and operational disruptions could lead to financial losses from void units and write downs to asset value. Loss of rent could result due to customer business disruption.	Long term: 2028- 2050	We undertake an environmental survey and flood assessment at the point of acquisition and have insurance on our assets. Where perceived flood risks exist, we collaborate with local authorities to ensure that mitigating controls are in place.
Physical: Acute	A rise in extreme weather events may make insurance conditions less favourable.	Having a higher number of assets affected by these events could increase the costs of insurance premiums or render assets uninsurable.	Long term: 2028-2025	We undertake an environmental survey and flood assessment at the point of acquisition. Where perceived flood risks exist, we ensure that mitigating controls are in place.

* Carbon Intelligence has not reviewed these controls at the time of publication.

Task Force on Climate-related Financial Disclosures continued

Unaudited

We continue to review and expand our climate-related risk controls. In addition to those described in the table above, other controls include:

- **Products and services:** We are developing and evaluating more sustainable solutions to improve the energy efficiency of our buildings and reduce the impact of our estates on the environment. Read more about the environmental performance of our space on page 74 to 76. Typical solutions include the incorporation of LED lighting to reduce energy usage, investigation of rooftop PV and provision of EV charging points. We also seek to improve the fabric of our buildings to enable us to offer better insulated and flexible space, while also enhancing the building’s lifespan.
- **Operations:** We continue to embed ESG considerations into our day-to-day business to ensure that we stay abreast of rising stakeholder expectations and reputational risks. Examples include consideration of ESG factors upon acquisition of new buildings and incorporation of ESG targets into our personal KPIs.
- **Supply chain:** Climate-related risks and opportunities in our investment value chain are increasingly considered as part of day-to-day operations as we align our business with like-minded service providers.

- **Asset management:** Climate considerations have been integrated into a number of asset management processes. In addition, our ESG Policy establishes processes of integrating climate considerations across our investment processes including origination, due diligence, approval, reporting and engagement.

Opportunities

We also assessed the potential opportunities for Industrials REIT that may result from climate change. Since Industrials REIT has more than 1,500 occupiers, we could leverage our scale to help these small to medium-sized enterprises reduce their emissions. This would also help our assets retain value and be more resilient over the longer term, as well as meet growing requirements from investors, insurance providers and regulators.

Our top four opportunities related to climate change can be found in the table below.

Opportunity Type	Description	Potential Impact	Timeframe
Resilience	Industrials could generate our own electricity with on-site solar panels.	On-site solar panels could increase Industrials’ energy security, reduce the cost of energy and generate additional revenue. It could also meet customer demand for low-emissions and low-cost tenancy while helping to reduce Industrials’ Scope 3 emissions.	Medium term: 2023-2027
Resource Efficiency	Industrials could benefit from energy efficiency projects on assets.	Energy efficiency projects could lower GHG emissions and bring financial gain, while proving attractive to tenants.	Short term: 2022
Markets	By becoming a low-carbon business, Industrials could take advantage of green finance and preferential borrowing conditions.	Doing so would expand our access to green financing opportunities. We could also receive preferential borrowing conditions linked to sustainability performance: interest rates, sustainability-linked bonds and green-badged loans.	Medium term: 2023-2027
Products & Services	Industrials could advance our offering of low-emission products and services.	Industrials has the potential to offer supporting products and services to help customers decarbonise and achieve their ESG goals. New offerings could include refurbishment, retrofitting, EV charging infrastructure or renewable energy.	Medium term: 2023-2027

Resilience

To enhance our approach to climate-related risk and opportunity and further comply with the disclosure recommendations of the TCFD, we will consider undertaking more in-depth analysis on the impact of climate change on our business activities, e.g. scenario analysis. As a result, we will gain a better understanding of how our business and assets may be impacted, allowing us to implement further mitigation measures to enhance our resilience.

Metrics and targets

Industrials REIT reports Scope 1 and 2 emissions in accordance with the Greenhouse Gas Protocol. We also report our Scope 3 emissions, following a gap analysis to identify applicable emissions categories and reporting requirements. Our emissions for the reporting year are reported on page 75. The emissions data collated during the course of the year will form the baseline for future reporting.

As we continue to integrate ESG deeper into our business, we intend to set Science Based Targets. These will help us to prioritise activities and deliver maximum impact in the short and medium term. We are committed to improving our data collection through customer engagement and awareness programmes.

We are committed to reducing our carbon footprint. In light of the UK government goal for all commercial leased buildings to reach an EPC rating of at least a C by 2027, we are conducting a study to identify the specific measures and targets which will further enhance the energy efficiency of our buildings. Average EPC rating for our MLI portfolio is included as an operational KPI for Industrials in March 2022. More information can be found on page 37. We continue to work on other environmental issues such as biodiversity and waste and water efficiency. In addition, our new developments will target a BREEAM "Very Good" rating. We also aim to incorporate other proven environmental measures in areas where we can bring about meaningful impact. We report in line with EPRA Sustainability Best Practices Recommendations for sustainability reporting; the EPRA tables can be found on pages 78 to 83. Our SECR report is located on pages 74 to 76.





Our approach to sustainability

Space that matters

Key statistics:

67%

total electricity consumption across the portfolio came from renewable sources

Scope 3 emissions make up

99%

of our total footprint

Ability to influence positive change on over

1,500

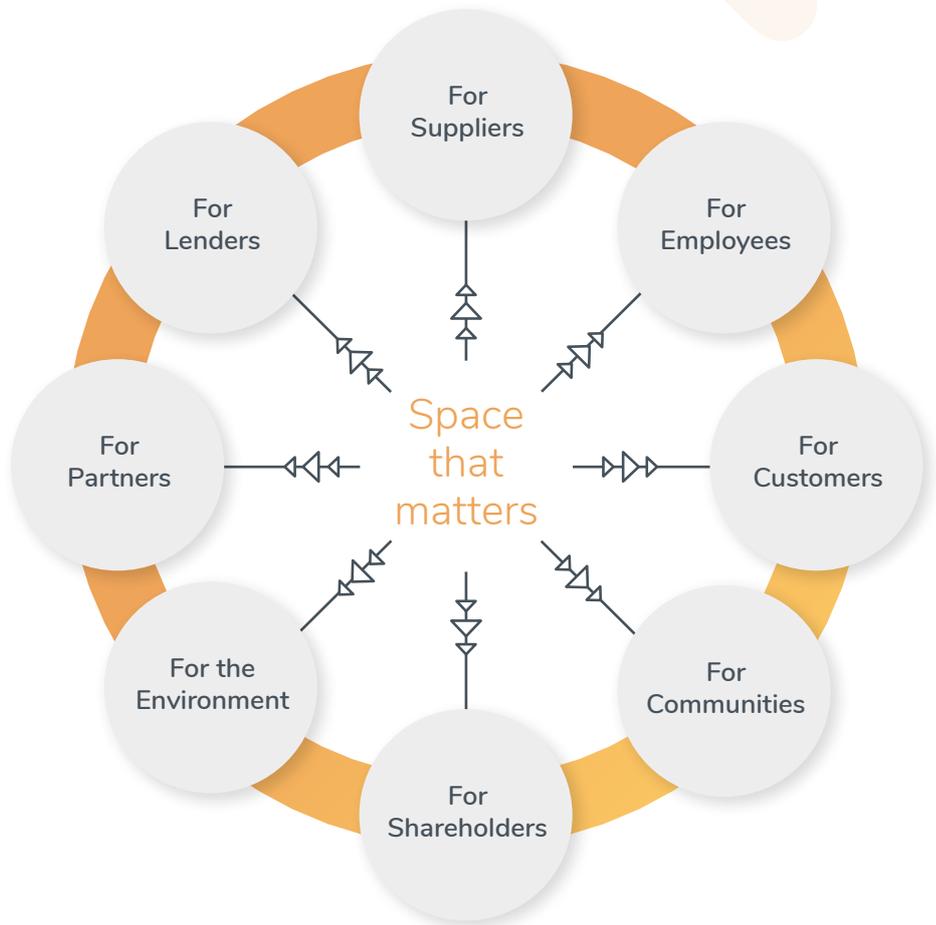
businesses and

104

local communities

Our focus shapes our ESG activities

The pandemic has accelerated a number of emerging trends around the way we live and work, and brought increased focus on ESG and climate change. It has highlighted the need for us to operate more sustainably in order to reduce our impact on the planet, to live and operate in an increasingly populous society and deliver value to all our stakeholders beyond just a financial return. Our ESG strategy and policy seeks to address these challenges, while also taking advantage of the opportunities they present.



ESG – identifying and managing risk and exploiting opportunities

Over the last 12 months we have continued to enhance the way ESG is incorporated within our business activities both internally and externally. There has been a strong emphasis on the social, wellness and diversity aspects. We have worked hard on our culture, developed a hybrid working model and are in the process of enhancing our workplace model to ensure our people have the tools and environment to innovate and excel. The enhanced ESG governance model, established in early 2021 by our ESG Steering Committee has helped increase awareness of ESG issues within our business processes and we are continually looking to improve this.

Environmental initiatives and carbon emissions

ESG is constantly evolving and therefore prioritising our efforts is extremely important. Over the course of the year, our carbon emissions have risen due to the growth in the size of the portfolio, and greater occupancy and energy usage, as a result of the relaxation of pandemic restrictions. We are committed to the reduction thereof and a detailed study has been undertaken on how best to improve our building efficiency by, for example, the installation of LED lighting and solar panels. Read more on our EPC upgrade assessment on pages 70 to 71. The implementation of the

Industrials Hive platform will assist in enhancing the quality and analysis of our emissions data, going forward.

We worked with Carbon Intelligence, our sustainability partner, to help us better understand our carbon footprint and to identify key impact areas for our business. The findings of the emissions assessment for the period ended 31 March 2021 are illustrated below. The largest part of our carbon footprint comes from our customers' energy emissions (83%). This is reported as Scope 3 emissions as it falls outside of our direct control due to the nature of our business. We have continued to move our landlord supplies to green energy but these utilities represent only part of the total portfolio's usage.

Customer engagement

A customer engagement survey was sent to over 1,500 customers in March 2022, to understand our customers' requirements and better address their needs. The number of responses was encouraging. A big focus for the next few years will be to engage with our customers on key ESG issues to encourage the procurement of renewable energy and find smart ways to reduce overall usage as well as improve data collection.



“Making The Power of Space work for our stakeholders, sustainably.”

TCFD

We undertook a formal assessment of how climate change is likely to affect our business in the short to long term using the TCFD framework, the findings of which are set out more fully in the TCFD disclosure section. We will be looking to better manage these risks and embrace the opportunities in our day-to-day operations, over the coming year.

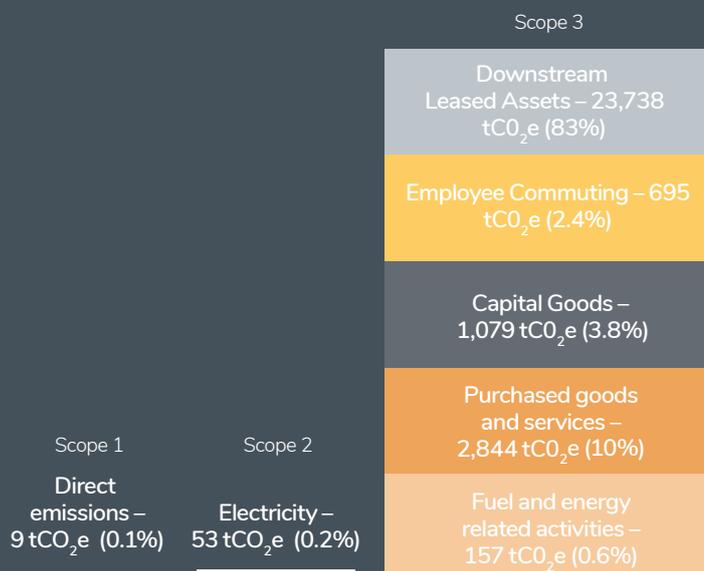


Read about our [TCFD disclosure](#) on p. 60 to 63



Read about our [Risk Management](#) on p. 49 to 55

Industrials REIT total emissions



Preliminary modelling shows that Industrials REIT Scope 3 emissions make up over 99% of its total footprint. Scope 1 emissions from onsite fuels account for 0.1% and Scope 2 emissions (from electricity consumed on site) account for the other 0.2% of the total footprint and both are considered de minimis.

Scope 3 consists of predominately purchased goods and services, capital goods and downstream leased assets. This is the first year of reporting Scope 3 emissions; therefore, there is a high proportion of estimated data. Figures may change as quality improves.



Our approach to sustainability continued

Understanding our stakeholders

We listen to our stakeholders.

We enhanced our materiality assessment survey this year to include our external stakeholders for the first time. The survey covered environmental, social and governance issues, with a focus on external issues. Our people remain our number one priority, being the engine that drives our business, where staff surveys have been conducted to assess employee satisfaction and canvass opinion.

We approached our major stakeholder groups to complete the survey namely our people, customers, lenders, key suppliers and key investors and were encouraged by the strong response we received. We also incorporated a number of ESG-related questions into our

customer satisfaction survey this year which helped supplement the materiality analysis. The overarching finding was the marked shift in thinking of all stakeholders to the importance of carbon emission reductions and climate-related issues.

Collaboration is key for society to make a meaningful impact on our environmental and social obligations and it was therefore encouraging to confirm that our larger partners demonstrated a willingness to work with us on these issues. Our customers demonstrated strong interest in exploring ways to reduce energy usage/costs, improve recycling and incorporate electric vehicle

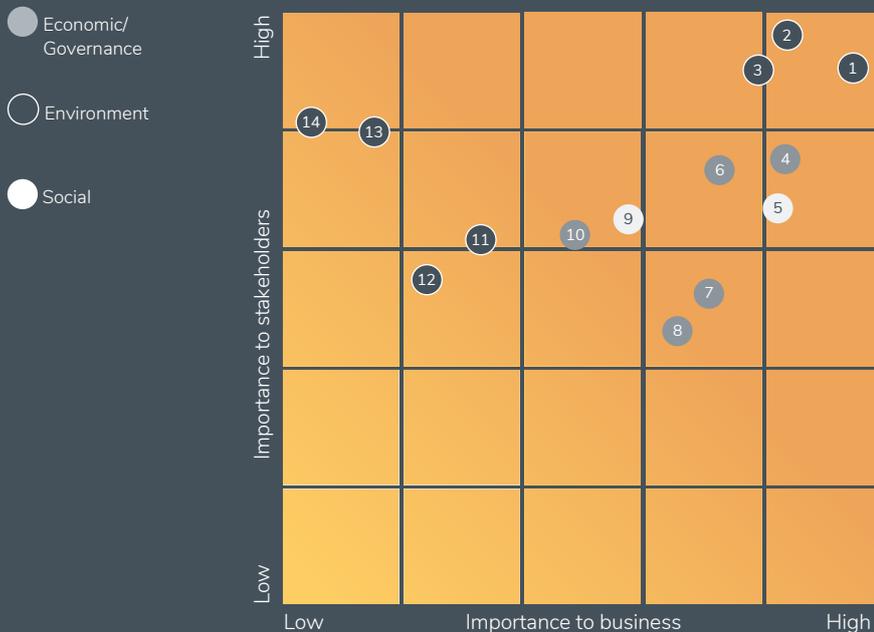
(“EV”) charging points on our estates. The survey also confirmed that there is more we can do to engage with our customers on this topic to help bring greater understanding of ESG issues.



Read more about [Our stakeholder engagement](#) on p. 57

Materiality matrix

Stakeholder responses informed where the issues were plotted on the y-axis. The x-axis was guided by the SASB risk matrix, with scores based on our 2020 materiality assessment and industry averages.



Top 14 material issues

- 01 GHG emissions
- 02 Energy efficiency of operations
- 03 Setting emissions reduction targets
- 04 ESG/reputation
- 05 Customer health and wellbeing
- 06 ESG/return on investment
- 07 Creation of jobs
- 08 Local supplier sourcing
- 09 Supplier screening (ethics)
- 10 Local community engagement
- 11 Water
- 12 Biodiversity
- 13 Waste reduction
- 14 Customer waste reduction

"This is a hugely important topic, but one that is still evolving, so each step needs to be considered carefully. I think being slow to act on this topic will see any business begin to fall behind the market."

Lending partner

"Energy cost reductions are high priority due to high charges."

Customer



Key comments from stakeholders

"It is very important but as a long-term investor we are happy to see steady improvements year on year rather than try to accelerate to unrealistic targets which potentially damage returns in the short run."

Investor

"Tackling global climate change is now imperative to the future of the planet. All businesses, people, countries and continents must play their part."

Professional services provider

"ESG performance is critical to the company's long-term value and should be considered as a top priority."

Lending partner

"As a landlord, providing energy efficient space is the most important thing we can do. This is our core product and is the place where we can make the greatest difference."

Non-Executive





Our approach to sustainability continued

Our sustainability strategy

Our ESG strategy and policy have been developed in line with Industrials' overarching vision to provide space that matters to our customers, employees and their communities. The strategy strives to take a proactive stance on managing future climate risk and opportunities to ensure that Industrials is able to achieve its vision, while supporting the transition to a lower carbon and sustainable future through market leadership and engagement



Read about [our strategy](#) on [p. 32 to 35](#)

01

Direction

Industrials is committed to putting in place stretching targets across all three areas of ESG. These targets will provide focus and a detailed plan to prioritise resources over the near to longer term.

02

Governance

The Board of Industrials REIT has overall responsibility, with the Social and Ethics Committee reviewing and approving ESG strategy and policy. The ESG Steering Group are accountable for the delivery and communication of Industrials' ambitions.

03

Data

Data plays a crucial role, with the Industrials Hive platform forming a crucial link to enable engagement and carbon reduction across the business. Industrials are committed to continually improving the quality and breath of our data to track progress and continually improve our strategy.

ESG in action

- We undertook an EPC upgrade assessment to better understand the likely cost and revenue implications of compliance with future EPC regulations in line with tightening legislation. We will be looking to embed the findings into our Capex programme.
- We reported our MLI portfolio's average EPC rating as a business KPI for the first time.



Read about [EPC upgrade assessment](#) on [p. 70](#)

ESG in action

- Strategy is owned at Board level and managed via the ESG steering group with board-level representation.



Read about [our Governance](#) on [p. 89](#)

- Risks and opportunities are articulated in the risk register in line with the TCFD recommendations.



Read about [our Risk Management](#) on [p. 49](#) and [Climate-related risks](#) on [p.52](#)

- ESG-linked remuneration



Read [our Remuneration Committee Report](#) on [p. 100 to 115](#)

ESG in action

- We have identified our carbon footprint (Scope 1, 2 and 3) emissions, and established our annual reporting programme.



Read about [carbon footprint emissions](#) on [p. 65](#) and [greenhouse gas emissions](#) on [p. 75 to 76](#)

Focus for 2023

- Industrials REIT intends to establish Near-Term Science-Based Targets, to be validated by the Science Based Targets Initiative (SBTi) within 24 months.
- Further refine our ESG strategy keeping it relevant and focused on material issues, taking account of stakeholder concerns and aspirations.

Focus for 2023

- Continue to analyse and improve pathways for managing climate change across the portfolio.
- Continue to integrate sustainability criteria into lease clauses.

Focus for 2023

- Continue to use Industrials Hive to improve our data capture, measurement and reporting, ensuring greater visibility and access to data for our stakeholders.
- Continue to model our key identified risks and opportunities, and the financial impact thereof.

Industrial's ESG Strategy has been drawn up following a detailed programme of works assessing Industrial's current, and aspirational ESG rankings against the 6 dimensions of Carbon Intelligence's strategic framework developed in partnership with the World Business Council for Sustainable Development.

04

Engagement

Empowering our people, our customers and communities will enable us to drive longer-term change. We do this through continued engagement to ensure we deliver on what matters most.

ESG in action

- Employee satisfaction surveys



Read about [Investing in our People](#) on p. 72 and [our s172 Stakeholder Engagement](#) on p. 56

- Enhanced materiality assessment with internal and external stakeholders
Read about this on page 66.
- Customer engagement survey
Read more on page 65.

Focus for 2023

- Investigate pathways to strengthen engagement with customers and local communities.
- Enhance learning and awareness of key ESG issues amongst our people and customers, empowering them to operate more sustainably.

05

Performance

The Group will develop a programme of works to drive down consumption and carbon across the portfolio in line with Science Based Targets, reducing both physical and reputational climate risk.

ESG in action

- Implemented ESG acquisition criteria to ensure we are building a resilient portfolio



Read about [Transactions: acquisitions](#) on p. 42

- Implemented an EPC review to establish anticipated costs to enhance portfolio in line with future MEES ratings, and identify a roadmap to achieve this.



Read about [EPC upgrade assessment](#) on p. 70

Focus for 2023

- Embed EPC review findings into our asset expenditure programmes to improve energy efficiency of buildings in a sustainable manner.
- Keep up to date with the evolution of renewable technology, evaluating mature technologies appropriateness for our business.
- Ensure new development is undertaken sustainably.

06

Reporting

In order to demonstrate leadership, disclosure and transparency, Industrials will aim to continuously enhance its annual reporting disclosure, considering recommendations from GRI Standards and TCFD as guidance.

ESG in action

- Annual reporting of ESG in line with: SECN and TCFD disclosure requirements.



Read about [TCFD disclosure](#) on p. 60



Read about [SECR disclosure](#) on p. 74

- Most Improved award for disclosure in line with EPRA Sustainability Best Practices Recommendations and Bronze award from EPRA for sustainability reporting.



Focus for 2023

- Further enhance annual reporting disclosures, in line with TCFD and including the setting of targets.

Space that matters: unlocking energy efficiencies

EPC upgrade assessment

What

We have undertaken a desktop project to understand the likely cost to Industrials REIT of compliance with future Energy Performance Certificate (EPC) regulations in the UK. The project looks at what improvement works would be required to maintain compliance and the likely cost of implementing them across the Industrials REIT portfolio.

Why

Across the UK all commercial buildings are required to have an EPC when they are constructed, sold or let which gives tenants, owners or prospective buyers information on how energy efficient the property is. An EPC assessment is a complex calculation which is based upon several factors, including:

- the type of construction;
- whether different parts of the building are used for different purposes;
- the heating, cooling, ventilation and hot water systems used; and
- the lighting used throughout the property.

EPC Certificates provide a score which translates into a grade from A-G, with A being the most efficient and G being the least efficient. At present, a commercial EPC Certificate lasts for ten years from the assessment date.

At present, landlords in the UK cannot complete a new letting of a building with an EPC rating of less than an E. In addition, from April 2023, to obtain a new EPC assessment, landlords will be obliged to carry out improvement works on any buildings with an EPC rating of less than an E, meaning that the requirement to improve buildings will extend to buildings already let rather than just at the

point of letting.

However, the Government is currently in consultation on several additional measures aimed at improving the energy performance of the UK's commercial building stock. These include a phased implementation of requirements which preclude the letting of a unit with an EPC of less than a C from April 2025 to 2027, and a subsequent phased tightening of this requirement to no less than a B from April 2028 to April 2030.

Furthermore, as part of its package of future measures, the Government intends to alter legislation so that a building must always have an up-to-date EPC during the whole time that it is let. This would cover cases of lease renewal where current guidance suggests that an EPC is not necessary where an existing tenant is renewing its lease.

Considering this tightening legislation, it is important for Industrials REIT to understand the likely cost and revenue implications of compliance with future EPC regulations, specifically in relation to upgrading the existing portfolio to a minimum level of a C by 2027 and a B by 2030.

How

We completed a sample set of 136 EPC assessments on existing units to establish what improvements would be required to secure an EPC rating of at least a B. The sample set covered approximately 5% of our total portfolio by floor area and 10% by unit count, meaning that it represented typically smaller units which are normally disproportionately expensive to maintain/improve. The average current rating of those units assessed was 93, reflecting an EPC score of D, which is broadly reflective of the average EPC rating within our total portfolio which currently stands at 83 points and a D

grade.

The assessments were limited to the following set of practical improvement works, many of which we already regularly undertake when refurbishing MLI buildings:

1. installation of solar panels;
2. installation of LED lighting;
3. removal of old and inefficient heating equipment;
4. installation of air source heat pumps in offices; and
5. installation of additional roof insulation.

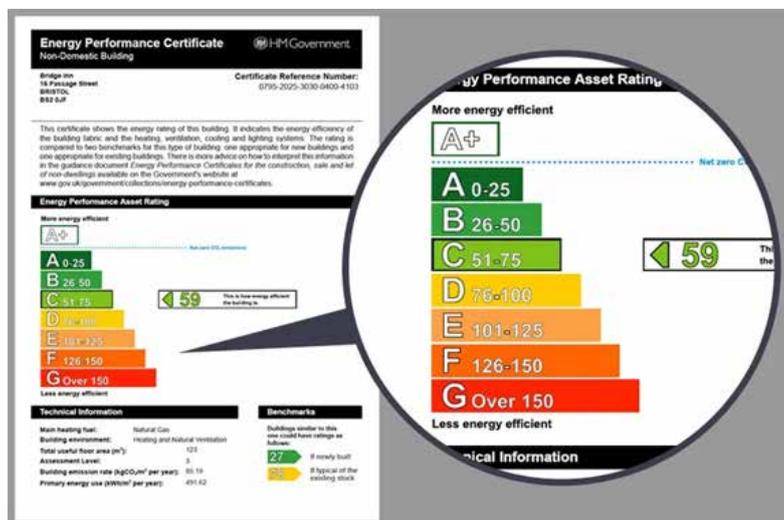
The works would be either implemented as individual items or combinations of the items from the list above.

Despite the limited set of works options, every building assessed would achieve a rating of no less than a B through implementation of one or more of these work items, with some units even achieving a rating of A+ reflecting a rating of net zero carbon emissions. Overall, the average unit would improve from a score of 93 to a score of 36, reflecting an improvement from a relatively poor Grade D to a relatively good Grade B.

Sample: Current EPC Rating		
Grade	Count	Average Score
C	31	67
D	58	88
E	44	116
F	3	145
Total/Average	136	94

Sample: Post works EPC Rating		
Grade	Count	Average Score
A+	7	(17)
A	10	13
B	119	41
C or higher	0	N/A
Total/Average	136	36

Having completed this exercise, we priced up the likely cost of completing the works required to deliver the EPC improvements. Given the units within our portfolio are all relatively uniform (being purpose-built MLI of standard construction), the cost of the works identified is relatively consistent. In addition, given the high frequency with which we complete these types of work, the costs were well-known and likely to be accurate. The individual items ranged from around £2 per sq ft for new lighting up to c. £9 per sq ft for new solar panels on the roof.



Conclusions

It is important to note that this is a preliminary and high-level desktop appraisal of the impact of compliance with proposed EPC regulations in 2030. These regulations are still in consultation, and hence they, and the methodology behind calculating EPCs, are likely to be subject to change in the future. In addition, the method used is an extrapolation from a sample and is hence not a detailed appraisal of each unit in the portfolio, while the indicative costs used are estimates. Therefore, it is intended to give an indicative view of the likely cost of compliance and may be subject to change in future as more detailed analysis is completed and greater clarity on future regulations is given.

Having taken these limitations into consideration, based upon the analysis undertaken, we have derived the following conclusions:

- Across the sample taken, the estimated spend to meet an EPC of B or better was £2.3 million across 380,000 sq ft of space assessed, reflecting an investment of £6 per sq ft or 7% of average asset value;
- Some improvement measures were more cost effective than others, with new LED lighting delivering an average improvement of 50 EPC points for a low average cost of £2.17 per sq ft;
- Solar panels alone delivered an average EPC improvement of 40 points across a sample of 9 units, at an average cost of £9 per sq ft;
- Across the 26 examples where new LED lighting and solar panels were installed, the average EPC improved by 65 points, equivalent to the total gain required to move the average EPC rating across our whole portfolio to a B or better;
- Solar panels are expensive and can be complicated to install, but we believe that these factors are outweighed by the potential revenue benefits available from selling green energy to customers. As a result, it is reasonable to assume that an investment in solar panels across the portfolio would be profitable, or cost neutral at worst;
- If it is assumed that solar installations are cost neutral, the average cost of the remaining package of works required to improve the EPCs to B grade or higher was approximately £2.70 per sq ft.
- If you apply the same pro rata investment of £2.70 per sq ft across the whole portfolio, this would result in an investment between now and 2030 of c. £21.6 million, reflecting c. 7.5p per share.
- However, for the past three years, we have been installing LED lighting in all vacant units as part of our basic refurbishment specification and have installed solar panels on three estates. In most instances, enhancement works have resulted in material uplifts in rent which have more than justified the investment, as customers have been willing to pay a premium rent for higher-quality refurbished space with lower running costs. Therefore, any upgrade costs are likely to be offset by the premium rental levels achieved.

Most importantly, it is encouraging that all units assessed were capable of being upgraded to meet future EPC targets at an acceptable economic cost, and that some can even be improved to net zero levels. This clearly illustrates how sustainable MLI assets are, with limited physical and design obsolescence giving them long lives with low levels of capital expenditure. These characteristics also materially reduce the lifetime carbon emissions of MLI properties, which in the future is likely to become a key barometer for building sustainability as greater scrutiny is placed upon the emissions generated during the development phase and hence more onus is placed upon the refurbishment of existing building stock. Moving forward, as we look to set a Science Based Target, we will be incorporating the findings from this piece of work within our roadmap, ensuring it remains at the core of both compliance and target setting.



Space that matters: Driving energy efficiency through EPC improvement.

In December 2021, Industrials instructed a minor works scheme to four units totalling just over 44,500 sq ft at St Peter's Industrial Estate, located in Huntingdon, Cambridgeshire. The scheme consisted of a full roof overclad as well as extensive external redecorations to all elevations.

As the terrace included one of our largest vacant units at just over 13,000 sq ft, we commissioned a full internal refurbishment of the space. Environmental performance was central to our refurbishment specification, to actively seek ways to enhance the EPC rating from a current grade of D.

A MEES (Minimum Energy Efficiency Standards) report was prepared which identified a number of improvements that would enhance energy efficiency by integrating cost effective and low disruption improvement works.

An improvement from D-83 to B-49 was modelled by simply ensuring that all spaces within the unit had a minimum spec of LED lighting (120 lumens per watt+). This was incorporated as additional detail into our specification.

The unit was let immediately upon completion of works, on a new 10 year lease at a rent reflecting a 26% uplift on the previous passing rent.

Our people

Investing in our people

The Power of Space

Creating space that matters, is also about creating the space our people need to thrive and succeed on a long term sustainable basis.

The wellbeing of our people has always been a pillar of our culture and drives many of our social initiatives. The importance of providing a caring, supportive and inclusive environment to our staff has increased during the pandemic, and we have continued to build on the investments made in that area over the past two years.

We have developed our employee engagement programme, with a wide range of staff surveys and workgroups seeking employees' views and feedback on a variety of subjects, from culture and values and hybrid working to sustainability. We want to give our employees an opportunity to be part of the conversation and we are committed to listen. We believe that this is a driver of productivity and efficiency, and that, with each individual bringing unique skills and perspective, tapping into this diverse pool of thinking does not only improve employees' satisfaction but is also a great driver of innovation.

With the support and contribution of our people, we launched a new hybrid working model, and are proud to report on the opening of our new London office. Feedback received has confirmed that the workplace is an important place for our people to connect socially and we intend to increase social engagements over the coming year.



Read about [our hybrid working model](#) on p. 58



Read about [Enhancements to our office space](#) on p. 31

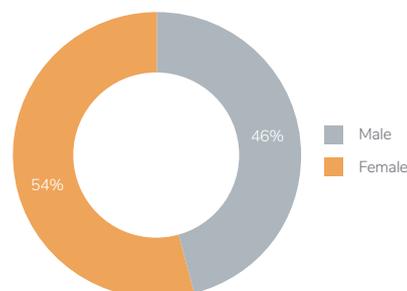
We also launched bi-annual engagement sessions with Patsy Watson, our designated Non-Executive Director for employee engagement. We are looking forward to continuing with this programme.

With over 63% of our employee population as at 31 March 2022 recruited in the previous 24 months, being able to attract and retain talent is critical to our success and growth. We offer a competitive remuneration and benefits package and strive to be a great place to work. Wellbeing, equal opportunities, training and development and investment in ESG principles are also all key elements to this success.

Equality and diversity

Our Equal Opportunities Policy is available on our website. We have already achieved an equal balance in our gender diversity statistics across our employee population, and are committed to promoting diversity and equal opportunities in employment, via our blind hiring process, partnerships with recruitment agencies and continuous training of our people. We understand that diversity of backgrounds promotes diversity of thought and will contribute to our long-term sustainable success.

Breakdown of female vs. male employees as at 31 March 2022:



Training and development

We continue to evaluate training needs in line with business objectives. We take both a company-wide and department specific approach to training, with an emphasis on both technical and soft skills. We are currently sponsoring several employees to study towards the Assessment of Professional Competence to enable them to become qualified Chartered Surveyors ("MRICS"). We have also provided assertiveness and confidence skills training, as well as time and priority management training to certain staff over the reporting period. We encourage all employees to make full use of the training opportunities we provide, and to come forward with details of any specific training programme they would like to undertake.

Health and wellbeing

We subscribe to an employee assistance programme so employees can seek free confidential advice at times when they may require additional support. We promote wellbeing through a number of additional benefits, including private medical insurance and travel insurance for all employees, a cycle to work scheme and various policies supporting families and a healthy work-life balance. We have recently updated or launched many of these policies, including new policies on hybrid working, flexible working, adoption leave, maternity and paternity leave and parental leave.

Supporting the local community

We actively encourage our staff to engage and support local communities. We offer four half-days per calendar year of paid time off to each employee for them to volunteer their time and knowledge for a charitable initiative of their choice. We also operate a matched-giving policy and will match every pound raised by our people for registered charities of their choice. During the reporting period, we are proud to have supported Dementia UK as our charity partner. This year, our People have voted again and have chosen to support The Wellspring, a charity local to our Stockport office.



Read about the [charities we support](#) on p. 73



Investing in our communities

The Wellspring charity

For our new financial year, we welcomed our new and exciting charity partner, The Wellspring.

The Wellspring supports the people of Stockport who are homeless or at risk of losing their home. They provide the resources, understanding, and care that their users need inside the community that we all share. Professional staff and dedicated volunteers at The Wellspring are there to understand the complex and individual challenges of every service user and help them make positive changes to their lives.

The current strategy of the charity is built around the lives of people they help every day. This means responding to a combination of issues surrounding housing, physical & mental health, domestic violence, substance misuse, debt, unemployment, illiteracy, and social exclusion. It is often simple pieces of advice and support, interventions at the right time, giving professional guidance, and most of all positive engagement that can make a difference. The charity provides educational courses, computer courses, art classes, and other activities such as football, walking groups and gardening courses. Alongside this, they provide health services, including a drop-in service from a GP, and referrals to other specialist support services.

The Wellspring offers the hope that things can, and do, change.

The Wellspring is local to our Stockport office, and we are looking forward to getting involved, volunteering, raising vital funds and raising awareness of the incredible work they do and their impact on the local community.



Dementia UK: our charity partner for the year ended March 2022

Industrials REIT supported Dementia UK from April 2021 until March 2022. A total of £18,588 was contributed to the charity through a combination of fundraising initiatives and donations from the Company. This amount will help Dementia UK increase the number of specialist dementia nurses across the UK, so fewer people have to face dementia alone.

Dementia UK is the specialist dementia nurse charity. Its nurses, known as Admiral Nurses, provide life-changing support for families living with all forms of dementia – including Alzheimer's disease. For families affected by dementia, they can be a lifeline.

Throughout the year, we have worked closely with our Corporate Partnerships Executive at Dementia UK, Maria Shirlin, who has continuously provided us with information about upcoming fundraising events as well as unique and simple ideas for raising money. The fundraising initiatives undertaken throughout the year included a Halloween Bake Sale, raising a total of £800 across both the London and Stockport offices. In December, we also created our 12 Days of Christmas campaign where we invited some of our key trading partners to make a donation to Dementia UK and be featured on our Company LinkedIn page. We raised a fantastic £2,450 from our trading partners and we also matched this donation.

Although this year remained tough in terms of taking on bigger fundraising challenges due to COVID-19 restrictions, we are pleased we have still been able to support Dementia UK by raising vital funds and awareness for families facing dementia.

Streamlined energy and carbon reporting

Unaudited

Environmental performance and strategy

Industrials REIT is a United Kingdom (“UK”) Real Estate Investment Trust, which is listed both on the Premium Segment of the Main Market of the London Stock Exchange (“LSE”) and the Johannesburg Stock Exchange (“JSE”).

This statement has been prepared in accordance with our regulatory obligation to report greenhouse gas (GHG) emissions pursuant to the Companies (Directors’ Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 which implement the government’s policy on Streamlined Energy and Carbon Reporting. During the reporting period 1st April 2021 to 31st March 2022, our measured Scope 1 and 2 emissions (location-based) totalled 195 tonnes CO₂e.

This report for the financial year ending 31 March 2022 marks our second Streamlined Energy and Carbon Reporting (“SECR”) submission and summarises our environmental performance which includes our consumption of fuels, electricity and water, waste generation and business travel. These impacts have been calculated from both landlord-obtained and tenant-obtained consumption.

Industrials has worked hard to improve the quantity and quality of environmental data during the reporting period. The increase in metres

from 137 to 332 in the past year means that the data on which the emissions are calculated now represents a larger proportion of our MLI portfolio’s total floor area. Further sustainability-related information can be found in our EPRA report on page 77.

As at 31 March 2022, the Group operates across the UK and holds an interest in a care homes portfolio in Germany through a joint venture. As management intends to dispose of this joint venture by March 2023, and focus solely on the MLI portfolio in the UK, consumption data from the joint venture has been excluded.

The table below shows the number of properties and the floor area of our portfolio. Consumption data for environmental performance is reported on the UK MLI portfolio, which is owned 100% by the Group. By value, the UK MLI portfolio makes up 95.3% of the Group’s total portfolio and 97.5% of the total floor area of our portfolio. During the reporting period, the floor space of UK MLI increased by 29% (1.7 million sq ft) due to new acquisitions. In addition, the UK MLI portfolio now includes five assets which were previously classified as UK urban logistics in 2021. To provide a more comprehensive view of our environmental performance, consumption data reported below also includes our corporate leased offices: our head office in Great Portland Street, London and our regional office in Stockport. Together, these two offices cover 4,758 sq ft.

Combined portfolio	Number of properties	Increase since prior year	Area in sq ft (incl. long leaseholds)	Area in sq m	Increase in floorspace since PY
UK MLI	104	18%	8,131,427	755,876	29%
Joint venture	4	–	208,066	19,330	–
Total	108	18%	8,339,493	775,206	29%



Greenhouse gas emissions

During the reporting period, we acquired further assets, leading to a 29% increase in MLI floor area. Together with the lifting of COVID-19 restrictions and return to work, this inevitably led to a considerable rise in GHG emissions over the past year. A breakdown of our GHG emissions (Scope 1, 2 and 3) for the reporting year ending 31 March 2022 is provided below, followed by an overview of the Company's absolute energy consumption. Our emissions intensity calculation is based on floor area relative to the Scope 1, 2 and 3 emissions.

Greenhouse gas emissions		12 months up to 31 March 2021	12 months up to 31 March 2022
		Based on 88 assets and leased office space	Based on 104 assets and leased office space
Scope 1	Landlord fuel consumption (kWh)	46,793 kWh	1,251,070 kWh
	Greenhouse gas emissions (tCO ₂ e)	9 tCO ₂ e	47 tCO ₂ e
Scope 2 (market-based)	Landlord electricity consumption (kWh)	210,675 kWh	778,162 kWh
	Greenhouse gas emissions (tCO ₂ e)	49 tCO ₂ e	0
Scope 2 (location-based)	Landlord electricity consumption (kWh)	228,562 kWh	778,162 kWh
	Greenhouse gas emissions (tCO ₂ e)	53 tCO ₂ e	165 tCO ₂ e
	Total Scope 1 & 2 emissions (market-based) (tCO₂e)	58 tCO₂e	29 tCO₂e
	Total Scope 1 & 2 emissions (location-based) (tCO₂e)	62 tCO₂e	213 tCO₂e
	Scope 1 & 2 (market-based) emissions intensity (tCO₂e/m²/yr)*	0.002 tCO₂e/m²/yr	0.001 tCO₂e/m²/yr
	Scope 1 & 2 (location-based) emissions intensity (tCO₂e/m²/yr)*	0.002 tCO₂e/m²/yr	0.005 tCO₂e/m²/yr
Scope 3	Tenant fuel consumption (kWh)	5,063,208 kWh	4,931,030 kWh
	Tenant electricity consumption (kWh)	3,341,795 kWh	7,830,007 kWh
	Water consumption (m ³)	16,665 m ³ **	21,566 m ³ **
	Water diverted from landfill (tonnes)	13 tonnes	63 tonnes
	Water sent to landfill (tonnes)	0	0
	Business travel (tonnes)	4 tonnes	13 tonnes
	Total Scope 3 emissions (tCO ₂ e)	1,641 tCO ₂ e	2,664 tCO ₂ e
	Scope 3 emissions intensity (tCO₂e/m²/yr)*	0.02 tCO₂e/m²/yr	0.004 tCO₂e/m²/yr
	Gross Scope 1, 2 and 3 emissions (market-based) (tCO₂e)	1,690 tCO₂e	2,162 tCO₂e
	Gross Scope 1, 2 and 3 emissions (location-based) (tCO₂e)	1,694 tCO₂e	2,859 tCO₂e

* Scope 1 & 2 (market-based) emissions intensity (tCO₂e/ m²/year) against total landlord floor area

**Currently, we only report disposal route data for the offices we lease. Where we have cost data associated with waste disposal from the MLI Portfolio, we have reported associated emissions of 66 tCO₂e although we can not yet state the waste type or disposal route.

Streamlined energy and carbon reporting continued

Unaudited

Performance

Industrials REIT is committed to improving energy efficiency and reducing GHG emissions in our portfolio. Our ESG strategy includes reduction targets for Scope 1 and 2 emissions and our next step is to develop a Science Based Target. This will commit Industrials to reducing GHG emissions in line with a 1.5 degree future.

We continue to implement energy efficiency projects across our business, such as LED lighting upgrades, so that all assets achieve an EPC rating of at least a C by 2027. For further information, please see our EPC improvement case study on page 71.

We are also increasing our share of energy from renewable sources. During the reporting period, 67% of total electricity consumption across the portfolio came from renewable sources, thereby reducing our footprint under market-based reporting. Our on-site generation is still limited but we feel there is an opportunity to increase this. To date, five sites have on-site solar panels. We used 1,016 MW of solar electricity generated on-site during the reporting period, thereby avoiding 215 tonnes of CO₂e emissions ("tCO₂e").

For the 12 months ending 31 March 2022, energy consumption across landlord and tenant controlled sites totalled 14,818 MWh, while energy intensity was 0.004 kWh/m². This was based on available data coverage (19% for electricity and 13% for gas). During the same period, there was a significant increase in GHG emissions. This is largely due to the 29% growth of our MLI portfolio, together with the return to work after the lifting of COVID-19 restrictions. During the reporting period, our Scope 1, 2 and 3 emissions (location-based) totalled 3,088 tCO₂e. Scope 3 emissions account for 93% of this and derive from water consumption, waste production, as well as tenant fuel and electricity consumption. Our Scope 1, 2 and 3 emissions intensity (location-based) amounted to 0.004 tCO₂e/m².

The table below shows the breakdown of energy consumption across our portfolio.

Absolute energy consumption		Year ended 31 March 2021	Year ended 31 March 2022
Fuels	Landlord	46,793 kWh	262,760 kWh
	Tenant	5,063,208 kWh	4,931,030 kWh
Total Fuels		5,110,001 kWh	5,193,790 kWh
Electricity	Landlord	228,562 kWh	778,162 kWh
	Landlord generated		1,016,074 kWh
	Tenant	3,341,795 kWh	7,830,007 kWh
Total Electricity		3,570,356 kWh	9,624,243 kWh
Total Energy Consumption		8,680,358 kWh	14,818,033 kWh

Methodology

We measure and report our organisational greenhouse gas emissions using the Greenhouse Gas Protocol. Consumption data is collated by our sustainability consultant, Carbon Intelligence, then converted into carbon dioxide equivalent (CO₂e) using the UK Government 2021 Conversion Factors for Company Reporting to calculate emissions from corresponding activity data. We follow the approach of the European Public Real Estate Association ("EPRA") towards floor area in calculating emissions intensity. This report includes data for our absolute greenhouse gas ("GHG") emissions and energy use, as well as our water consumption, waste generation and business travel for the financial year ending 31 March 2022.

In accordance with the GHG Protocol's guidance, we report Scope 2 emissions using both location-based and market-based methods. The Scope 2 market-based figure reflects emissions from electricity purchased by Industrials REIT (landlord obtained). When following the market-based method, we use a supplier-specific emissions factor, where available. If unavailable, the location-based grid emissions factor is used. In addition, we voluntarily disclose a selection of our Scope 3 emissions deemed material, namely water and waste emissions, as well as tenant consumption emissions and business travel.

Reporting boundaries and limitations

The sources of GHG emissions within our operational boundary are:

- Scope 1: Natural gas combustion within boilers, gas oil combustion within generators, fuel combustion within owned and leased vehicles
- Scope 2: Purchased electricity for Industrials' use
- Scope 3: Water, natural gas and electricity consumption, waste generation from tenants, and our business travel.

This data not only helps us identify opportunities for emissions reductions; it also serves as a valuable basis for our plans to set a Science Based Target.

As part of the Group's strategy, we focus efforts on improving emissions reporting for continuing operations. Non-MLI properties earmarked for sale have not been included in emissions reporting. As of 31 March 2022, this relates to the Germany Care Homes portfolio held via a joint venture.

We report the data available for our leased office space and our MLI portfolio (which accounts for 97.5% of our total portfolio by floor area). At present, we are unable to obtain data for 100% of our UK MLI portfolio; however, we aim to report data for 100% of our portfolio in the next financial year, increasing the coverage of data associated with this floor area over time through tenant engagement initiatives.

Assumptions and estimations

In instances where data is missing, we have made estimations. These are calculated by extrapolating from available data for the reporting period. Details of all estimates can be found in our reporting evidence pack.

For assets acquired during the reporting period, we report data starting from when we took ownership of the asset. This ensures that we report only emissions generated under our ownership.

EPRA sustainability best practices recommendations reporting

Unaudited

As a member of the European Public Real Estate Association (“EPRA”), Industrials REIT aims to report the Company’s sustainability performance comprehensively and transparently. We follow the EPRA Sustainability Best Practices Recommendations (sBPR, 3rd version, 2017), since these recommendations are designed to improve sustainability reporting in the European real estate sector and are widely used in the industry.

Following our first report last year, we are working to enhance Industrials’ sustainability reporting. We continue to improve the quantity and quality of the data we report while EPRA’s sBPR recommendations help us to improve the quality of our reporting. The recommendations also facilitate comparison of our performance with that of our peers.

We conduct regular materiality analyses to ensure that our ESG strategy and reporting address the most material issues. During our most recent assessment, GHG emissions and energy efficiency were deemed the two most critical ESG priorities for our business by every stakeholder group, including investors, customers, suppliers and professional service providers, lenders, employees and non-executives. These findings further confirmed our priorities for our ESG strategy and reporting for 2023 and beyond.

Overarching recommendations

This year we have made a concerted effort to implement all of the overarching recommendations into our reporting, as can be seen in the table below.

Overarching recommendations	How we integrate these recommendations
Operational boundaries	Our approach to operational boundaries is based on financial control of our portfolio and leased management office space.
Coverage	We are currently able to report electricity data for 19% of our portfolio, natural gas data for 13%, and water for 39%. We aim to increase this to 100% overtime through engaging with tenants and improving our data collection processes.
Estimation of landlord-obtained utility consumption	9%. Data is estimated in line with the GHG Protocol requirements.
Third party assurance	We have not yet sought third-party assurance. We are committed to credible and transparent reporting in line with our peers and listings regulations, so this will remain under careful review.
Boundaries	We report on all landlord data and available tenant data where we manage and/or recharge.
Normalisation	We use kWh per square metre to measure intensity.
Segmental analysis	<p>This report covers 104 properties classified as multi-let industrial (MLI) estates. Although our MLI portfolio is spread across the UK, it is relatively uniform in terms of building age, materials and design, while geographic distribution of assets is reasonably similar in terms of climate exposure. There are circa 1,500 tenants, primarily small and medium size enterprises which engage in a wide range of businesses to serve the needs of customers in their local communities or across the country.</p> <p>As part of developing our approach to environmental reporting, we will provide a deeper segmental analysis of our MLI portfolio in the next reporting period. For more information, please see Our Portfolio on page 10. Further information on MLI can be found on page 4.</p>
Disclosure on own offices	Our corporate head office in Great Portland Street, London and our regional office in Stockport are included in consumption data on page 76.
Narrative on performance	We provide an overview of each topic in this report as well as signposting further sources of information.
Location of EPRA Sustainability Performance Measures	EPRA Sustainability Performance Measures are included in the tables on the following pages.
Reporting period	Financial year ending 31 March 2022
Materiality	Industrials REIT conducted a materiality assessment in early 2022 to identify and prioritise ESG issues. The methodology and results can be found on page 66.

EPRA sustainability best practices recommendations reporting continued

Unaudited

Performance measures

During 2021/22, we continued to integrate climate and other sustainability considerations into the Industrials REIT business. We are proud of the progress we have made, as evidenced in ESG in Action on page 64. We document how we will continue to advance our ESG ambitions in Focus for 2023 on page 68 to 69.

We are also working to enhance the data that we collect and report, with a particular focus on environmental data. As a result, we have been able to report against 23 of the 28 Performance Measures in this report. All data and text in this report relate to our performance during the 12 months ending 31 March 2022.

Environmental performance

Reducing our environmental impacts is a key focus for Industrials REIT. During the reporting period, our main focus areas were to improve our environmental data, especially on greenhouse gas (GHG) emissions and energy efficiency across our portfolio; to identify our key climate-related risks and opportunities (see TCFD Disclosure on page 60) and to understand how to improve our average EPC rating (see Average EPC Case Study on page 71).

We are committed to improving our data collection through customer engagement. The storage and management of this data will be improved with our Industrials Hive platform. The environmental data on which our emissions are calculated comes from electricity, natural gas, and water consumption. It is recovered on 19%, 13% and 39% of the total floor area of our portfolio respectively and provides a deeper analysis of tenant data.

In addition, we continue to work on other environmental issues, such as biodiversity, reducing waste and improving the efficiency with which we use water. Below is a breakdown of environmental data, followed by more in-depth analysis by topic.

EPRA code	Environmental performance measures	Performance	% Change vs PY
Elec-Abs	Total electricity consumption	9,624,243 kWh	170%
Elec-Lfl	Like-for-like total electricity consumption	*	*
DH&C-Abs	Total district heating and cooling consumption	None	None
DH&C-Lfl	Like-for-like total district heating and cooling consumption	None	None
Fuels-Abs	Total fuel consumption	5,193,790kWh	2%
Fuels-Lfl	Like-for-like total fuel consumption	*	*
Energy-Int	Building energy intensity	20 kWh/m ²	-83%
GHG-Dir-Abs	Total direct greenhouse gas (GHG) emissions	47 tonnes CO ₂ e	450%
GHG-Indir-Abs	Total indirect greenhouse gas (GHG) emissions	2,829 tonnes CO ₂ e	67%
GHG-Int	GHG emissions intensity from building energy consumption	See breakdown below	152%
Water-Abs	Total water consumption	21,566 m ³	29%
Water-Lfl	Like-for-like total water consumption	*	*
Water-Int	Building water intensity	0.07 m ³ /m ² /year	68%
Waste-Abs	Total weight of waste by disposal route	See breakdown below	N/A
Waste-Lfl	Like-for-like total weight of waste by disposal route	*	*
Cert-Tot	Type and number of sustainably certified assets	See breakdown below	

* Like-for-like calculations are not possible due to fluctuations in Industrials' portfolio size and ongoing refurbishment programmes at each of the estates.



Energy and GHG emissions

During the past year, we have calculated our initial Scope 3 footprint to better understand the scale and sources of these emissions. We also completed a Scope 3 gap analysis. Now that we have a deeper understanding of our contribution to climate change, Industrials intends to set a Science Based Target for emissions reductions. This was identified by stakeholders as the third highest priority for our business in our recent materiality assessment.

Another target is to achieve an EPC rating of at least C by 2027 in line with government requirements (see our EPC upgrade assessment case study on page 71). We therefore continue with our programme to install LED lighting and will investigate the feasibility of rolling out solar panels across the portfolio. Nevertheless, our GHG emissions rose significantly during the past year, much of it due to the 29% increase in our floor area that resulted largely from the significant number of acquisitions during the same period.

With greater mapping of the portfolio -of metres to floor area - combined with a maturing data programme, our data has improved since prior year, both in terms of quantity and quality. As a result, the energy use intensity figure dropped during the reporting period.

In addition to our contribution to mitigate the effects of climate change, we must also address how climate change affects our business. As we continue to implement the recommendations of the Task Force on Climate-related Financial Disclosures, we conducted an in-depth assessment of the risks and opportunities presented by climate change (see TCFD Disclosure on pages 61 to 62).

Please see the next page for a further breakdown of our environmental information.



EPRA sustainability best practices recommendations reporting continued

Unaudited

Impact area	EPRA code	Indicator	Metric	12 months to 31 March 2022
Energy	Elec-Abs	Electricity	Total electricity consumption – landlord obtained	1,794,235 kWh
			% of floor coverage	4%
			Total electricity consumption – tenant obtained	7,830,007 kWh
			% of floor coverage	16%
			% of landlord-obtained electricity from renewable sources	30%
			% of tenant-obtained electricity from renewable sources	37%
			Total electricity consumption	9,624,243 kWh
			% of floor coverage	19%
	% of electricity estimated	18%		
	DH&C-Abs	District Heating & Cooling	Total heating & cooling – landlord obtained	None
			Total heating & cooling – tenant obtained	None
			% of heating & cooling from renewable sources – landlord	None
			% of heating & cooling from renewable sources – tenant obtained	None
	Fuels-Abs	Fuels	Total fuels – landlord obtained	262,760 kWh
			% of floor coverage	13%
			Total fuels – tenant obtained	4,931,030 kWh
			% of floor coverage	12%
			% of landlord obtained fuels from renewable sources	0%
			% of tenant obtained from renewable sources	0%
			Total fuel consumption	5,193,790 kWh
			% of floor coverage	13%
	% of fuels estimated	43%		
	Energy-Int	Energy intensity	Energy intensity per m ²	20 kWh/m ²
Greenhouse gas emissions	GHG-Dir-Abs	Direct	Scope 1	47 tonnes CO ₂ e
			% of floor area coverage	0.4%
	GHG-Indir-Abs	Indirect	Scope 2	165 tonnes CO ₂ e
			% of floor area coverage	4%
			Scope 3	2,664 tonnes CO ₂ e
			% of floor area coverage	87%
	GHG-Int	GHG emissions intensity	Scope 1 and 2	0.00003 tCO ₂ e/m ² /yr
			Scope 3	0.00033 tCO ₂ e/m ² /yr

Water and waste

Industrials continues to drive down waste and divert waste from landfill. During the reporting period, we diverted 100% of waste from landfill for our offices. This year we have reported emissions from the rest of the portfolio from financial data and will continue to improve our reporting.

We also understand the risks of growing water scarcity and its interconnectedness with climate change. Industrials are working to reduce both water use and water intensity. Although our water usage increased by 29% this year, our floor coverage increased by 39% during the same period. Our performance during the year is summarised in the table below.

Absolute portfolio – water and waste

Impact area	EPRA code	Indicator	Metric	12 months to 31 March 2022
Water	Water-Abs	Water consumption	Total water consumption	21,566 m ³
			% of floor area coverage	39%
			% of water estimated	74%
	Water-Int	Water intensity	Building water intensity	0.07 m ³ /m ² /year
Waste	Waste-Abs	Total waste	Total waste sent to landfill	0 t
			Total waste diverted from landfill	92 t
			% of floor area coverage	0.1%
	Waste-LfL	Proportion of waste	Proportion of waste sent to landfill	0% *
			Proportion of waste diverted from landfill	100% *

*Waste-LfL covers data obtained from our leased offices only.

Sustainably certified assets

Industrials is preparing to achieve a minimum EPC rating of C by 2027, in line with the UK government requirement. Below is a breakdown of current EPC ratings for our assets. We also aim to achieve a BREEAM rating of 'Very Good' for all new developments. (Please see Average EPC Case Study on page 71.)

Impact area	EPRA code	Metric	12 months to 31 March 2022
Certifications	Cert-Tot	No. of buildings with an EPC Rating	1,923
		Certifications	
		A	12%
		B	3%
		C	26%
		D	34%
		E	21%
		F	2%
G	2%		

Social performance

Our people

As our business grows, so does our workforce. During the reporting period, the number of employees in the Group tripled.

We aim for our employees to be able to achieve their full potential in their career with Industrials. To facilitate this, all employees receive performance appraisals twice a year. Significant opportunities for training and development are offered and during the reporting period, employees received on average 28 hours each. We are encouraged by our high retention rate is high, with only 7% turnover for the year. Further detail can be found in Our People on page 72.

Industrials is particularly keen to build a diverse workforce. To drive business growth, our workforce and leadership must reflect our tenants and our communities. Across our business, 61% of employees are women, although this figure drops to 45% for line managers. We aim to improve this and further information can be found in Corporate Governance on page 91.

Health and safety

A safe and healthy workplace is a fundamental right for our employees, our tenants, their employees and customers. We have a safety management system in place, with health and safety assessments conducted annually for each site. During the reporting period, both our injury rate and lost day rate for our workforce were zero, while our absentee rate was 5%.

Community

The success of our business depends on a thriving local community. We aim to contribute not only through our day-to-day business but by actively promoting our customers' business activities within the local community, too. In addition, we conduct customer engagement surveys to understand the needs of our tenants.

We also engage with our local communities and support local charity initiatives. Employees are encouraged to take four half days paid time off each year to help an identified charitable initiative. As part of our matched giving programme, every employee can raise up to £1,000 a year for their chosen charity with Industrials providing an equal sum.

EPRA sustainability best practices recommendations reporting continued

Unaudited

An overview of our social performance can be found below, followed by a more detailed breakdown.

EPRA code	Social performance	12 months to 31 March 2022
Diversity-Emp	Employee gender diversity	61% women; 39% men
Diversity-Pay	Gender pay ratio	Not yet reported
Emp-Training	Employee training and development	Average hours: 28/year
Emp-Dev	Employee performance appraisals	100% of employees receive
Emp-Turnover	New hires and turnover	15 new hires 7% turnover
H&S-Emp	Employee health and safety	Absentee rate: 5% Injury rate: 0 Lost day rate: 0 Work-related fatalities: 0
H&S-Asset	Asset health and safety assessments	85% of assets assessed or reviewed for H&S impacts
H&S-Comp	Asset health and safety compliance	No incidence of non-compliance
Comty-Eng	Community engagement, impact assessments, development programmes	Partially reported below

Below is a more detailed breakdown of our social performance.

Impact area	EPRA code	Indicator	Unit	12 months to 31 March 2022
Diversity	Diversity-Emp	Governance body	% male	78%
			% female	22%
		Directors	% male	100%
			% female	0%
		Line Managers	% male	55%
			% female	45%
Other Employees	% male	39%		
	% female	61%		
Employees	Emp-Training	Employee training and development	Average hours of training per male employee	28
			Average hours of training per female employee	28
	Emp-Dev	Employee performance appraisals	Percentage of male employees with a regular performance review	100%
			Percentage of female employees with a regular performance review	100%
	Emp-Turnover	New hires and turnover: males	Total number of employee hires	7
			Rate of employee hires	13%
			Total number of employee turnover	7
			Rate of employee turnover	8%
		New hires and turnover: females	Total number of employee hires	8
			Rate of employee hires	15%
Total number of employee turnover	3			

Impact area	EPRA code	Indicator	Unit	12 months to 31 March 2022
Health and safety	H&S- Emp	Employee health and safety	Rate of employee turnover	6%
			Injury Rate	0
			Lost day rate	0
			Absentee rate	5%
			Work-related fatalities	0
	H&S-Asset	Asset health and safety assessments	Percentage of assets of which H&S impacts are assessed or reviewed	85%
H&S-Comp	Asset health and safety compliance	Number of incidents of non-compliance	0	

Governance

Conducting our business in compliance with relevant laws, adhering to high ethical standards and integrating sustainability are fundamental to how Industrials REIT is governed. We also work to ensure that our business partners share these same beliefs.

We aspire to practise the highest standards of corporate governance. To do so, we regularly review our governance structures and processes. Our response to the EPRA indicators on governance can be found in the table below. Further information can be found in our Governance section on page 89.

EPRA code	Governance performance measures	12 months to 31 March 2022
Gov-Board	Composition of highest governance body	Our Board of Directors currently comprises nine directors, six of whom are Non-Executive Directors.
Gov-Selec	Process for nominating and selecting the highest governance body	The Nomination Committee reviews the Board composition and recommends changes. The committee also reviews the independence of directors and is responsible for succession planning and annual board evaluation. Further details can be found in the Nomination Committee Report on page 97.
Gov-Col	Process for managing conflicts of interest	Directors must avoid potential conflicts of interest. In the event of any conflict of interest – potential, actual or perceived conflict – directors must notify the Chairman and the Company Secretary as well as all outside interests that may affect their role as directors of Industrials REIT. Directors' interests and any conflicts are reviewed and recorded by the Board at each meeting. Further information can be found in the Governance section on page 92.

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Governance



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REIT

Our Board of Directors

Executives



Paul Arenson

Chief Executive Officer

Paul has been Chief Executive Officer of Industrials REIT since October 2014.

Skills and expertise

Paul founded Stenham Property Limited, a property fund management business for the Stenham Group, in 1995 and was its managing director from inception until October 2014. In October 2014, the Stenham Property business and a substantial part of the assets under management were transferred to a listed entity now known as Industrials REIT. Paul was appointed as its CEO. Industrials REIT was subsequently listed on the LSE in June 2018. Prior to joining the Stenham Group in 1995, Paul practised as a UK corporate solicitor.



James Beaumont

Chief Financial Officer

James was appointed Chief Financial Officer in June 2019.

Skills and expertise

James was previously Industrials REIT Head of Finance from June 2015, with responsibility for all aspects of finance, financial control, tax, accounting and reporting for the Industrials REIT Group and funds managed by Industrials REIT. He previously spent five years as finance director of alternative asset funds at Shore Capital Group Limited, where his focus was on German real estate and alternative investment funds. Prior to that, he had eight years of experience in European real estate and financial services through senior finance roles at Cambridge Place Investment Management and Genworth Plc, a Fortune 500 company. James qualified as a chartered accountant in 2002, after serving articles with UHY Hacker Young, a firm based in the City of London. He holds a BSc (Hons) degree from the University of Leeds.



Julian Carey

Managing Director

Julian joined Industrials REIT in July 2017 and was appointed to the Board in May 2018.

Skills and expertise

Julian established C2 Capital Limited, a real estate fund management business, in 2009 in joint venture with the Ellis Campbell Group, a UK Family Office. He subsequently acquired the Ellis Campbell stake in the business in 2015 at the same time as C2 Capital launched Industrials.co.uk, a joint venture with Morgan Stanley Real Estate Investment focused on UK multi-let industrial. Between 2015 and 2017, the Industrials.co.uk portfolio grew to comprise 25 multi-let industrial estates and was sold to Industrials REIT in June 2017, along with C2 Capital. Julian previously worked in the leveraged opportunity funds team at LaSalle Investment Management from 2007–2009, prior to which he worked at Jones Lang LaSalle in the auction and private investment team. He has extensive experience in asset management, fund structuring, third-party finance, real estate technology and investment. Julian holds an MSc in real estate investment from Reading University, is chairman of the Investment Property Forum Tech Futures Committee and is a qualified chartered surveyor.

Non-Executives



Richard Grant R N

Independent Non-Executive
Chair of the Board

Richard was appointed Chair of the Board and Chair of the Nomination Committee in May 2018.

Skills and expertise

Richard was the chief financial officer of Cadogan Group Limited from 1994 until his retirement in 2017. Cadogan is a property investment business operating in Chelsea and Knightsbridge in West London with a holding extending to 93 acres, built on the foundations of a traditional landed estate, which has been in the ownership of the Cadogan family since 1753.

Additional roles held

Richard is currently the non-executive chairman of Helical plc, a UK property investment and development company listed on the London Stock Exchange. He is also the chairman of Helical's nominations committee. He will be retiring from the board of Helical plc in July this year, having completed ten years as an independent non-executive director. In addition, he is non-executive chairman of Wittington Investments Properties Limited, a private property investment business.



Paul Miller R A N

Senior Independent Director

Paul was appointed to the Board in September 2016. He is the Senior Independent Director and chairs the Remuneration Committee.

Skills and expertise

Paul is a solicitor with over 25 years' experience in cross-border mergers and acquisitions, joint ventures, international offerings, listed and unlisted funds and governance and securities laws issues, with a particular focus on the real estate sector. Paul graduated from the University of Cape Town with Bachelor degrees in Commerce and Law. He built his career at Berwin Leighton Paisner LLP (now Bryan Cave Leighton Paisner LLP), where he was a senior partner and led the capital markets team for a number of years. He is now a director of Everglen Capital Partners LLP and remains a part-time consultant to Bryan Cave Leighton Paisner LLP.

Additional roles held

Paul is a Director of Everglen Capital Partners LLP, a London-based operational management business servicing the interests of its founders.



Philip Holland R A S N

Independent Non-Executive Director

Philip was appointed to the Board in May 2018. He chairs the Audit and Risk Committee and the Social and Ethics Committee.

Skills and expertise

Philip is a chartered accountant with more than 24 years' experience in board-level finance roles in the property sector. Between 2011 and 2017, Philip was finance director and deputy managing director of Primary Health Properties plc, a Real Estate Investment Trust listed on the Main Market of the LSE, and prior to that with Natixis Capital Partners Limited, Atlas Estates Limited, Teesland plc and Estates & General plc. Philip is currently the chief investment officer at Prime plc, the UK's leading healthcare real estate company, having joined the group in April 2017.

Additional roles held

Philip was previously non-executive director and chairman of the audit committee of TP Group plc, an AIM listed specialist services and advanced engineering company that operates in the defence, industrial and government sectors, standing down from those positions in October 2021.

Key

R Remuneration Committee A Audit and Risk Committee S Social and Ethics Committee N Nomination Committee ● Chair of Committee

Our Board of Directors continued

Non-Executives



Patsy Watson S N

Non-Executive Director and our Designated Non-Executive Director for Workforce Engagement

Patsy became a Non-Executive Director on 5 June 2019. Prior to that, she was Chief Financial Officer of Industrials REIT between October 2014 and June 2019, having joined Stenham Property Limited in May 2007 as finance director.

Skills and expertise

Patsy holds Bachelor degrees in Commerce and Accountancy from the University of Witwatersrand in South Africa, where she also completed a two-year postgraduate course in taxation. She qualified as a chartered accountant in Johannesburg, after serving articles with PricewaterhouseCoopers. Patsy joined the project finance division of a South African merchant bank for three years, prior to becoming a founding partner in Neil Thomas & Associates, a boutique firm of corporate finance specialists in Johannesburg. There she had 13 years of experience in corporate finance and project structuring. Following a move to the UK, Patsy spent three years as finance director of a division of Regus before leaving to join Stenham Property Limited.



Richard Smith A R

Independent Non-Executive Director

Richard joined the Board in November 2020 as a Non-Executive Director.

Skills and expertise

Richard is a qualified Chartered Institute of Management Accountant with over 25 years' experience in finance, operations and business leadership. Richard is currently the chief executive of Unite Group Plc. Prior to Unite, Richard spent 18 years in the transport industry, working in the UK, Europe, Australia and North America. This included 13 years at National Express Group PLC where he held a range of senior finance, strategy and operations roles, including group development director and chief financial officer, North America.

Additional roles held

Richard is the CEO of Unite Group PLC, a London stock exchange listed FTSE 250 business and the UK's leading operator, manager and developer of purpose-built student accommodation.



Louisa Bell A S R

Independent Non-Executive Director

Louisa joined the Board as a Non-Executive Director in November 2020.

Skills and expertise

Louisa is a commercial and operational specialist with a career spanning 25 years primarily in the travel and transportation industry. Since January 2021, Louisa has worked for P&O Ferries joining initially as Director of Operations – Dover/Calais and becoming Chief Operating Officer in April 2022.

Successful in driving business transformation, she has previously held a number of senior roles for Avis Budget Group, Cigna Healthcare, Eurostar and British Airways. She has experience in transforming people-led, customer-focused businesses, significantly improving customer and employee satisfaction levels, as well as developing new customer markets.

Key

R Remuneration Committee A Audit and Risk Committee S Social and Ethics Committee N Nomination Committee ● Chair of Committee

Corporate governance overview



Sarah Bellilchi

Group General Counsel and Company Secretary

Industrials REIT is a UK REIT registered under the Companies (Guernsey) Law, 2008 (as amended).

On 20 December 2021, the Company transferred the listing of its ordinary shares from the Specialist Fund Segment of the London Stock Exchange's Main Market (the "Main Market") to the Premium Segment of the Main Market (the "LSE Transfer"). In January 2022, it subsequently migrated the listing of its ordinary shares in South Africa from a primary listing to a secondary listing on the Main Board of the Johannesburg Stock Exchange (the "JSE") (the "JSE Migration").

The UK Corporate Governance Code 2018 (the "Code")

For the financial year ended 31 March 2022, the Board considers that the Company has complied with the provisions set out in the Code except in relation to provisions (i) 36: formal policy for post-employment shareholding requirements; (ii) 38: alignment of Executive Directors' pension contributions with the workforce; and (iii) 41: engagement with the workforce on the remuneration policy (see explanations on page 103).

Details on how the Company has applied the principles of the Code can be found throughout this Corporate Governance section of the Annual Report. The table below also sets out where disclosure against the principles of the Code can be found in this Corporate Governance Report.

Code section	Pages
Board leadership and Company purpose	89 and 90
Division of responsibilities	90 and 91
Composition, succession and evaluation	90, 92 and 97 to 99
Audit, risk and internal control	92, 93 and 94 to 95
Remuneration	100 to 115

The Code can be viewed in full at [FRC.org.uk](https://www.frc.org.uk)

Board leadership: the Company's purpose, values and strategy

The Board is responsible for the Group's purpose, values and strategy, promoting its culture and for the promotion of its long-term sustainable success for the benefit of all its stakeholders.

The Company's purpose is to provide space that matters to our customers, employees and communities; space to work, to think, to evolve, to grow and to succeed. This is The Power of Space. This is the reason Industrials REIT exists and helps articulate the short and long-term strategy of the Group, its business model and operating principles (read more on our business model on pages 26 and 27 and on our strategy on pages 32 to 35). It also drives how and why the Company engages with its stakeholders.

Following the rebranding from Stenprop to Industrials REIT in September 2021, the Company's values were reviewed and redefined to ensure that they were aligned with The Power of Space and provided the right framework for its sustainable growth and development.

Our core values

- Ensuring a positive impact through focused action
- Contributing to the success of others
- Creating space for success
- Finding the smarter way

The Company also reflected on the impact of the pandemic on its business and stakeholders as well as the rapid growth in its workforce. It engaged with its employees to understand what they perceived the Company's culture to be. The results of this engagement were carefully reviewed, and the Company's culture also refined (see page 30).

The Power of Space does not only refer to the positive impact we can have on our customers and the communities around our estates. It is also about providing an environment where our employees can grow, succeed and develop a sense of belonging. It is about supporting our partners and delivering the returns they expect to our shareholders whilst meeting their expectations around sustainability, social responsibility and governance. This is all reflected in the Group's values and culture, and the Board is confident that they support and benefit all our stakeholders.

Although the Board, as a whole, remains responsible for assessing and monitoring workplace culture, certain activities have been delegated to committees. For example, the Remuneration Committee plays a key role in implementing a results-orientated culture via the setting of corporate KPIs, whilst the Audit and Risk Committee monitors performance and financial results. The Social and Ethics Committee is responsible for the continuous review of employment policies and practices with the wellbeing of employees in mind, as well as setting the Company's ESG strategy. The Board receives regular updates from its committees and the management team on their discussions and activities. It also receives direct feedback from its designated Non-Executive for employee engagement on the results of that engagement and employee satisfaction, suggestions and comments. The Board itself works in an open and transparent manner with constructive discussions and challenges, and promotes an open, inclusive and supportive culture throughout the business.

Corporate governance overview continued

Our governance and leadership structure

Board of Directors

Chairman: Richard Grant

Composition: Independent Chair of the Board, three Executive Directors, five Non-Executive Directors (including four independent Non-Executive Directors)

Responsible for the Group's purpose, values and strategy, and the promotion of its long-term sustainable success. It develops and reviews the Group's strategy and ensures that adequate internal controls and risk management processes are in place. It is also responsible for ensuring effective communication with all stakeholders.

Certain matters are reserved for the Board's approval, with other matters delegated to the committees of the Board or the Executive Directors as appropriate.

Audit and Risk Committee	Nomination Committee	Remuneration Committee	Social and Ethics Committee
---------------------------------	-----------------------------	-------------------------------	------------------------------------

Chair: Philip Holland

Oversees the external audit process, financial reporting, internal controls and risk management framework, and assesses the need for an internal audit function.



See the [Audit and Risk Committee report](#) on p. 94 to 96

Chair: Richard Grant

Reviews the Board composition and recommends changes, reviews the independence of Directors, responsible for succession planning and annual board evaluation.



See the [Nomination Committee report](#) on p. 97 to 99

Chair: Paul Miller

Determines the remuneration policy, sets the Executive Directors and senior management's remuneration, and approves annual and long-term performance objectives and awards.



See the [Remuneration Committee report](#) on p. 100 to 115

Chair: Philip Holland

Responsible for sustainable, social and economic development, responsible corporate citizenship and labour and employment relationships.



See the [Social and Ethics Committee report](#) on p. 116 to 117

Chief Executive and Executive Directors

Responsibility for the day-to-day management of the business. The Chief Executive is responsible and accountable for the implementation of the approved strategy with specific areas of the business managed by the other Executive Directors.

Operations Committee

An executive committee comprising all Executive Directors and certain members of senior management. It focuses on the operational aspects of the effective management of the MLI portfolio of the Group, including financial reporting.

Composition of the Board

The Board currently consists of the Chair, three Executive Directors and five Non-Executive Directors. The Board continues to have a strong mix of experienced individuals with a diverse range of skills and a wealth of business experience in property, including the MLI sector, finance and governance. They provide strong and effective leadership.

More information on the composition of the Board can be found in the Nomination Committee Report on pages 97 to 99 of this Annual Report, and brief biographies of the Directors and their skills and experience are set out on pages 86 to 88.

On the recommendation of the Nomination Committee, all the Directors will offer themselves for re-election at the 2022 annual general meeting.

Independence

The Board considers four of its five Non-Executive Directors to be independent. Patsy Watson is not considered independent due to her previous role as chief financial officer of the Company. Accordingly, the Company fully complies with the requirement of the Code that at least half of the Board (excluding the Chair) is made up of Independent Non-Executive Directors. In addition, the Chair, Richard Grant, was considered independent on his appointment.

Role of the Board and division of responsibilities

The Board has adopted a charter that sets out the practices and processes it follows to discharge its responsibilities. Certain key decisions and matters are reserved for the Board's approval, including setting the Group's strategy and overseeing its delivery, but also any changes to the Group's capital or corporate structure, significant transactions, budgets and the regular review of the financial position of the Group.

The Directors believe that there is a clear balance of power and authority at Board level, such that no one individual or block of individuals can dominate the Board's processes and decisions. The Non-Executive Directors constructively challenge the executives and scrutinise the performance of management in meeting their agreed goals and objectives. During Board meetings, a collaborative atmosphere allowing coherent discussions is maintained, with all directors given the opportunity to contribute to the debate.

There is a clear division of responsibilities between the Chair of the Board, responsible for the leadership and effectiveness of the Board, and the Chief Executive, responsible for the day-to-day management of the business. The Senior Independent Director acts as a sounding board for the Chair.

The Board has established four committees, the Audit and Risk Committee, the Nomination Committee, the Remuneration Committee, and the Social and Ethics Committee, to which certain powers have been delegated as detailed in the governance and leadership structure overview on the previous page. The reports of these four committees, their key areas of responsibilities and their activities in the year ended 31 March 2022 are set out on pages 94 to 117 of this report. In addition, in anticipation of the LSE Transfer, the Board decided to constitute a new Disclosure Committee to assist the Board in fulfilling its responsibilities in respect of the UK version of the Market Abuse Regulations and disclosure requirements under the FCA Listing Rules and the JSE Listings Requirements. The members of the Disclosure Committee are the Chief Executive, the Chief Financial Officer, the Managing Director, the General Counsel and Company Secretary, and one Non-Executive Director.

The Operations Committee composed of all the Executive Directors and of certain members of senior management continues to oversee the MLI operations of the Group. Its key role and objectives are to improve efficiencies in the management of the MLI portfolio and financial reporting.

The Board has direct access to the advice and services of the Company Secretary, Sarah Bellilchi, who is also general counsel to the Group and a member of the senior management team. The Company Secretary provides guidance to the Board and individual Directors on corporate governance matters. She is responsible for ensuring that the Board and committees' procedures are followed and that the Company meets its statutory obligations.

Board meetings and operations

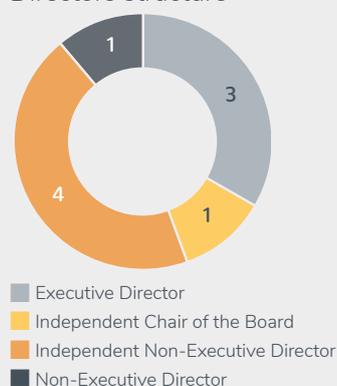
Quarterly board meetings are scheduled during the financial year with additional meetings convened as necessary for exceptional business. This year, we were able to resume meetings in person as the restrictions linked to the pandemic were lifted.

During the period under review, the formal agenda of the quarterly board meetings was modified to improve focus on key strategic matters and improve the quality and efficiency of the Board discussions. The formal agenda includes a CEO report providing a general business review and updates on key operational and strategic matters, targets, and risks and opportunities. A finance section, which includes a detailed CFO report, provides an overview of key financial performance indicators and provides the framework for discussion on financial performance and budget. A governance section provides an opportunity for each committee chair to update the Board as to the activities and recommendations of their

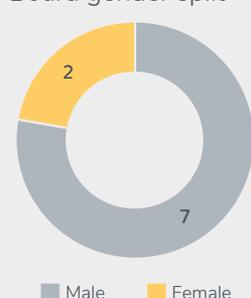
respective Board committees, and discuss any legal and corporate governance update. A corporate Board report with peer group comparisons, share price and volume analysis and share register analysis is also discussed at each quarterly meeting. Supporting documents and background information are circulated to all the Directors in advance of the meetings to allow sufficient time for the Directors to familiarise themselves with the business to be considered.

Directors	Meetings attended during the relevant Director's tenure
Non-Executives	
Richard Grant (Chairman)	5/5
Paul Miller	5/5
Philip Holland	5/5
Patsy Watson	5/5
Louisa Bell	5/5
Richard Smith	5/5
Executives	
Paul Arenson	5/5
James Beaumont	5/5
Julian Carey	5/5

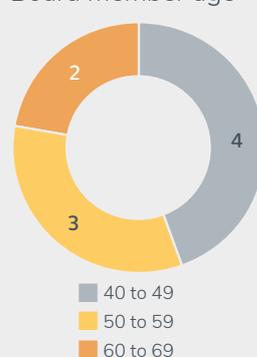
Directors structure



Board gender split



Board member age



Tenure of Non-Executive Directors



Corporate governance overview continued

Key activities of the Board during the reporting period

Topic	Areas of focus for the Board during the year
Strategy	<ul style="list-style-type: none"> Review of Company purpose, goals and strategy following executives' off-site strategy discussion The LSE Transfer, rebrand from Stenprop to Industrials REIT and JSE Migration Review of MLI acquisition pipeline and progress against acquisition targets The sale of Trafalgar Court in Guernsey and the last remaining retail and leisure assets in Germany and Switzerland respectively, and strategic discussions on the proposed sale of the Company's share of the Care Home joint venture in Germany
MLI operations	<ul style="list-style-type: none"> Regular updates on rent collection statistics and business/financial performance Monitoring of the ERP project and budget Strategic decision to internalise the property and facilities management functions
Financial	<ul style="list-style-type: none"> Financial workstreams in relation to the LSE Transfer Approval of half-year and annual results Approval of a final dividend of 3.375p per share for the six months ended 31 March 2021, and of an interim dividend of 3.375p per share for the six months ended 30 September 2021 Budget discussions Assessment of viability and going concern, including stress testing and sensitivity analysis Refinancings
Governance	<ul style="list-style-type: none"> Amendments to the Company's articles of incorporation and board governance documents as a result of the LSE Transfer, as well as review and training with regards to the UK regulatory obligations for companies listed on the Premium Segment of the LSE's Main Market. Consideration of results of 2021 annual general meeting and 2022 general meeting Constitution of the Disclosure committee Review and increase of Non-Executive Directors fees Annual review and update of anti-slavery and human trafficking statement, and other policies
Risk management	<ul style="list-style-type: none"> Monitoring of the Group's performance Review of principal risks and of the risk management framework
Sustainability	<ul style="list-style-type: none"> Review of a report on carbon emissions, its conclusion regarding scope 1, 2 and 3 emissions by Industrials REIT and consideration of the roadmap to setting scientifically based targets for the Company in relation to carbon emissions. Strategy on how to improve EPC ratings to a minimum of C
Our people and culture	<ul style="list-style-type: none"> Approval and launch of the Industrials REIT ShareSave Scheme Grant of awards under the Industrials STIP and Industrials LTIP Review of results of employees engagement and refining of Company culture and values

Conflicts of interest

All the Directors are required to avoid situations in which they may have potential conflicts of interest. Any potential, actual or perceived conflicts must be notified to the Chair of the Board and the Company Secretary, as well as all new outside interests that may affect them in their role as Directors of the Company. Directors' interests and conflicts are recorded and reviewed by the Board at each meeting.

Board evaluation

The evaluation of the Board and its committees for the reporting period was conducted internally via performance evaluation questionnaires and discussions led by Richard Grant, as Chair of the Board, and Paul Miller, as Senior Independent Director. Information on the outcome of this process can be found in the Nomination Committee Report on page 99.

Risk management and internal controls

The Board determines the extent and nature of the risks it is prepared to take in order to achieve the Company's strategic objectives. It carries out a robust assessment of the principal and any emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. For additional information regarding the five-step risk management process followed by the Company, the principal risks facing the Group and how they are being managed and mitigated, see the risk management section on pages 49 to 55 of this report.

The Directors also acknowledge that they are responsible for establishing and maintaining the Group's system of internal controls and reviewing its effectiveness. The Directors promote a strong control environment.

The CFO and the Head of Financial Operations assume overall responsibility for the accuracy of financial reporting. The Group employs a team of qualified finance managers who work in close collaboration with asset managers and property managers to ensure the appropriate level of oversight and analysis is provided to the financial reporting process.

The Operations Committee, composed of all the Executive Directors and certain members of senior management including the Head of Financial Operations and the Head of Asset Management, plays a key role in ensuring adequate and effective control procedures. The importance of accurate financial reporting is emphasised at all levels of the organisation

and flows through to external property managers and other service providers who are monitored and reviewed with regard to the accuracy of their output on a monthly basis.

The key procedures established to provide internal control and support the Directors' review of the financial position and prospects of the Group are set out below.

- Monthly management accounts are prepared and presented to the Operations Committee for review and discussion.
- Quarterly management accounts including variances to prior periods, budget and adequate narrative are presented and explained in detail to the Board.
- The Disclosure Committee reviews draft financial information and considers, with advice from the Company's legal advisers and sponsors, whether inside information exists and the appropriate disclosure requirements.
- Financial reporting standards are considered for all transactions and, where necessary, the Group's Auditors are consulted. Memos are produced for the benefit of the Audit and Risk Committee and the Board for material transactions and accounting policy decisions.

The Board has reviewed the need for an internal audit function and remains of the view that it is not suitable for the Group considering its size and structure. During the reporting period, the Board has engaged with BDO to perform some additional audit assurance work. Further information on the scope of the work undertaken can be found in the Audit and Risk Committee Report on page 96 of this report. The Board will continue to review periodically whether an internal audit function is desirable.

It should be noted that internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting. They can only provide reasonable but not absolute assurance against the risk of material misstatement or loss.

Shareholder engagement

Industrials REIT issues quarterly trading updates in addition to its interim and annual results and the Chief Executive, Managing Director and Chief Financial Officer have delivered live quarterly presentations with Q&A sessions with investors. They also regularly attend analyst meetings and are available to meet or talk to investors if requested. Individual meetings and conversations with shareholders also took

place throughout the year, as well as a tour of some of the MLI units of the Group and an opportunity for investors and analysts to meet tenants, hear how Industrials REIT supports their businesses and ask questions. The feedback received and the outcome of these meetings and conversations were communicated to the Board.

All significant events and transactions, as well as the Group's financial performance, are announced on a timely basis. Shareholders are encouraged to attend the Company's annual general meeting, which all the Directors normally attend, and which provides an opportunity for shareholders to ask questions and discuss matters with the Board.

Employee engagement

The Board recognises the importance of engaging with all the employees of the Group, providing a clear explanation of the Company's strategy and objectives as well as a channel for feedback and raising concerns.

This year, the Company again held strategic sessions with Executive Directors and all members of senior management with the goal of setting and clearly articulating the Group's strategic objectives for the short and long term. The conclusions reached were then presented to all staff, encouraging questions and discussions to ensure buy-in from all employees to the Group's vision and values.

The Company sought feedback and consulted with its workforce on various subjects during the year, such as the advantages and disadvantages of various hybrid working models, and its culture and values. Employees' views were carefully considered and taken into account when refining the Company's culture and when deciding which hybrid working model to adopt, noting that the vast majority of employees enjoyed being back in the office following the prolonged periods of home working during the pandemic. They recognised the advantages, both social and professional, of meeting in person with their colleagues, but also wished to maintain flexibility with regard to working practices and the ability to work from home (see page 58 for additional information).

Patsy Watson continued in her role as the designated Non-Executive Director with responsibility for engagement with employees. She remained available throughout the year. In March 2022, she led two face-to-face presentations to the workforce, one in our London office and one in our Stockport office, introducing herself and the scope of her role to all new and existing employees. As part of these presentations, the results of an employee satisfaction

survey carried out in January 2022 were also shared with all employees and constructive discussions took place between Patsy, HR representatives and all employees on various subjects including culture, effective communication, the impact of the pandemic and the impact of the development of the Industrials Hive platform on the workforce. As a direct result of these discussions, the executive team and the Board are considering some new initiatives. These are expected to include additional guidance and training, direct feedback on activities of the Board and the financial performance of the Group and social events.

Audit and Risk Committee report



Philip Holland

Chair of the Audit and Risk Committee

Number of Meetings

Committee member	Meetings attended
Philip Holland	4/4
Paul Miller	4/4
Louisa Bell	4/4
Richard Smith	3/4

Number of Meetings

4

Audit and Risk Committee Members

Philip Holland
Chair of the Audit and Risk Committee

Paul Miller
Senior Independent Director

Louisa Bell
Independent Non-Executive Director

Richard Smith
Independent Non-Executive Director

Dear Shareholders

I am pleased to present the report of the Audit and Risk Committee for the year ended 31 March 2022.

Committee composition and governance

There have been no changes to the membership of the committee during the reporting period. The committee is comprised of four members, all of whom are independent Non-Executive Directors. The members of the Audit and Risk Committee comprise two qualified accountants, including myself as committee chair, and the Board considers that all four members have relevant and appropriate experience to fulfil their roles.

Detail regarding individual member experience can be found within the director biographies on pages 86 to 88.

Audit and Risk Committee Information

Role and responsibilities

The principal responsibilities of the committee are:

Oversight of external audit –

- Consider the appointment of the external Auditor, making recommendations to the Board on their appointment or dismissal and approving their terms of engagement and remuneration.
- Review the work of the external Auditor.
- Monitor the external auditor’s independence and objectivity, review their performance and effectiveness and set the policy for non-audit services provided by the external Auditor.

Integrity of reporting – review and challenge key judgements made by management, review and monitor the integrity of the full and half-year financial statements, reports to shareholders and any other announcements regarding the Company’s results or other financial information to be made public, including statements on going concern and risk and controls; and advise the Board of its opinion whether, when read as a whole, such reports are fair, balanced and understandable and provide the information necessary for stakeholders to assess the Company’s position, performance, business model and strategy.

Internal controls and risks – review the risk management framework and ensure that risks are carefully identified and assessed, and that systems of risk management and internal control are in place.

Internal audit – consider annually whether there is a need for an internal audit function and make recommendations accordingly to the Board.

Other matters – including, but not limited to:

- Establish procedures to receive and review the Group’s property valuations in relation to each reporting date and meet with the Group’s valuers at least annually to discuss the valuations.
- Give due consideration to all applicable legal and regulatory requirements, in particular to the extent that such requirements may have an impact on the Company’s financial statements.
- Review the expertise, resources and experience of the Company’s finance function.

The terms of reference of the committee were reviewed and updated during the year and are set out on the Company’s website.

All meetings are attended by the CFO and the Company Secretary. In addition, representatives of the external Auditor are invited to attend part of specific committee meetings. These attendees do not attend as members and as such have no voting rights.

As committee Chair, I also hold separate regular meetings with representatives of the external Auditor and with representatives of the external valuers and I meet privately with the Chief Financial Officer to obtain a good understanding of key issues affecting the Group.

Key areas of focus for the year under review

During the year ended 31 March 2022, the committee met a total of four times. At those meetings, the committee has:

- Received and considered the external audit plan and subsequent completion reports to the Audit and Risk Committee from the external Auditor, BDO.
- Considered the effectiveness of the audit process and the independence of BDO.
- Reviewed and discussed the Group's property valuations.
- Reviewed and recommended for approval the interim and annual financial statements and 2021 annual report. Considered the appropriateness of accounting treatment and areas of significant judgment.

- Reviewed the financial position and procedures report and working capital report required for the transfer of the Company's listing from the specialist fund segment of the Main Market of the London Stock Exchange to the Premium Segment of the Main Market.
- Assessed on an ongoing basis the risk matrix and its approach to considering the levels of risk tolerance, monitoring and mitigation.
- Monitored on an ongoing basis the Risk Management Plan and the communication of issues to the Board.
- Considered and confirmed that it was satisfied as to the expertise and experience of the Chief Financial Officer.
- Considered the report from BDO covering the additional IT systems and controls procedures performed in relation to the Dynamics 365 ERP implementation design, testing and go-live processes.
- Reviewed the Company security report on technology business continuity to ensure that existing capabilities, and appropriate enhancement plans, exist in relation to security and disaster recovery.

Financial reporting and significant areas of judgment

The Audit and Risk Committee monitors the integrity of financial information and associated accounting policies and disclosures in the Company's results. It reviews the content and messaging of the preliminary results, annual report and half-year results, and the key judgements made by management in preparing the financial results.

The committee was satisfied that the processes and assumptions used by management in areas of judgment were reasonable and applied appropriately. The committee was further satisfied that areas of judgement had been reviewed and discussed with the external Auditor who agreed with the accounting treatment adopted.

The committee has satisfied itself that the controls over the accuracy and consistency of the information presented in the annual report are robust. It is also satisfied that appropriate financial reporting procedures exist, are working effectively and include consideration of all Group's entities.

The Directors are responsible for preparing the 2022 annual report and accounts. The committee confirmed to the Board that it believes that the 2022 annual report was fair, balanced and understandable and that it provided the necessary information to stakeholders to assess the Group's position, performance, business model and strategy.

Significant issues	Description
<p>Going concern</p> <p>The appropriateness of adoption of the going concern basis of preparing the financial Statements</p>	<p>The committee has considered the financial requirements of the Group for the 18 months following 31 March 2022. It has concluded that management's assessment of going concern, the assumptions made and the report of the external Auditor in recommending that adoption of the going concern basis is valid. Further details can be found in note 2 of the financial statements.</p>
<p>Viability statement</p> <p>Review of the assessment of the Group's long-term viability and confirmation that the period of time used was appropriate</p>	<p>The committee reviewed and confirmed the appropriateness of the analysis prepared to support the Board's longer-term viability statement (please see page 51)</p>
<p>Investment property valuation</p> <p>The Group's investment properties are stated at estimated fair value, determined by Directors, based on an independent external appraisal</p>	<p>The committee reviewed the independent valuation of the Group's investment properties and confirmed that judgments relating to assumptions and estimations underlying the valuations were appropriate.</p>
<p>Assets held for sale and discontinued operations</p>	<p>In executing the transition to become a 100% UK MLI business, certain assets have been identified as held for sale in accordance with the criteria defined in IFRS 5: Assets held for sale and discontinued operations (see note 4 of the financial statements). At year end, the continuing operations of the Group consist of the following segments: UK MLI, Group, and the Care Home properties in the German joint venture.</p>

Audit and Risk Committee report continued

Independent and external audit

The committee has considered the level of non-audit services provided by BDO. The committee asked the Auditors to confirm their continued independence and BDO has confirmed to the Board that it remains independent and has maintained the necessary internal safeguards to ensure the objectivity of the audit partner and staff. The committee was satisfied that both the non-audit work performed by BDO and the level of non-audit fees paid to it were appropriate and did not raise any concern in terms of BDO's independence as Auditor to the Group.

Fees	2022 (£'000)	2021 (£'000)
Audit services		
Group audit	233	205
Subsidiary audit	13	13
Total audit services	246	218
Non-audit services		
Interim review	37	35
Reporting accountant*	125	–
Total non-audit services	162	35
Total fees	408	253

* During the year, BDO acted as reporting accountant to the Company on its transfer to a premium listing on the main market of the London Stock Exchange. This engagement was considered by the Audit and Risk Committee, and, together with BDO's confirmation, was agreed not to be a threat to the independence of the Auditor. Reporting accountant work is an allowed non-audit service under the FRC Ethical Standard.

The committee has reviewed the effectiveness of the Auditor during the year. It considered the quality and scope of the audit plan and reporting and concluded that it was satisfied with the audit process and BDO's effectiveness and independence as an Auditor. BDO were first appointed as auditor in September 2020 to audit the financial statements for the year ending 31 March 2021. The committee recommended to the Board that BDO be re-appointed as Auditor for the 2023 audit. The lead partner is Christopher Young, who has led the engagement since BDO's appointment.

Risk management and internal controls

During the year, the Audit Committee has reviewed and updated, where appropriate, the Company's risk matrix. This is considered on an ongoing basis and is in line with the Company's Risk Appetite Statement. At every quarterly meeting, the committee reviews the Group's principal risks, including any new, emerging or project-specific risks and the actions taken by management to manage and mitigate them. Their potential effect on the Group's short and long-term results and goals are considered and discussed. The risk management policy and process of the Group is detailed on pages 50 and 51 of this report.

The Committee reviewed the financial position and procedures report required for the transfer of the Company's listing to the Premium Segment of the Main Market of the London Stock Exchange. This allowed the Board to confirm that established control procedures exist which provide a reasonable basis to make proper judgements on an ongoing basis as to the financial position and prospects of the Company and the Group.

The need for the appointment of an internal auditor is reviewed by the committee and the Board at least once a year. The committee remains of the view that the appointment of an internal auditor is not justified considering the size of the Company. However, the Company does periodically make use of external service providers to perform extended assurance work.

During the financial year, the BDO technology risk assurance team undertook and completed extended audit work on the Dynamics 365 testing, training and go-live process controls. The objective of the review was to provide additional assurance on quality control of testing and training and the safeguarding of the go-live process.

Audit and Risk Committee evaluation

The committee's effectiveness was reviewed and evaluated as part of the evaluation of the Board's performance for the year under review. It was concluded that the committee continues to operate effectively.

Philip Holland

Chair of the Audit and Risk Committee

9 June 2022

Nomination Committee report



Richard Grant

Chair of the Nomination Committee

Number of Meetings

Committee member	Meetings attended
Richard Grant (Chair)	3/3
Philip Holland	3/3
Paul Miller	3/3
Patsy Watson	3/3

Number of Meetings

3

Nomination Committee Members

Richard Grant

Chairman of the Board and Chair of the Nomination Committee

Paul Miller

Senior Independent Director

Philip Holland

Independent Non-Executive Director

Patsy Watson

Non-Executive Director

Dear Shareholders

I am pleased to present the nomination committee report for the year ended 31 March 2022.

Committee composition

The members of the committee are Philip Holland, Paul Miller, Patsy Watson and myself. The committee is composed of a majority of independent directors, as required by the 2018 UK Corporate Governance Code (the 'Code'). Paul Arenson, although not a member of the committee, joins some of the meetings of the committee by invitation. The committee feels it is important that the input and views of the Chief Executive Officer are considered when discussing Board composition as well as succession planning. Other individuals may be invited to attend meetings of the committee by invitation if considered desirable by the members of the committee to assist them in fulfilling their roles.

Nomination Committee Information

Role and responsibilities

The principal responsibilities of the committee are:

- **Board composition** – keeping the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and its committees under review and recommending changes to the Board
- **Succession planning** – considering succession planning for the Board and the senior management team
- **Independence and time commitment** – reviewing the independence and time commitment requirements of the Non-Executive Directors
- **Board evaluation** – lead the annual evaluation of the Board, its committees and individual directors and make recommendations to the Board accordingly

The committee's terms of reference are set out on the Company's website.

Nomination Committee report_{continued}

Board composition, succession and workforce planning

Although no new Board appointments were made during the reporting period, and no changes were deemed necessary to the composition of the various committees of the Board, the committee continues to review the Board composition and monitors the skills, experience and knowledge at Board and senior management levels. Training records are regularly reviewed by the committee, the Non-Executive Directors' contribution to the Board, and the performance of the Executive Directors and senior team are assessed regularly (see also the Board evaluation section below).

Succession plans for Directors and members of senior management have been reviewed and updated by the committee, with an emphasis on training needs and development plans for each individual, taking into account the transition of the business into a fully focused UK MLI business and the rapid growth in the workforce. The committee was satisfied that plans remain sufficiently robust to enable vacancies to be filled on a short to medium-term basis without significant disruptions to the business and affairs of the Group. Our policies on the promotion of diversity and equal opportunities (also see below) are aligned with these succession plans.

The committee believes that the Board as well as the senior management team has the correct balance of skills, experience and knowledge to ensure the future success of the Group.

Diversity

We recognise the benefits of having a diverse board. The Board's policy on the promotion of diversity at board level, adopted in 2021 in line with the principles of the Code, remains in force. The policy clearly states that the Company is committed to promoting broader diversity at board level, including diversity of gender, race, social and ethnic background, culture, age, field of knowledge, skills and experience. The committee has been mandated by the Board to implement and manage this policy and is committed to ensure that all future board appointments as well as existing and future succession plans are based on merit with this policy and the promotion of diversity in mind. The committee and the Board also recognise that a diverse executive pipeline is important to increasing diversity levels among senior positions.

Since November 2020, there are two female directors on the Board, Patsy Watson and Louisa Bell, representing 22% of the total number of Directors. We have therefore achieved our target initially set for March 2020 of having female Directors constituting at least 20% of the total number of Directors,

but we recognise that we need to do more. At the end of the financial year, only one member of the senior management team was female (representing 17% of the senior management team), while 67% of their direct reports and 56% of all other employees were females. The committee supports the latest recommendations on gender diversity of the FTSE Women Leaders Review published in February 2022 and recommendations of the Parker Review that each FTSE 250 board should have at least one director of colour by 2024. Although not a FTSE 250 company at the time of this report, the committee is keen to increase diversity at Board level over time provided that this is consistent with other skills and requirements. The committee is also aware of the recent FCA amendments to the UK listing rules requiring companies with a premium listing to disclose in their annual report whether they have met certain board diversity targets on a 'comply or explain' basis and, if they have not met the targets, why not. These changes will be applicable for the financial years starting on or after 1 April 2022. We welcome the opportunity to increase transparency for investors on the diversity of boards and will review our existing policies on diversity with the targets introduced by the FCA in mind. We will also continue to work with the Social and Ethics Committee to encourage diversity and inclusion at all levels of the organisation in line with our values and culture.



Constitution of the disclosure committee

With the move of the Company's listing to the Premium Segment of the Main Board of the LSE in December 2021, the committee re-considered whether the Company would benefit from the constitution of a separate Disclosure Committee, and whom the members of that committee should be. In light of the move, but also due to the increased activity and growth of the business, the committee recommended the constitution of the disclosure committee as a matter of good corporate governance and to assist the Company with compliance with the UK Market Abuse Regulation.

Board evaluation

This year, I led an internal evaluation of the effectiveness of the Board and its committees via detailed evaluation and self-evaluation questionnaires completed by all the Directors, followed by individual discussions. Paul Miller, in his capacity as senior independent Non-Executive Director, reviewed my performance as Chair of the Board and I focused in particular on the review of Paul Arenson's performance as CEO of Industrials REIT. I also conducted individual interviews with each of the Executive Directors and the Company Secretary.

With the restrictions relating to the pandemic removed, we resumed board meetings in person and social interactions between board members and the senior management team. Directors were also able to visit some of the Company's MLI sites. The feedback from the internal evaluation was that the Board and its committees continue to operate effectively with improvements to the way it operates during the reporting period, mainly due to the simplification and focus of board papers and the return to meetings in person. Key additional recommendations for future improvements included:

- Further improvements to the board papers, with focused information on the operating and financial performance of the MLI portfolio and health and safety matters to be included;
- Key operational information to be made accessible to the Board on an ongoing basis between quarterly Board meetings (such as minutes of the meetings of the operations committee).
- Further visits to MLI estates; and
- Additional strategy sessions with the Board.

This is the second year that the evaluation is conducted internally. In line with the principles of the Code, the Board intends to appoint an independent external firm to lead next year's board evaluation.

Independence and re-election

The committee has assessed the time commitment required of all Non-Executive Directors and whether their re-appointment would be in the best interests of the Company, taking into account their individual contributions to the Board and its committees, their qualifications and experience. The committee is of the opinion that each Non-Executive Director continues to demonstrate commitment to his or her role and discharges their duties effectively.

The committee has also assessed the continued independence of all Non-Executive Directors in line with Code provision 10. We re-assessed Paul Miller's independence in light of his continued involvement with Bryan Cave Leighton Paisner LLP, corporate legal advisers to the Company. The committee and the Board remain of the opinion that Paul Miller's independence is not impaired. The committee and the Board were able to reach that conclusion mainly based on the following factors:

- Paul Miller ceased to be an equity partner more than six years prior to his appointment to the Board and remains engaged with Bryan Cave Leighton Paisner LLP as a part-time consultant with primary responsibility for matters relating to international business development, for which he receives a fixed fee;
- he is not involved in any work carried out by Bryan Cave Leighton Paisner LLP for the Company and his remuneration from them is not contingent on any such work; and
- the scope of day-to-day work carried out by Bryan Cave Leighton Paisner LLP for the Company remains relatively limited and the total fees paid to them by the Company in the reporting period are not deemed significant.

The committee and the Board also reviewed and confirmed my independence and the independence of Philip Holland, Louisa Bell and Richard Smith. Although Patsy Watson is not considered independent due to her previous role as Chief Financial Officer of the Company, she continues to make a valuable contribution to the oversight of the Company's strategy and operations for the benefit of all stakeholders. She also leads employee engagement and plays a key role maintaining direct line of communication between the Board and the employee population (see page 93).

The committee recommends that resolutions to re-elect each of the Non-Executive Directors be proposed at the 2022 annual general meeting alongside resolutions to re-elect the Executive Directors.

Accordingly, in accordance with the recommendations of the committee and in accordance with the Code, each of the Directors in role at the date of this report will offer themselves for re-election at the 2022 annual general meeting.

Richard Grant

Chair of the Nomination Committee

9 June 2022

Remuneration Committee report

Letter from the Chair



Paul Miller

Chair of the Remuneration Committee

Attendance

Committee member	Meetings attended during the relevant member's tenure
Paul Miller	5/5
Philip Holland	5/5
Richard Grant	5/5
Louisa Bell	5/5
Richard Smith	4/5

Number of Meetings

5

Remuneration Committee Members

Paul Miller
Chair of the Remuneration Committee

Richard Grant
Independent Chair of the Board

Philip Holland
Independent Non-Executive Director

Louisa Bell
Independent Non-Executive Director

Richard Smith
Independent Non-Executive Director

Dear Shareholders

On behalf of the Board, I am pleased to present our Remuneration Committee Report for the year ended 31 March 2022.

As in previous years, this report is divided into three main sections:

- this letter, setting out some background to our policies and the work of the Remuneration Committee during the reporting period;
- our remuneration policy; and
- the remuneration implementation report.

We have again also added a summary overview of Industrials REIT's remuneration policy and implementation report for additional clarity. Please see page 104 of the report.

The remuneration policy and the remuneration implementation report (set out on pages 105 to 115) will be subject to separate non-binding advisory votes at the 2022 annual general meeting, to allow all shareholders to express their views on the remuneration structures adopted by the Company.

The year under review

The financial year ended 31 March 2022 marks the last year of our four-year transition plan into a fully-fledged MLI operating business and another successful year for Industrials REIT, despite the ongoing challenges and uncertainties brought about by the pandemic. The Company was able to meet most of its corporate objectives and continued to operate without any need to furlough staff, to avail itself of any government loans or to reduce its dividend.

Remuneration Committee Information

Role and responsibilities

The principal responsibilities of the committee are:

- Determine, agree with the Board, review and monitor the general policy for the remuneration of the Company's chairperson, the Executive Directors and other senior executives.
- Oversee that the implementation and execution of the remuneration policy achieves the objectives of the policy.
- Determine targets for performance-related pay schemes.
- Determine individual awards under share incentive plans to be made to Executive Directors and other senior executives.
- Approve the remuneration packages for the Company's chairperson, the Executive Directors and other senior executives.

The committee's terms of reference are set out on the Company's website.

We successfully transferred the Company's listing to the Premium Segment of the LSE's Main Market and rebranded the Group from Stenprop to Industrials REIT. We substantively completed our transition to a fully focused UK MLI business with the sale of our Guernsey office building, the sale of our last asset in Switzerland, and the completion of £97.62 million of MLI acquisitions (against a target of £90 million to £115 million set for the year).

From an operational perspective, we completed the implementation of our new ERP system, a key component of our Industrials Hive platform. We continued to support our customers and employees through the pandemic, and launched a new SAYE scheme for all staff. Financial highlights included 6.88p adjusted earnings per share (against a target range of 6.57p to 7.00p for the year), as well as MLI like-for-like annual rental growth of 4.4% (against a target range of 3.75% to 5%).

In light of the above, Paul Arenson and Julian Carey each received 74.73% of the maximum available award under the annual bonus scheme (2021: 100% each) and James Beaumont received 68.73% of the maximum available award under the annual bonus scheme (2021: 90%). These outcomes took into account scores achieved in respect of personal objectives (see additional disclosures on page 112 of this report).

LTIP awards made to Paul Arenson and Julian Carey in June 2019 reached the end of their performance period on 31 March 2022. Despite the continued success and growth of the Company, the ambitious targets for EPRA earnings per share set out in 2019 were not reached as at 31 March 2022 (7.43p minimum target, up to 8.1p or more for the first tranche of 25% of the maximum award). With MLI constituting 95.29% of the total portfolio of the Group as at 31 March 2022, 5.84% of the second 25% tranche of the award successfully vested. 59.85% of the third 25% tranche vested due to FY 2022 actual net earnings exceeding the targets set for the Group in 2019 by 6.01% and 100% of the last 25% tranche vested reflecting growth above the 85th percentile of the total shareholder return (TSR) European EPRA index for the three-year performance period comfortably exceeding the comparator benchmark. Overall this resulted in 41.5% of the maximum awards made to each of Paul and Julian in June 2019 under the LTIP vesting in June 2022.

Taken as a whole, the Remuneration Committee is satisfied that overall pay outcomes for the year ended 31 March 2022 are appropriate and demonstrate that the

Company's remuneration policy is working well, is aligned to the Company's culture and is driving appropriate management performance. Accordingly, we have not applied any discretion to the incentive outcomes

Remuneration policy and implementation

Industrials REIT's remuneration policy as set out in the 2021 annual report was subject to a non-binding advisory vote at the 2021 annual general meeting and was approved by 84.59% of shareholders who voted. The 2021 remuneration implementation report was approved by 85.14% of shareholders who voted. We are grateful for the support of our shareholders.

Following last year's strong performance and the move to the Premium Segment of the LSE's Main Market, the committee was keen to ensure that executive remuneration remained competitive and aligned with best practice. As indicated in last year's report, we mandated an independent consulting firm, FIT Remuneration Consultants LLP ("FIT"), to review our remuneration policy and practices and have carefully considered the recommendations presented to us. Following that review, which included market benchmarks looking in particular at real estate sector peers and companies of a similar market cap, it has become clear to the committee that executive salary levels (£285,800 for the CEO, £274,600 for the MD and £182,100 for the CFO) were well below market for an LSE premium listed company of Industrial REIT's size and complexity. The talent market in our sector remains highly competitive. The committee recognises that above-inflation salary adjustments for Executive Directors remain an area of significant scrutiny. However, we believe that, in order to avoid compounding this issue for the future, and in the interest of fairness for our strong performing executive team, an above normal level of increase is warranted. The committee therefore recommended base salary increases of 15% for the CEO and MD, and 5% for the CFO. These changes will be implemented in June 2022 with retrospective effect from 1 April 2022, as customary for all staff salary reviews at Industrials REIT. The recommended CFO's base salary increase is capped at 5% for FY 2023 (similar to inflation salary increases implemented for the wider employee population) to allow James Beaumont to grow into the role given that this is his first CFO role of a premium listed company. Further salary increases may be recommended in future years to bring further alignment between Industrials REIT policy and practices and other listed

operational businesses. However, any such future increases will be subject to satisfactory Group and individual performance during the preceding financial year in line with investor guidance and to additional consultation with shareholders.

In addition, pension provisions for the CEO and MD will be reduced from 10% to 7% of base salary from 1 January 2023 in line with the 2018 UK Corporate Governance Code and investor guidance. The CFO's pension contributions will remain at up to 7% of base salary.

For the financial year ending 31 March 2023, the maximum annual bonus opportunity will remain at 150% of salary. Targets will continue to be challenging and will be based on a range of financial, strategic and personal targets which have been set to reflect our strategic priorities for the current financial year. LTIP awards for FY 2023 continue to be over shares equal to no more than 200% of salary with awards vesting three years from grant subject to continued service and performance targets measured over the three years to 31 March 2025. As per prior years, awards will be based on a combination of Earnings Per Share, relative total shareholder return, rental growth and cost ratio targets. Targets in relation to total accounting returns and ESG metrics have also been introduced. Please see page 114 of this report for additional information on targets.

This year, we have also launched a new SAYE scheme, the Industrials REIT ShareSave Scheme, to encourage the ownership of shares in Industrials REIT among all staff. See further information on this scheme in our remuneration policy on page 107.

Apart from the above, the remuneration policy remains unchanged this year. For ease of reference it is included in full over pages 105 to 110.

The Industrials REIT ShareSave Scheme was approved at the Company general meeting held in February 2022 by 97.59% of shareholders voting. In addition, the committee conducted a detailed consultation with Industrials REIT's top 10 shareholders and major representative bodies on the increases to executive base salaries described above and other key components of its remuneration policy, and we would like to thank those investors and individuals who took the time to provide feedback. The Shareholders consulted were supportive of the proposals, noting however that they reserved judgement on future substantial increases to the executives' salaries and expected further consultation at the relevant time.

Remuneration Committee report continued

Letter from the Chair

The Remuneration Committee retains its overriding discretion to modify the amounts payable under the incentive schemes to ensure that all awards are appropriate having regard to the overall financial performance of the Company. In addition, the Remuneration Committee will review each individual's role, responsibility and performance and may alter the terms of their participation in the annual bonus scheme and/or long-term incentive scheme on an individual basis, in each case within the scope of the relevant scheme.

The Remuneration Committee believes that its policy remains fair, appropriate and market-related, and that it complies with the five additional tests of simplicity, clarity, risk, predictability and proportionality introduced by the 2018 UK Corporate Governance Code.

Advisors to the committee

As mentioned above, the committee retained the services of FIT to conduct a review of Industrials REIT remuneration policy and practices and to advise on executive remuneration. FIT are members of the Remuneration Consultants Group, and are independent of both Industrials REIT Group and its Directors. They did not provide any other services to the Group during the reporting period. As such, the committee is satisfied that the advice received was objective and independent. The cost of the advice received amounted to £11,880, charged on a time plus disbursements basis.

The 2018 UK Corporate Governance Code (the 'Code')

We believe that the remuneration policy and its implementation are aligned with the Code in all material respect save in relation to Code Provisions 36, 38 and 41, as further explained below.

The Code sets out principles against which the committee should determine the remuneration policy for Executive Directors. The table alongside includes a summary of these principles, and how they are reflected in Industrials REIT's remuneration policy.

Principles	How it is being addressed by Industrials
Clarity – remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.	The remuneration policy is clearly set out in this report and the policy and the Board determines clear metrics against which performance is measured which are communicated to all stakeholders and explained externally and internally. The policy is subject to a separate non-binding advisory vote at the AGM and shareholders are able to express their views on the remuneration structures adopted by the Company. Industrials REIT has engaged with major shareholders in relation to the planned increase in Executive Directors' salary as set out in this report. The Board is confident that these proposed increases are supported by shareholders.
Simplicity – remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	Industrials REIT operates a market standard remuneration policy with the remuneration package composed of a fixed pay element, an annual bonus and a long-term incentive plan.
Risk – remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.	The Remuneration Committee sets the corporate KPIs and personal goals of Executive Directors so as to be stretching but achievable. It retains its overriding discretion to modify the amounts payable under the schemes to ensure that all awards are appropriate having regard to the overall financial performance of the Company and/or to the budget. The Industrials REIT Deferred Share Bonus Plan and the Industrials REIT LTIP both incorporate malus and clawback provisions.
Predictability – the range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the policy.	The remuneration policy includes clear caps and the range of possible rewards to individual directors is illustrated on page 108 of this report. The Remuneration Committee's overriding discretion to modify the amounts payable remains within the scope of the scheme.
Proportionality – the link between individual awards, the delivery of strategy and the long-term performance of the company should be clear. Outcomes should not reward poor performance.	The committee ensures performance metrics are aligned with Industrials REIT's strategy each year. Performance targets are set to be stretching, but achievable. Details of the committee's approach to target setting are set out on page 108 of this report.
Alignment to culture – incentive schemes should drive behaviours consistent with company purpose, values and strategy	The policy is designed to promote the long-term success of the Company. Rewards are based on performance against corporate KPIs, which are aligned to Industrials REIT's strategy, as well as performance against individual goals, which are assessed each year taking into account a competency framework which includes the behaviours that Industrials REIT wishes to promote consistent with its purpose, culture and strategy. This competency framework includes skills in relation to data and innovation, teamwork and leadership, communication and ESG.

As noted above, the committee is aware that the Company is not currently compliant with Code Provision 38 according to which the pension contribution rates for Executive Directors, or payments in lieu, should be aligned with those available to the rest of the workforce, due to pension contributions for each of Paul Arenson and Julian Carey (10% of base salary) being in excess of pension contributions generally made to the wider employee population (up to 7% of base salary). However, as indicated above, Paul Arenson and Julian Carey have both agreed to a reduction in pension contributions from 10% to 7%. This change will become effective on 1 January 2023 and will bring the Company in full compliance with Code Provision 38.

The second issue of non-compliance, relating to Code Provision 36, is that we have not introduced a formal policy for shareholding requirements for Executive Directors post-employment. The remuneration policy as currently structured already provides for alignment between Executive Directors and investors. For example, the three-year vesting period and subsequent two-year post vesting holding period in relation to nil-cost options awarded under the Industrials REIT LTIP ensure that all the Executive Directors have a clear long-term interest in the performance

of the business. The two-year post vesting holding period continues to apply following cessation of employment, meaning that a link to future performance remains beyond any termination of employment. The committee considered whether a formal policy regarding both in-employment and post-employment shareholding requirements for Executive Directors should be adopted. However, it noted that Executive Directors' base salaries remained below market average compared to those of other listed operational businesses of similar size and complexities even following the increases mentioned above and that the equity holdings of Paul Arenson and Julian Carey in the Company were already very substantial. It therefore concluded that it would not be appropriate to impose further restrictions on the Executive Directors until further alignment of their remuneration package with those of their peers. This position will be reviewed annually.

Finally, while we acknowledge that we did not formally consult with employees on executive remuneration under Code Provision 41, the Remuneration Committee took into account the pay and benefits of all the employees of the Group when reviewing the remuneration policy. We noted the general increase in salary proposed for all employees and levels of

incentive payments and performance, before setting the remuneration of the Executive Directors and members of senior management. The committee is provided with data on the remuneration structure for all staff and uses this information to ensure consistency of approach throughout the Group.

The year ahead

The Remuneration Committee remains mindful of evolving best practice with respect to executive remuneration. It considers remuneration in the context of the overall strategy of the business in order to promote the Company's strategic objectives, values and its long-term sustainable success.

On behalf of the Remuneration Committee and the Board, I thank you for your continued support. I trust you find this report helpful and informative. We are always looking to improve our policies and practices and would welcome any comments on the report, or any concerns about our remuneration policy or the way we have implemented it.

Paul Miller

Chair of the Remuneration Committee

9 June 2022



Remuneration Committee report continued

Policy

Overview of remuneration policy and implementation

Remuneration in respect of the financial year to 31 March 2022	Policy summary	Implementation for the financial year to 31 March 2023
Base salary		
<p>Salaries increased by 1.5% in line with inflation and the broader employee population effective 1 April 2021, as follows:</p> <p>CEO, Paul Arenson: £285,800</p> <p>Managing Director, Julian Carey: £274,600</p> <p>CFO, James Beaumont: £182,100</p>	<p>Salaries are normally reviewed annually to ensure that they remain competitive and market related.</p>	<p>Salaries increased with effect from 1 April 2022 as follows:</p> <p>CEO, Paul Arenson: £328,670 (+15%)</p> <p>Managing Director, Julian Carey: £315,790 (+15%)</p> <p>CFO, James Beaumont: £191,210 (+5%)</p>
Pension and benefits		
<p>Pension contributions (or equivalent cash allowance) of:</p> <ul style="list-style-type: none"> CEO, Paul Arenson and Managing Director, Julian Carey: 10% of base salary. CFO, James Beaumont: 7% of base salary. <p>Benefits in line with policy.</p>	<p>For all new appointments, pension contributions will be at the level of the wider employee population.</p> <p>Executive Directors currently receive private medical insurance, life assurance and permanent health insurance. Other benefits such as car allowance may be provided where appropriate.</p>	<p>Pension contributions will be reduced to up to 7% of base salary for each of Paul Arenson and Julian Carey with effect from 1 January 2023.</p> <p>Pension contributions for James Beaumont will remain at up to 7% of base salary.</p> <p>No change to benefits are proposed for the financial year to 31 March 2023.</p>
Annual bonus		
<p>CEO, Paul Arenson: 74.73% of the maximum available award</p> <p>Managing Director, Julian Carey: 74.73% of the maximum available award</p> <p>CFO, James Beaumont: 68.73% of the maximum available award</p>	<p>The maximum level of annual bonus which may be granted in respect of FY2021 is equivalent to 150% of basic salary for each of Paul Arenson and Julian Carey, and 100% of salary for James Beaumont.</p> <p>An amount equal to 60% of salary for each of Paul Arenson and Julian Carey, and 45% of salary for James Beaumont will be paid in cash with the balance deferred and satisfied by the award of nil-cost options under the terms of the Industrials REIT STIP.</p>	<p>The performance targets set for the financial year to 31 March 2023 are:</p> <ul style="list-style-type: none"> Growing adjusted earnings per share in a range around the budget plan forecast (21% weighting) Completing £95 million to £125 million of MLI acquisitions and/or capital expenditures (17.5% weighting) 4% to 6% rental growth over the MLI portfolio (17.5% weighting) 50% of the tranche to be awarded for achieving the budgeted EPRA cost ratio for FY 2023, and the second 50% for reducing the budgeted EPRA cost ratio (7% weighting) Delivering a TAR between 10% and 12% (7% weighting) Personal goals to each executive director (30% weighting)
LTIP awards		
<p>For each of Paul Arenson and Julian Carey, 2019 Industrials REIT LTIP (performance period: 1 April 2019 to 31 March 2022) vested at 41.5% based on:</p> <ul style="list-style-type: none"> Growth in sustainable EPRA EPS below threshold (actual: 6.88p as opposed to minimum target of 7.43p) MLI component of the portfolio at 95.29% (against target range of 95% to 100%) 6.01% increase on the FY 2022 budgeted passing rent (against target range of achieving budgeted passing rent and increasing budgeted passing rent by 15%) TSR outperformance at 100% against stretched target of 85th percentile of the TSR European EPRA Index 	<p>Nil-cost options with a value equivalent to 200% of base salary for each of Paul Arenson and Julian Carey, and 100% of salary for James Beaumont (at the time of the grant).</p> <p>Vesting at the end of a three-year period subject to vesting conditions linked to performance.</p> <p>Additional two-year post vesting holding period.</p>	<p>Awards equivalent to 200% of base salary for each of Paul Arenson and Julian Carey and of 100% of salary for James Beaumont made in June 2022.</p> <p>Performance to be measured over the three-year period ending 31 March 2025 against:</p> <ul style="list-style-type: none"> Growth in adjusted EPS Rental growth on the MLI portfolio TSR targets Total accounting return targets Reduction in EPRA Cost Ratio for the MLI portfolio ESG targets

Industrials REIT's Remuneration Policy

Executive Directors' remuneration policy

The remuneration policy ensures that a significant proportion of the remuneration of the executive and senior teams is linked to corporate and individual performance. The policy is designed to promote the long-term success of the Company, via a fixed element, made up of a market related salary with reasonable benefits, and a variable element, broken into short and long-term incentives, with KPIs and vesting conditions reflecting the Company's strategic goals.

The table below sets out the elements of the Executive Directors' remuneration and how they operate.

Fixed remuneration		
Purpose and operation	Maximum opportunity	Performance targets
Basic salary		
To attract, motivate and retain high calibre executives		
Salaries are normally reviewed annually to ensure that they remain competitive and market-related. The committee is required to obtain reliable, up-to-date information about remuneration in other comparable companies to confirm this is the case. There is no automatic entitlement to an increase each year.	Salary increases will typically be inflation or market-linked increases. Above inflation or market increases will typically only be considered where the base salary is below market or where the scope, role and/or responsibility of the individual have increased in a way that justifies such an increase.	Individual performance is a factor when considering and reviewing salaries.
Benefits		
To provide market appropriate benefits as part of the total remuneration package		
Executive Directors currently receive private medical insurance, life assurance and permanent health insurance. Other benefits such as car allowance may be provided where appropriate.	While there is no maximum level of benefits for Executive Directors, they are at the same level as the wider employee population.	N/A
Pension or pension allowance		
To provide appropriate retirement benefits (or cash allowance equivalent)		
Pension benefits are provided via the Industrials REIT pension scheme, although employees including the Executive Directors, are entitled to receive a contribution towards their personal pension plan or a cash allowance instead of contributions to the Industrials REIT scheme.	Paul Arenson and Julian Carey: currently up to 10% of base salary, but will decrease up to 7% of base salary with effect from 1 January 2023 to align with the pension contribution available to the wider employee population. James Beaumont: up to 7% of base salary.	N/A
SAYE – the Industrials REIT ShareSave Scheme		
To encourage the ownership of shares in Industrials REIT for all employees		
An HMRC-approved scheme whereby employees (including Executive Directors) may save up to the maximum monthly saving limit (as determined by prevailing HMRC guidelines) over a period of three years. Options granted at up to 20% discount.	Savings are capped at the prevailing HMRC limit at the time employees are invited to participate.	N/A

Remuneration Committee report continued

Policy

Variable remuneration

Purpose and operation

Maximum opportunity

Performance targets

Annual bonus – To encourage executive behaviour that improves Company performance, limits loss and promotes an ethical culture and responsible corporate citizenship.

Awards based on performance are granted following the financial year end when actual performance over that year is measured.

A portion of the annual bonus (equal to up to 60% of basic salary for Paul Arenson and Julian Carey, and up to 45% of basic salary for James Beaumont) is paid in cash with the balance (if any) satisfied by the award of nil-cost options under the terms of the Industrials REIT Deferred Share Bonus Plan (the short-term incentive plan or the 'Industrials REIT STIP').

The Industrials REIT STIP operates as follows:

- Vesting: 1/3 on the grant date, 1/3 on first anniversary of year end; 1/3 on second anniversary of year end, subject to participant still being employed.
- Standard good leaver/bad leaver provisions: the Board has absolute discretion to determine that a participant is a good leaver (causing all unvested options to vest in full) except in case of gross misconduct.
- Reduction for malus provisions.
- Dividend equivalent payments in shares may be made.

The maximum level of annual bonus which may be granted is equivalent to 150% of basic salary for each of Paul Arenson and Julian Carey, and 100% of salary for James Beaumont.

Performance targets are determined each year by the Board following the committee's recommendation normally at the beginning of the financial year. They typically consist of a mixture of corporate performance targets and individual performance, although the corporate performance targets usually have a higher weighting. Metrics and weightings may vary from year to year according to strategy and the market. See details on page 114 for the KPIs agreed by the Board for the financial year to 31 March 2023 and their weighting.

Long term incentive plan

To align Executive Directors' interests with the Company's long-term strategic goal and the interests of the shareholders.

Executive directors are eligible to receive annual awards of nil-cost options under the terms of Industrials REIT's Long Term Incentive Plan (the 'Industrials REIT LTIP'). Nil cost options will vest at the end of a three-year performance period subject to certain performance metrics being met at the end of the performance period.

- Vest on third anniversary of grant date or as otherwise decided by the committee and the Board (to allow sufficient time after the end of the performance period to determine whether the vesting conditions have been met). The number of nil-cost options vesting depends on the predetermined vesting conditions being met. All options not vesting on the vesting date automatically lapse. Vesting is subject to participant still being in employment or office but subject to Board discretion for good leavers.
- Two-year post vesting holding period following vesting.
- Clawback provisions before vesting and during the post vesting holding period.
- Dividend equivalent payments in shares may be made.

Nil-cost options with a value equivalent to 200% of base salary for each of Paul Arenson and Julian Carey, and 100% of salary for James Beaumont (at the time of the grant, i.e. taking into account any salary increase decided in June the same year) to be granted automatically (but vesting subject to vesting conditions (performance targets)).

Vesting conditions for nil-cost options are typically determined by the Board following the committee's recommendation in advance of awards being made. The committee and the Board retain full discretion to adjust or set different performance measures or targets where appropriate (e.g. to reflect a change in strategy or market conditions and/or to remain fair and consistent). See page 115 for the vesting conditions agreed by the Board for the period to 31 March 2025.

Non-Executive Directors' remuneration policy

The remuneration policy for the Chair and Non-Executive Directors should attract and retain individuals with the appropriate level of expertise and experience, taking into account the time commitment and responsibilities of each role.

Purpose and operation	Maximum opportunity	Performance targets
Fees		
The fee of the Chair of the Board is set by the Remuneration Committee. Remuneration of the Non-Executive Directors is a matter for the Board as a whole. Fees are reviewed annually. Fees are paid quarterly in cash. The Chair and Non-Executive Directors do not participate in any incentive, share schemes, benefits in kind or pension arrangements.	No maximum or minimum fee increase is operated although any increase will be guided by the average increase awarded to Executive Directors and other employees and/or general movements in the market.	N/A
Other arrangements		
The Company may reimburse expenses reasonably incurred in fulfilment of the Company's business. The Company also provides the Chair and Non-Executive Directors with Directors' and Officers' Liability Insurance.	The maximum reimbursement is expenses reasonably incurred.	N/A

During the year under review, the Board conducted a review of Non-Executive Directors fees including benchmarks against non-executive directors' fees in LSE premium listed companies of similar size and complexity as the Company. It was noted that there had been no increases in Non-Executive Directors' fees since 2018. Following the review, the following changes were approved by the Board, with effect from 1 April 2022:

	Current fees			Proposed increase			Proposed fees			%
	Base fee	Committee fee	Total	Base fee	Committee fee	Total	Base fee	Committee fee	Total	
Richard Grant	58,000	–	58,000	7,000	–	7,000	65,000	–	65,000	12.1%
Philip Holland	35,000	8,000	43,000	10,000	(3,000)	7,000	45,000	5,000	50,000	16.3%
Paul Miller	35,000	5,000	40,000	10,000	(2,000)	8,000	45,000	3,000	48,000	20.0%
Patsy Watson	35,000	–	35,000	10,000	–	10,000	45,000	–	45,000	28.6%
Louisa Bell	35,000	5,000	40,000	10,000	(5,000)	5,000	45,000	–	45,000	12.5%
Richard Smith	35,000	5,000	40,000	10,000	(5,000)	5,000	45,000	–	45,000	12.5%
Total	233,000	23,000	256,000	57,000	(15,000)	42,000	290,000	8,000	298,000	16.4%

Remuneration policy for other employees

Salary reviews across the Group are carried out on the same basis as salary reviews for Executive Directors. All employees are entitled to substantially the same benefits as Executive Directors and are currently entitled to a pension contribution of up to 7% of their basic salary.

The remuneration package of members of senior management also includes the same fixed and variable components as the Executive Directors. Senior management are eligible for an annual bonus with a proportion payable in cash and the balance in nil-cost options under the Industrials REIT STIP. The performance targets for the annual bonus

are the same as those set for the Executive Directors, except that personal goals have historically had a heavier weighting when reviewing the performance of members of senior management as compared to Executive Directors.

Members of senior management also participate in the Industrials REIT LTIP but are not entitled to nil-cost options under the Industrials REIT LTIP. They typically receive up to 100% of their salary in market value options, which vest in three equal tranches over a three-year period. The number of market value options an individual is entitled to receive is determined every year based on the same performance metrics used for rewards under the annual bonus scheme.

All other employees are also entitled to an annual cash bonus based on individual performance. During the review period, the Company has sought to encourage and broaden equity ownership amongst staff by introducing an all-employee share incentive scheme, the Industrials REIT ShareSave Scheme. All employees at all levels are eligible to participate following successful completion of any probationary period. Under the scheme, participants save monthly over three years with the option to acquire shares of Industrials REIT at a discount at the end of the savings period. Currently, 57% of eligible employees participate in the scheme.

Remuneration Committee report continued

Policy

Principles followed by the committee when making recommendations for KPIs, vesting conditions and eligibility for each scheme for the year ending 31 March 2023

In setting vesting conditions and eligibility for awards of nil cost options under the Industrials REIT LTIP the committee applied the following principles:

- In setting vesting conditions for nil cost options awarded under the Industrials REIT LTIP, achieving the top end of the performance range for any given condition should typically require outperformance against the Company's budgets and business plan. Performance in line with budget and business plan should typically result in vesting of 50% of the award.
- Vesting conditions for nil-cost options under the Industrials REIT LTIP should comprise corporate goals only; and must be objective, so that they do not require subjective determination by the Remuneration Committee or the Board as to if, and the extent to which, any of the conditions have been met.

In setting KPIs for the annual bonus element of the remuneration package of Executive Directors and members of senior management, the Remuneration Committee applies the following principles:

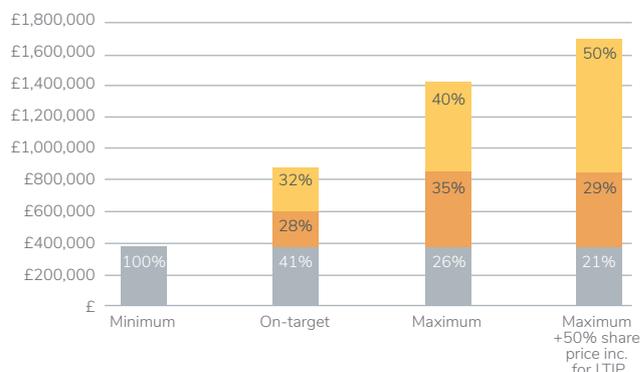
- all KPIs should be aligned with Industrials REIT's objectives and strategies;
- in setting financial and/or total return goals or targets, preference should (other than in exceptional circumstances) be given to measuring financial performance and returns relative to an appropriate peer group;
- recognising the need to drive and reward individual performance, KPIs for the annual bonus element should comprise a combination of corporate and personal goals;
- the Remuneration Committee has determined to apply a weighting of 70% for corporate goals and 30% for personal goals for Executive Directors for the year ending 31 March 2023. The weighting applied when determining the annual bonus for members of senior management will be 65% towards corporate goals and 35% towards personal goals. The committee has also made all participants aware of the discretion it has retained to adjust awards to ensure they are appropriate in all the circumstances.

Illustration of application of the remuneration policy to executive directors

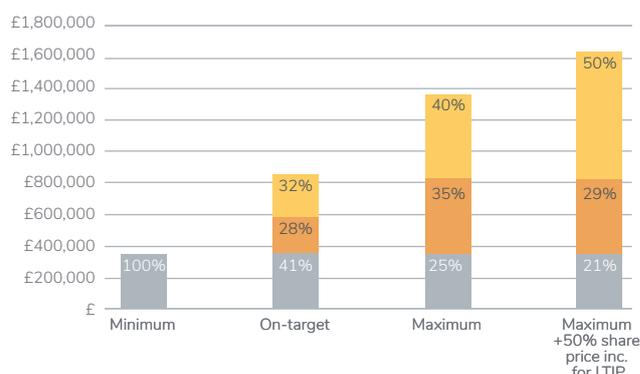
The chart below provides an illustration of the potential future remuneration for the executive directors in respect of the financial year ending 31 March 2023, based on the current remuneration policy outlined above and base salary effective 1 April 2022, showing the potential split between the different element of the remuneration under four different performance scenarios:

- 'Minimum'
- 'On-target'
- 'Maximum'
- 'Maximum +50% share price increase for LTIP'

Paul Arenson



Julian Carey



James Beaumont



- Salary, pension, benefits
- Annual bonus
- LTIP

The 'minimum' scenario includes base salary, pension and benefits only (i.e. fixed remuneration) which are the elements of the executives' remuneration packages not linked to performance.

The 'on-target' scenario includes fixed remuneration as for the 'minimum' scenario, plus a bonus payout equal to half of the maximum possible bonus for the period and Industrials REIT LTIP nil-cost options vesting at 50% of the maximum award for the performance period 1 April 2020 to 31 March 2023. Note that the Industrials REIT LTIP awards for the period will only vest at the end of the three-year performance period from the date of grant, and the projected value is based on value at the grant date (June 2020), rather than vesting, i.e. excluding the impact of any share price movement over the three-year performance period. James Beaumont did not receive any Industrials REIT LTIP awards for that period.

The 'maximum' scenario includes fixed remuneration and full payout of all incentives (i.e. for each of Paul Arenson and Julian Carey: 150% of salary under the annual bonus scheme and 200% of salary under the Industrials REIT LTIP; and for James Beaumont: 100% of salary under the annual bonus scheme). It excludes the impact of any share price movement over the three-year performance period for awards made under the Industrials REIT LTIP.

The final 'maximum +50% share price increase for LTIP includes fixed remuneration and full payout of all incentives. It also includes the impact of a 50% increase in share price on the value of the Industrials REIT LTIP, in effect valuing this element of the remuneration at 300% of salary for each of Paul Arenson and Julian Carey.



Remuneration Committee report continued

Implementation

Approach to recruitment

Industrials REIT's approach to remuneration on recruitment follows the remuneration policy set out above. The salary of any newly appointed executive director should reflect the individual's skills and experience, the market rate for a candidate of that experience and the importance of securing the relevant individual. Benefits, pension, annual bonus and participation in the Industrials REIT LTIP would be on the basis set out in the remuneration policy table. In addition, the committee may offer additional cash and/or share-based elements to replace deferred or incentive pay forfeited by an executive leaving a previous employer. It would seek to ensure, where possible, that these awards would be consistent with awards forfeited in terms of vesting periods, expected value and performance conditions. For an internal appointment of an Executive Director appointment, any variable pay element awarded in respect of the prior role will be paid out according to its original terms. For external and internal appointments, the Company may agree that it will meet certain relocation and/or incidental expenses as appropriate.

Executive Directors' service contracts

The committee reviews the Executive Directors' service contracts on an annual basis. In June 2022, the service contracts of Paul Arenson and Julian Carey were amended to confirm a decrease in pension contributions up to 7% of basic salary effective 1 January 2023.

Executive Director	Notice period	Date of first employment	Board appointment	Date of current contract
Paul Arenson	Six months	2 October 2014	2 October 2014	1 June 2018
Julian Carey	Six months	30 June 2017	1 May 2018	22 May 2018
James Beaumont	Six months	1 June 2015	5 June 2019	10 June 2020

Policy on cessation of employment

There are no predetermined provisions for compensation within the Executive Directors' service contracts in the event of loss of office. The committee will consider all proposals for the early termination of the service contracts for Executive Directors and members of the senior management team and would observe the principle of mitigation.

Service contracts of Executive Directors provide for termination of employment by giving six months' notice or by making a payment of an amount equal to six months' basic salary and other contractual entitlements in lieu of notice. The general policy is that Executive Directors should not be entitled to a notice or payment on termination in excess of the levels set out in his service contract. However, any payments made to a departing Executive Director may include, without limitation, the payment of fees for outplacement assistance, the relevant individual's legal and/or professional advice fees in connection with the cessation of office or employment, compensation in respect of statutory rights under relevant employment legislation and accrued but untaken holiday.

If termination is by the Company (other than for fundamental breach by the Executive Director), annual bonus may be payable with respect to the period of the financial year served (including the notice period). If termination is by the Executive Director, the Executive Director will not normally be entitled to any bonus that might otherwise have been due during the notice period. Share-based entitlements granted to an Executive Director will be determined in accordance with the relevant plan rules. In certain circumstances such as death, ill-health, injury or disability, redundancy or other circumstances at the discretion of the committee and the Board, awards made under the Industrials REIT STIP not yet vested at the cessation of office or employment will vest in full and may be exercised for a period of 12 months from the date of vesting. The Board may determine in its discretion that nil-cost options awarded under the Industrials REIT LTIP will vest subject to the satisfaction of the relevant performance conditions and during such period as the Board may determine.

Remuneration implementation report

The following section provides details of how Industrials REIT's remuneration policy was implemented during the financial year ended 31 March 2022 and how it will be implemented during the financial year ending 31 March 2023.

Key activities of the committee during the financial year to 31 March 2022:

- Reviewed and approved the Executive Directors' performance against the financial year to 31 March 2021's KPIs; determined annual bonuses payable to Executive Directors and number of nil-cost options awarded under the Industrials REIT LTIP vested in June 2021.
- Reviewed and approved annual bonuses for the senior management team for the financial year to 31 March 2021.
- Reviewed and approved salary increases for the Executive Directors and members of senior management for the financial year to 31 March 2022.
- Approved the Directors' remuneration report for the financial year to 31 March 2021.
- Determined corporate KPIs and the Executive Directors' personal objectives for the financial year to 31 March 2022.
- Determined the vesting conditions for the awards of nil-cost options made in June 2021 under the Industrials REIT LTIP for the performance period 1 April 2021 to 31 March 2024.
- Engaged with an independent consulting firm to review the Company's remuneration policy and advise on any recommended changes to the policy, and subsequent consideration of the recommendations received and remuneration market trends.
- Reviewed the terms of reference of the committee and considered corporate governance developments.

Application of the remuneration policy for the year ended 31 March 2022

Table of directors' remuneration for year ended 31 March 2022 (audited)

	Basic salary £'000	Pension £'000	Other benefits £'000	Total fixed £'000	Annual bonus £'000	Long term incentives £'000	Total variable £'000	Total remuneration 31 March 2022 £'000
Executive director								
Paul Arenson	286	25	2	313	422	433	855	1,168
James Beaumont	182	12	1	195	121	–	121	316
Julian Carey	275	27	1	303	406	416	822	1,125

Salary increases

In June 2021, the Board approved increases of 1.5% to the base salary of the Executive Directors for the financial year to 31 March 2022, in line with inflation. This is reflected in the above table. The remuneration of Non-Executive Directors remained unchanged compared to the prior year.

Table of non-executive directors' remuneration for year ended 31 March 2022 (audited)

	Fees £'000	Pension £'000	Other benefits £'000	Total fixed £'000	Cash bonus £'000	Vested share options £'000	Total variable £'000	Total remuneration 31 March 2022 £'000
Non-Executive director								
Richard Grant	58	–	–	58	–	–	–	58
Paul Miller	40	–	–	40	–	–	–	40
Philip Holland	43	–	–	43	–	–	–	43
Patsy Watson	35	–	–	35	–	–	–	35
Richard Smith	40	–	–	40	–	–	–	40
Louisa Bell	40	–	–	40	–	–	–	40

Remuneration Committee report continued

Implementation

Annual bonuses and awards under the Industrials REIT STIP made in respect of the financial year to 31 March 2022. Paul Arenson and Julian Carey were each eligible to earn an annual bonus of up to 150% of their basic salary, determined by considering performance against the five KPIs set out in the table below. James Beaumont's entitlement to an annual bonus was capped at up to 100% of his basic salary.

KPI	Weight	Targeted KPI	Actual as at 31 March 2022	% of bonus element achieved
Growing adjusted earnings per share	21%	Range between 6.57p (achieving 50% of that bonus element) and 7.00p (for 100% of that bonus element)	6.88p	86%
MLI acquisitions	21%	Completing between £90 million (achieving 50% of that bonus element) to £115 million of MLI acquisitions (for 100% of that bonus element)	£97.62 million	65%
MLI like-for-like rental growth	21%	Growth in passing rent ranging from 3.75% (0% of that bonus element) to 5% (100% of that bonus element) on the FY 2021 passing rent on UK MLI assets owned as at 31 March 2021	4.4%	76%
Sale of all remaining non-MLI assets	7%	No sliding scales – all sales to be exchanged or notarised to achieve 100% of this bonus element	Not achieved	0%
Personal goals	30%	Personal goals specific to each individual	Individual performance against personal goals	90% for each of Paul Arenson and Julian Carey 70% for James Beaumont

The ratings on the personal goals were based on an appraisal of personal KPIs set at the beginning of the year relative to performance over the year. Personal KPIs were set for each executive around evolving the Industrials Hive platform and operating system. A significant KPI for all was to successfully go live on the Finance and Operations component of the ERP and all the designing, testing and managing around that project. Other KPIs related to the re-brand and the transfer of the business to the Premium Segment of the LSE. A number of KPIs related to evolving the ESG agenda for the Company, evolving the digital marketing capabilities, identifying ways of simplifying business processes, improving various controls, budgeting and forecasting processes as well as other data driven information and generally positioning the business for future scale and efficiency. There were also personal KPIs set around the building of team and business culture. The Remuneration Committee assessed the individual performance of each executive against their personal goals within this framework.

On 8 June 2022, the Board approved bonuses for the Executive Directors and members of senior management in line with the recommendations of the committee. Paul Arenson and Julian Carey each received a bonus equal to 112.10% of their basic salary, or 74.73% of the maximum annual bonus they could receive under the scheme. James Beaumont received a bonus equal to 68.73% of his salary, also representing 68.73% of the maximum bonus available to him. Paul Arenson and Julian Carey will each receive an amount equal to 60% of their basic salary in cash, with the balance of their bonus (52.10% of their basic salary) in nil-cost options under the Industrials REIT STIP. The cash element of the bonus payable to James Beaumont will be equal to 45% of his basic salary, with the balance of his bonus (equal to 23.73% of his basic salary) also awarded in nil-cost options under the Industrials REIT STIP.

Executive	Overall outcome (% of maximum)	Overall outcome (% of salary)	Overall outcome (£)	Cash amount (£)	Deferred element under the STIP (value in £ as at June 2022)
Paul Arenson	74.73%	112.10%	£320,368	£171,480	£148,888
Julian Carey	74.73%	112.10%	£307,814	£164,760	£143,054
James Beaumont	68.73%	68.73%	£125,158	£81,945	£43,213

The Industrials REIT LTIP – Conditional awards made for the performance period 1 April 2021 to 31 March 2024

In June 2021, conditional awards of nil-cost options were made to the Executive Directors for the three-year period ending 31 March 2024. Each of Paul Arenson and Julian Carey received conditional awards with a value equivalent to 200% of their basic salary, and James Beaumont received conditional awards with a value equivalent to 100% of his basic salary. Vesting of these nil-cost options is subject to achievement of the following vesting conditions over the three-year period, each having a 1/4 weighting:

Growing adjusted earnings per share in a range around the budget plan forecast;

- Achieving between 3.75% and 5% rental growth per annum over the performance period over the MLI portfolio of the Group as at 31 March 2021
- Reducing the EPRA cost ratio in relation to the MLI assets of the Group at 31 March 2021 by 5 to 10 percentage points; and
- Achieving a total shareholder return that results in the total shareholder return of the Company being between the 48th and 75th percentile of the total shareholder return of the European EPRA index.

Any awards vesting at the end of the three-year performance period will be subject to an additional two-year holding period.

Vesting of nil-cost options under the Industrials REIT LTIP - Performance period 1 April 2019 to 31 March 2022

On 8 June 2022, the Board, on the recommendation of the Remuneration Committee, determined that 41.5% of the awards of nil-cost options under the Industrials REIT LTIP in respect of the three-year period ended 31 March 2022 had vested.

The table below shows the number of nil-cost options that vested for each of Paul Arenson and Julian Carey as a result:

	Original awards	% vested	No. of nil-cost options fully vested
Paul Arenson	491,631	41.5%	204,027
Julian Carey	472,541	41.5%	196,105

Nil-cost options which did not vest as per the above lapsed and will not be capable of exercise. All nil-cost options vested on 10 June 2022 are subject to an additional two-year holding period.

The table below shows how the Company performed over the three-year performance period against each of the four objectives initially set as vesting conditions (each with a weight of 25%):

Vesting condition	Target	Actual as at 31 March 2022	% of vesting condition achieved	Weighted average
Growth in adjusted EPS	Range between 7.43p (with 33% of that vesting element achieved) and 8.1p (for 100% of that vesting element achieved)	6.88p	0%	0%
Growth of the MLI portfolio	MLI assets to constitute between 95% and 100% of total portfolio (straight line basis between nil and 100% of that vesting element)	95.29%	5.84%	1.5%
The financial year to 31 March 2022 Actual Net Rent Receivable	Range from the targeted passing rent on the UK MLI assets owned as at June 2019 (to achieve 33% of that vesting element) up to a 15% increase on the targeted passing rent (to achieve 100% of that vesting element)	6.01% increase on targeted passing rent	59.85%	15%
Total shareholder return	Range between 50th and 85th percentile of the TSR European EPRA Index	100%	100%	25%
Total of vesting conditions achieved				41.5%

Remuneration Committee report continued

Implementation

Application of the remuneration policy for the year to 31 March 2023

We have set out below how the committee intends to implement the remuneration policy for the year ended 31 March 2023, including the KPIs which the committee intends to use to measure the performance of the Executive Directors and senior management team over the period, as well as the vesting conditions which have been set for options awarded under the long-term incentive plan in June 2022 for the period to 31 March 2025.

We note that the committee reserves the right to apply discretion when determining the final outcomes under the annual bonus scheme and Industrials REIT LTIP awards.

Salary increases

As detailed on page 101 of this report, following a detailed review and consultation with the top 10 shareholders of the Company, it was decided to approve increases of 15% to the base salary of each of Paul Arenson and Julian Carey, and 5% to the base salary of James Beaumont, effective 1 April 2022.

Pension

Executive Directors will continue to receive a pension scheme contribution, a cash allowance of equivalent costs to the Company or a combination of both. However, the amount contributed by the Company will decrease from 10% to up to 7% of base salary for each of Paul Arenson and Julian Carey with effect from 1 January 2023, bringing alignment with the pension contributions payable to the rest of the workforce. James Beaumont will continue to receive a contribution of up to 7% of his basic salary.

KPIs for annual bonuses and awards under the Industrials REIT STIP for the year ending 31 March 2023

The following KPIs have been set by the Remuneration Committee and will be used to measure the performance of the Executive Directors over the current financial year:

KPI	Weighting
Growing adjusted earnings per share in a range around the budget plan forecast	21%
Completing £95 million to £125 million of MLI acquisitions and/or capital expenditure	17.5%
Achieving between 4% and 6% rental growth over the MLI portfolio of the group as at 31 March 2022	17.5%
Achieving/reducing the EPRA cost ratio of the Group in accordance with the budget plan forecast	7%
Delivering a TAR between 10% and 12%	7%
Personal goals specific to each individual	30%

The same corporate KPIs will be used to measure the performance of members of senior management over the period, but with a heavier weighting of 35% attributed to individuals' personal goals and the weighting of the first five corporate KPIs adjusted accordingly.

The above KPIs (with the weightings adjusted so that personal goals account for 35% of the total award) will also be used to determine any awards of market value options to members of senior management under the Industrials REIT LTIP for the period ending 31 March 2023.

The targets for the above corporate KPIs have been set to be challenging relative to business plan. Other than in relation to the EPRA cost ratio, achieving the lower side of the range for a corporate KPI will attract a nil bonus, while achieving the upper end of the range will attract up to 100% of the relevant tranche.

Achieving the budgeted EPRA cost ratio for FY 2023, will result in 50% of that KPI being deemed achieved, with the remaining 50% being achieved on a sliding scale for reducing the budgeted EPRA cost ratio between 0.01 and 1 percentage point. Targets for adjusted earnings per share and budgeted EPRA cost ratio are deemed to be commercially sensitive and will be disclosed retrospectively in the 2023 Remuneration Report. A portion of any bonus award for FY 2023 will be payable in cash (up to 60% of basic salary for each of Paul Arenson and Julian Carey and up to 45% of basic salary for James Beaumont), with the balance (if any) in deferred consideration over a two-year period via the issue of nil-cost options under the Industrials REIT STIP.

Conditional awards under Industrials REIT LTIP

On 10 June 2022, the Executive Directors received conditional awards of nil-cost options for the three-year period ending 31 March 2025 equivalent to 200% of their basic salary for each of Paul Arenson and Julian Carey and 100% of basic salary for James Beaumont. Vesting will be subject to the conditions set out in the table below and assessed by the committee at the end of the performance period:

Vesting condition	Weighting
Growing adjusted earnings per share in a range around the budget plan forecast	25%
Achieving between 4% and 6% rental growth per annum over the performance period over the MLI portfolio of the group as at 31 March 2022	25%
Achieving a total shareholder return that results in the total shareholder return of the Company being between the 48th quantile and the 75th quantile of the EPRA Nareit Index.	25%
Delivering a TAR between 10% and 12% compounded per annum over the three-year performance period	10%
Reducing the EPRA cost ratio in relation to the MLI assets of the group at 31 March 2022 by 2 to 8 percentage points	10%
ESG metrics	5%

The Remuneration Committee and the Board decided to include some ESG metrics in the vesting conditions for these conditional awards, as an additional incentive for the Executive Directors to continue to promote the ESG agenda of the Company in line with recent efforts and activities of the Group. These ESG targets include the following:

- creating a framework for incorporating ESG principles into the Company's business strategy (including through the identification of short and medium term environmental targets and metrics);
- identifying how climate change may impact the Group over the short, medium and long term;
- embedding ESG principles into the Company's business strategy and day-to-day business activities;
- establishing and implementing a programme for improving the energy efficiency of the MLI assets;

- ensuring the Company has appropriate systems and processes in place to accurately measure and report on ESG targets to all stakeholders;
- developing a comprehensive customer engagement programme to enable our customers to thrive in their space;
- establishing a community engagement programme;
- ensuring Industrials REIT continues to be an employer of choice through the promotion of diversity learning and staff wellness;
- achieving a Gold EPRA sustainability BPR award; and
- delivering a portfolio with at least 75% EPCs at C standard or above by the end of the performance period.

Any options vesting at the end of the performance period will be subject to an additional two-year holding period. Targets for adjusted earnings per share are again deemed to be commercially sensitive and will be disclosed retrospectively.

Social and Ethics Committee report



Philip Holland

Chair of the Social and Ethics Committee

Number of Meetings

Committee member	Meetings attended
Philip Holland	3/3
Louisa Bell	3/3
Patsy Watson	3/3
Julian Carey	2/3
James Wakelin	3/3

Number of Meetings

3

Social and Ethics Committee Members

Philip Holland
Chair of the Social and Ethics Committee

Louisa Bell
Independent Non-Executive Director

Patsy Watson
Non-Executive Director

Julian Carey
Managing Director

James Wakelin
Head of Debt and Special Projects

Dear Shareholders

I am pleased to present the Social and Ethics Committee report for the year ended 31 March 2022

This committee was established in accordance with the requirements of the King IV Report on Corporate Governance for South Africa ("King IV"). Following the migration of the Company's listing on the Johannesburg Stock Exchange from a primary to a secondary listing in January 2022, King IV is no longer applicable to the Company. However, in light of the important work of the committee in monitoring the environmental and social impact of the Group and ongoing initiatives led by the committee, it was agreed that the committee should remain in place and continue to advise the Board on how the Company does business specifically having regard to ethical standards, environmental, social and governance matters, all important principles also highlighted by the 2018 UK Corporate Governance Code (the "Code").

Committee composition and governance

I chair the committee and the additional members are Louisa Bell, Independent Non-Executive Director, Patsy Watson, Non-Executive Director, Julian Carey, Managing Director, and James Wakelin, Head of Debts and Special Projects and a member of the senior management team. Louisa brings significant operational expertise and experience in managing sustainability risks and opportunities, whilst Patsy Watson, who is also the designated Non-Executive Director with responsibility for engagement with employees, has a keen interest in employees' relationship. Julian Carey and James Wakelin are both leading and taking overall responsibility for all ESG matters.

Social and Ethics Committee Information

Role and responsibilities

The principal responsibilities of the committee include monitoring the Group's activity with regard to matters relating to:

- **Social and economic development and good corporate citizenship** – including the promotion of equality and the contribution to the development of local communities
- **Sustainable development** – the environment, health and public safety including the impact of the Group's activities
- **Employment relationships** – including the Group's contribution towards the development of its employees, working conditions, the safeguarding of human rights and the right to be free from slavery and servitude

The committee's terms of reference are set out on the Company's website.

Key activities during the reporting period

We are proud of what we have achieved so far following the launch of our ESG policy and strategy in FY 2021. Last year, we received a Bronze Award and a Most Improved Award from EPRA in the sustainability category. ESG principles are embedded in our values and culture and form an integral part of our daily business activities. We have continued our efforts and are keen to improve further as our business grows.

Our culture and people

Following the rebrand of the Group from Stenprop to Industrials REIT, we were keen to review our purpose, our values and our culture. We asked all our people to describe Industrials REIT with five key words, and to explain what the Group represents from their individual perspective. Taking the responses received, building on our strategy and existing culture but looking at the future of the Group, we redefined our core purpose, our values and our culture, as further detailed in the strategic report (see pages 3 and 30). Key initiatives

undertaken during the year reflecting those changes included the launch of our new hybrid working policy and the opening of our new office in London.

We know that social activities and interactions are important to our people wellbeing. With the end of the social restrictions brought by the pandemic, we are hopeful that we will be able to renew physical social engagements and invest in exciting activities with our staff.

Sustainability

We have continued the work started in 2020 with our sustainability partner, Carbon Intelligence. The focus this year has been on understanding our carbon emissions (scope 1, 2 and 3) and TCFD reporting, including identifying climate related risks relevant to our Group. We will continue to work on improving the quality and quantity of data collection and set clear science based targets for carbon emissions. Another area of focus for the current financial year will be to use the results of our climate risk analysis to identify measures and further develop our ESG strategy.

I invite all our stakeholders to read more on our ESG strategy and policy on pages 64 to 73 and to review the additional disclosures made on pages 60 to 63 and 74 to 83.

Communities

The committee is proud of the support that all Industrials REIT's employees have given to Dementia UK. Despite the difficulties presented by the pandemic, a total of £18,588 was contributed to the charity through a combination of fundraising initiatives and company donations. It is again a great testament to the dedication and commitment of our employees.

We are excited to partner with The Wellspring for the year ending 31 March 2023. This is a great opportunity to contribute and make a difference to the community local to our Stockport office, and we look forward to another great year of fundraising and volunteering activities.

Philip Holland

Chair of the Social and Ethics Committee
9 June 2022



Directors' report

The Directors present their report and the audited consolidated financial statements for the year ended 31 March 2022.

Principal activities

The principal activity of the Group is that of a property investment company. The Company is a UK REIT and is incorporated in Guernsey. The address of the registered office is Kingsway House, Havilland Street, St Peter Port, Guernsey, GY1 2QE. The postal address of the Company is 180 Great Portland Street, London, W1W 5QZ.

Results and dividends

The results of the Group for the year ended 31 March 2022, are set out in the consolidated statement of comprehensive income. A final dividend was declared on 9 June 2022 of 3.475 pence per share, which, together with the interim dividend declared on 3 December 2021 of 3.375 pence per share, results in a total dividend for the year ended 31 March 2022 of 6.85 pence per share (2021: 6.75 pence per share).

Capital structure

Details of the authorised and issued share capital are shown in Note 12 of the financial statements. The Company has one class of share; all shares rank equally and each share carries the right to one vote at general meetings of the Company.

Powers of Directors to buy back the Company's shares

The powers of the Directors are determined by the Companies (Guernsey) Law, 2008 (as amended) and the Company's Articles of Incorporation. The Directors are authorised to buy back shares subject to annual shareholder approval at the AGM. Such authorities were granted by shareholders at the 2021 AGM. It will be proposed at the 2022 AGM that the Directors be granted new authorities to allot and buy back shares.

The Company did not repurchase any of its ordinary shares during the year ended 31 March 2022 (2021: 3,476,265 shares). As at 8 June 2022 (the latest practicable date for inclusion in this report) the Company had an unexpired authority to repurchase ordinary shares up to a maximum of 43,174,343 ordinary shares.

Going concern

The financial statements of the Group have been prepared on a going concern basis. At the date of signing these accounts, the Group has positive operating cash flow forecasts and positive net assets. Management have reviewed the Group's cash flow forecasts for the 18 months to 30 September 2023 and, considering this review and the current financial position, they are satisfied that the Company and the Group have access to adequate resources to meet their obligations and continue in operational existence for the foreseeable future, and specifically the 12 months subsequent to the signing of these financial statements. Further details are set out in note 2 to the financial statements.

Directors

The Directors of the Company who served during the year and to the date of this report were as follows:

Executive Directors

- Paul Arenson
- Julian Carey
- James Beaumont

Non-Executive Directors

- Richard Grant (Chairman)
- Paul Miller
- Philip Holland
- Patsy Watson
- Louisa Bell
- Richard Smith

Independent Auditor

A resolution to reappoint BDO LLP as independent Auditor will be provided at the next annual general meeting.

Statement as to disclosure of information to Auditors

So far as the Directors are aware, there is no relevant audit information of which the Group's Auditors are unaware, and each Director has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's Auditors are aware of that information.

Statement of Compliance

The Company is in compliance with the provisions of the Companies (Guernsey) Law, 2008 (as amended) and operates in conformity with its Memorandum and Articles of Incorporation.

Statement of Directors' responsibilities

The Directors are responsible for preparing the financial statements in accordance with applicable law and regulations. The Companies (Guernsey) Law, 2008 (as amended) requires the Directors to prepare financial statements for each financial year. Under that law, the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. The financial statements are required to give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008 (as amended). They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Responsibility statement

To the best of the Directors' knowledge, the financial statements, prepared in accordance with IFRS; give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole.

The Annual Report and Accounts includes a fair review of the development and performance of the business and the position

of the Group and Company, together with a description of the principal risks and uncertainties that the Group faces.

The Directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to access the Company's position, performance, business model, and strategy.

Approval of annual financial statements

The consolidated annual financial statements of Industrials REIT Limited were approved by the Board of Directors on 9 June 2022 and are signed on their behalf by:

Paul Arenson

Chief Executive Officer

James Beaumont

Chief Financial Officer



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Financial Statements



industrials
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Chapel Brook Trade Park

1	Mazzanna Tiles	7	ESU Kitsap	13	Champion Spine Belt
2	Suiter Services	8	HSS Hire Services	14	Champion Spine Belt
3	F.S. Trade	9	Screwfix	15	K2 Plastics
4	Y&BOS	10	Wilton Coating Centre	16	Wulfsberg Flooring Centre
5	F.S. Trade	11	Champion Spine Belt	17	Rubber Rattling Construction
6	Toolstation	12	Champion Spine Belt	18	Peak Structures

All enquiries
0800 1 22 3330
industrial.com.au

Independent auditor's report

To the members of Industrials REIT Limited

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 March 2022 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with International Financial Report Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

We have audited the financial statements of Industrials REIT Limited (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 March 2022 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as issued by the IASB.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the audit committee.

Independence

Following the recommendation of the audit committee, we were appointed by the Directors on 16 September 2020 to audit the financial statements for the year ending 31 March 2021 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is two years, covering the years ending 31 March 2021 to 31 March 2022. We remain independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Group or the Parent Company.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting included:

- using our knowledge of the Group and its market sector together with the current general economic environment to assess management's identification of the inherent risks to the Group's business and how these might impact the Group's ability to remain a going concern for the going concern period, being the period to 30 September 2023, which is at least 12 months from when the financial statements are authorised for issue;
- obtaining an understanding of management's process for assessing going concern including an understanding of the key assumptions used;

- obtaining management's going concern assessment and;
- assessing the Group's forecasts cash flows with reference to historic performance and challenging the Directors' forecast assumptions in comparison to the current performance of the Group;
- testing the inputs into the forecasts for reasonableness based on historic activity and corroboration to contractual agreements;
- agreeing the Group's available borrowing facilities and the related terms and covenants to loan agreements;
- obtaining covenant calculations and forecast calculations to test for any potential future covenant breaches. We also considered the covenant compliance headroom for sensitivity to both future changes in property valuations and the Group's future financial performance;
- considering board minutes, and evidence obtained through the audit and challenged the Directors on the identification of any contradictory information in the forecasts and the impacting the going concern assessment;
- analysing the Director's stress testing calculations and challenging the assumptions made using our knowledge of the business and of the current economic climate, to assess the reasonableness of the downside scenarios selected; and reviewing the disclosures in the financial statements relating to going concern to check that the disclosure is consistent with the circumstances.

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

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

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

Overview

	100% (2020: 100%) of Group profit before tax		
Coverage	100% (2020: 100%) of Group revenue		
	100% (2020: 100%) of Group total assets		
		2022	2021
Key audit matters	Valuation of Investment Property	✓	✓
	Group financial statements as a whole		
Materiality	£7,220,000 (2020: £6,430,000) based on 1% (2020: 1%) of Group total assets		

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

The Group's investment portfolio in the year was geographically distributed across Germany, the United Kingdom and Switzerland. We scoped our audit in alignment with the operating segments as disclosed in Note 5, with UK multi-let industrial and Group being identified as significant. Each significant component was subject to full scope audit utilising component materiality. Guernsey, Germany and

Switzerland being non-significant components, were subject to full scope audit procedures utilising group materiality. Audit procedures for all components were performed by the Group audit team.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

Valuation of Investment Property

Refer to Note 3 (Significant Accounting Policies), Note 4 (Key Sources of Estimation Uncertainty) and Note 16 (Investment Property)

The valuation of investment property requires significant judgement and estimates by the Directors, with the assistance of independent valuers ("the External Valuers"), and is therefore considered a significant risk due to the subjective nature of certain assumptions inherent in each valuation.

The key inputs into the fair value model which are subject to significant management estimates include market rents, market yields and vacancy rates. Any input inaccuracies or unreasonable assumptions could give rise to a material misstatement of investment property valuations, therefore impacting the income statement and the balance sheet.

There is also a risk that the Directors may influence the significant judgements and estimates in respect of property valuations in order to achieve property valuation and other performance targets to meet market expectations.

How the scope of our audit addressed the key audit matter

To respond to the key audit matter, we have performed the following audit procedures:

- We read the external valuation reports and checked that the approaches used were consistent with the requirements of relevant accounting standards;
- We assessed the competency, independence and objectivity of the external valuers, which included making enquiries regarding interests and relationships that may have created a threat to the valuer's objectivity;
- We used our knowledge and experience, alongside our valuation specialists, to evaluate and challenge the valuation assumptions, methodologies and inputs used. This included establishing our own range of expectations for the valuation of investment property based on externally available metrics and wider economic and commercial factors as it relates to market yields; We assessed the valuation for each of the investment properties against our own expectation and challenged the external valuer in respect of those properties where the valuations fell outside of our range of expectation through discussion and inspection of corroborating information to determine the appropriate valuation;
- We assessed the accuracy of data provided to the external valuer by obtaining the tenancy schedules and reconciling the rental values used in the valuations to the tenancy schedules. This included tracing a sample back to underlying lease agreements, alongside verifying vacancy rates utilised in the valuations to the tenancy schedules;
- We assessed whether the disclosures in the financial statements are appropriate and in accordance with IFRS 13 Fair Value Measurement; and
- We assessed whether all property valuations have been correctly included in the financial statements.

Key observations:

Based on the procedures performed, we consider the assumptions and methodologies used to value the Group's investment portfolio to be appropriate and that the disclosures in the financial statements are appropriate and in accordance with relevant accounting standards.

Independent auditor's report continued

To the members of Industrials REIT

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

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

	Group financial statements	
	2022	2021
Materiality	£7,220,000	£6,430,000
Basis for determining materiality	Group financial statements as a whole – 1% of total assets	
Rationale for the benchmark applied	We determined that total assets would be the most appropriate basis for determining overall materiality as we consider this to be one of the principal considerations for users of the financial statements in assessing the financial performance of the Group.	
Performance materiality	£5,055,000	£3,860,000
Basis for determining performance materiality	70% of materiality – in determining performance materiality we have considered the following factors; <ul style="list-style-type: none"> • Our risk assessment, including our assessment of the Group's overall control environment; and • The impact of the year ending 31 March 2022 being the second year of our audit of the Group and our past experience of the audit. 	60% of materiality – in determining performance materiality we have considered the following factors; <ul style="list-style-type: none"> • Our risk assessment, including our assessment of the Group's overall control environment; and • The impact of the year ending 31 March 2021 being the first year of our audit of the Group.

Specific materiality

We also determined that for other classes of transactions and account balances not related to investment properties, a misstatement of less than materiality for the financial statements as a whole, specific materiality, could influence the economic decisions of users. As a result, we determined materiality for these items based on 5% of the three-year average of European Public Real Estate Association ("EPRA") earnings being £940,000 (2021: 5% of EPRA being £945,000). We further applied a performance materiality level of 70% (2021: 60%) of specific materiality to ensure that the risk of errors exceeding specific materiality was appropriately mitigated.

Component materiality

We set materiality for each component of the Group based on a percentage of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from £350,000 to £6,820,000 (2021: £1,163,000 to £5,790,000) and for amounts impacting EPRA earnings from £350,000 to £880,000 (2021: £290,000 to £850,000). In the audit of each component, we further applied performance materiality levels of 70% of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £216,000 (2021: £130,000) and for amounts impacting EPRA earnings in excess of £28,000 (2021: £19,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Corporate governance statement

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

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

Going concern and longer-term viability	<ul style="list-style-type: none">• The Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 118; and• The Directors' explanation as to their assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 51
Other Code provisions	<ul style="list-style-type: none">• Directors' statement on fair, balanced and understandable set out on page 119;• Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 50;• The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 50; and• The section describing the work of the audit committee set out on page 94

Other Companies (Guernsey) Law, 2008 reporting

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if in our opinion:

- proper accounting records have not been kept by the Company; or
- the financial statements are not in agreement with the accounting records; or
- we have failed to obtain all the information and explanation which, to the best of our knowledge and belief, are necessary, for the purposes of our audit.

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- Obtaining an understanding of the control environment in monitoring compliance with laws and regulations and performing our own checks of compliance with relevant requirements including the Companies (Guernsey) Law 2008, the UK Listing Rules, Johannesburg Stock Exchange filing requirements and the REIT tax regime requirements;
- Agreement of the financial statement disclosures to underlying supporting documentation to assess compliance with those laws and regulations having an impact on the financial statements;
- Enquiries of management and the Audit and Risk Committee as to their identification of any non-compliance with laws or regulations, or any actual or potential claims;
- Review of minutes of Board meetings throughout the period;
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements. We identified specific fraud risks with respect to the valuation of investment property, which has been included as a key audit matter and our audit response is set out in that section of our audit report. We also identified specific fraud risks with respect to revenue recognition through new or amended leases and management override to reflect higher occupancy and increase property valuations;
- In relation to the risk of management override of internal controls, by undertaking procedures to review journal entries processed during and subsequent to the year end and evaluating whether there was a risk of material misstatement due to fraud; and
- We communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Independent auditor's report_{continued}

To the members of Industrials REIT

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

The partner on the audit resulting in this independent auditor's opinion is Christopher Young.

Use of our report

This report is made solely to the Parent Company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Christopher Young
For on and behalf of BDO LLP
Chartered Accountants and Recognised Auditor
London, United Kingdom
9 June 2022

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated statement of comprehensive income

For the year ended 31 March 2022

	Note	31 March 2022 £'000	31 March 2021 £'000
Continued operations			
Revenue		44,186	32,018
Expected credit losses		(1,328)	(2,042)
Property expenses		(10,071)	(6,916)
Net rental income	6	32,787	23,060
Management fee income		44	747
Operating costs	7	(13,441)	(9,729)
Net operating income		19,390	14,078
Fair value gain on investment properties		89,509	26,891
Loss on disposal of property		(85)	(9)
Income from joint ventures	18	1,707	61
Net foreign exchange gain/(loss)		17	(65)
Profit from operations		110,538	40,956
Net gain from fair value of derivative financial instruments		1,948	1,815
Interest income		129	48
Finance costs	9	(3,899)	(4,510)
Profit for the year before taxation		108,716	38,309
Tax credit	10	13	42
Profit for the year from continuing operations		108,729	38,351
Discontinued operations			
(Loss)/gain for the year from discontinued operations	19	(1,265)	14,664
Profit for the year		107,464	53,015
Profit attributable to:			
Equity holders		107,464	53,045
Non-controlling interest derived from continuing operations		-	(30)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Foreign currency translation reserve		(2,148)	(3,663)
Total comprehensive income for the year		105,316	49,352
Total comprehensive income attributable to:			
Equity holders		105,316	49,382
Non-controlling interest		-	(30)
Earnings per share			
		Pence	Pence
<i>From continuing operations:</i>			
EPS	14	37.27	13.54
Diluted EPS	14	37.12	13.43
<i>From continuing and discontinued operations:</i>			
EPS	14	36.83	18.71
Diluted EPS	14	36.68	18.57

The comparatives have been restated to reflect the change in classification of current year discontinued operations to enable an effective like-for-like comparison.

Consolidated statement of financial position

For the year ended 31 March 2022

	Note	31 March 2022 £'000	31 March 2021 £'000
ASSETS			
Non-current assets			
Investment properties	16	645,082	511,220
Investment in joint ventures	18	–	143
Investment in joint venture bond	18	–	14,119
Intangible assets		3,542	1,784
Derivative financial instruments	24	1,864	138
Other debtors	20	6,543	8,670
Right-of-use asset		35	314
Total non-current assets		657,066	536,388
Current assets			
Cash and cash equivalents	21	31,526	53,781
Trade and other receivables	20	12,159	8,723
Investment in joint ventures	18	385	–
Investment in joint venture bond	18	14,883	–
Other investments		–	1,000
Derivative financial instruments	24	–	2,024
Assets classified as held for sale	19	6,015	39,208
Total current assets		64,968	104,736
Total assets		722,034	641,124
LIABILITIES			
Current liabilities			
Bank loans	23	–	4,489
Taxes payable		1,844	1,706
Accounts payable and accruals	22	19,549	16,516
Provisions		947	–
Lease liability		28	316
Liabilities directly associated with assets classified as held for sale	19	–	15,166
Total current liabilities		22,368	38,193
Non-current liabilities			
Bank loans	23	177,823	176,655
Derivative financial instruments	24	–	430
Lease liability		7	26
Total non-current liabilities		177,830	177,111
Total liabilities		200,198	215,304
Net assets		521,836	425,820
EQUITY			
Capital and reserves			
Share capital and share premium	12	322,765	322,776
Equity reserve		189	(10,058)
Retained earnings		179,575	91,647
Foreign currency translation reserve		19,307	21,455
Total equity		521,836	425,820
		£	£
Net asset value per share	15	1.79	1.49
Diluted net asset value per share	15	1.78	1.48

The consolidated financial statements were approved by the Board of Directors on 9 June 2022 and signed on its behalf by

James Beaumont
Chief Financial Officer

Consolidated statement of changes in equity

For the year ended 31 March 2022

	Note	Share capital and share premium £'000	Equity reserve £'000	Retained earnings £'000	Foreign currency translation reserve £'000	Attributable to equity shareholders £'000	Non-controlling interest £'000	Total equity £'000
Balance at 1 April 2021		322,776	(10,058)	91,647	21,455	425,820	–	425,820
Profit for the year		–	–	107,464	–	107,464	–	107,464
Foreign currency exchange gain	19	–	–	–	(2,291)	(2,291)	–	(2,291)
Other comprehensive income for the year		–	–	–	143	143	–	143
Total comprehensive income for the year		–	–	107,464	(2,148)	105,316	–	105,316
Equity-settled share-based payments	13	(11)	3,876	–	–	3,865	–	3,865
Ordinary dividends	11	–	6,371	(19,536)	–	(13,165)	–	(13,165)
Total contributions and distribution recognised directly in equity		(11)	10,247	(19,536)	–	(9,300)	–	(9,300)
Balance at 31 March 2022		322,765	189	179,575	19,307	521,836	–	521,836
Balance at 1 April 2020		322,993	(14,360)	57,490	25,118	391,241	95	391,336
Profit for the year		–	–	53,045	–	53,045	(95)	52,950
Other comprehensive income for the year		–	–	–	(3,663)	(3,663)	–	(3,663)
Total comprehensive income for the year		–	–	53,045	(3,663)	49,382	(95)	49,287
Equity-settled share-based payments	13	(217)	1,219	213	–	1,215	–	1,215
Repurchase of own shares		–	(4,110)	–	–	(4,110)	–	(4,110)
Ordinary dividends	11	–	7,193	(19,101)	–	(11,908)	–	(11,908)
Total contributions and distribution recognised directly in equity		(217)	4,302	(18,888)	–	(14,803)	–	(14,803)
Balance at 31 March 2021		322,776	(10,058)	91,647	21,455	425,820	–	425,820

Consolidated statement of cash flows

For the year ended 31 March 2022

	Note	31 March 2022 £'000	31 March 2021 £'000
Operating activities			
Profit from operations from continuing operations		110,538	40,955
Profit from operations from discontinued operations	19	(968)	17,808
		109,570	58,763
Depreciation	7	294	274
Increase in fair value of investment property	16	(87,022)	(35,109)
Loss/(gain) on disposal of property		763	(495)
Income from joint ventures	18	(1,707)	(61)
Loss on disposal of joint venture		1	-
Management fee expenses		-	(1)
Share-based payments	7	1,126	937
Foreign currency exchange gain previously recognised in other comprehensive income	25	(2,291)	-
Loss/(profit) on disposal of subsidiaries	25	2,375	(468)
Exchange rate (gain)/loss		(176)	44
Increase in trade and other receivables		(800)	(274)
Increase/(decrease) in trade and other payables		4,371	(3,327)
Cash generated by operations		26,504	20,283
Interest paid		(3,647)	(4,749)
Interest received		729	1,707
Net tax paid		732	(96)
Net cash from operating activities		24,318	17,145
Contributed by: Continuing operations		22,475	6,842
Discontinued operations		1,843	10,303
Investing activities			
Purchase of investment property	16	(102,705)	(96,363)
Capital expenditure - property	16	(3,898)	(1,617)
Capital expenditure - ERP		(2,004)	(1,377)
Proceeds on disposal of investment property, net of selling costs		35,894	52,849
Tax paid on disposal of property		(1,186)	(9,174)
Receipt of loans advanced under the Share Purchase Plan		-	6,643
Other investment - Cash and short-maturity bonds on call		1,000	(1,000)
Repayment of third-party loans	25	(1)	4,543
Disposal of subsidiary	25	25,223	7,738
Net cash disposed of in subsidiary	25	(434)	(348)
Net cash used in investing activities		(48,111)	(38,106)
Contributed by: Continuing operations		(107,607)	(93,612)
Discontinued operations		59,496	55,506
Financing activities			
New bank loans raised	23	29,121	89,558
Repayment of borrowings	23	(18,714)	(77,926)
Amortisation of loans	23	(33)	(123)
Dividends paid		(10,011)	(10,665)
Withholding tax on dividends paid		(2,320)	(1,305)
Lease payments		(331)	(281)
Repurchase of shares		-	(4,110)
SWAP break fee		-	(1,895)
Proceeds from issues of share options		2,738	106
Financing fees paid		(891)	(2,072)
Net cash used in financing activities		(441)	(8,713)
Contributed by: Continuing operations		13,906	7,958
Discontinued operations		(14,347)	(16,671)
Net decrease in cash and cash equivalents		(24,234)	(29,673)
Effect of foreign exchange losses		(1,778)	(1,933)
Cash and cash equivalents at beginning of the period		53,982	85,588
Cash and cash equivalents at end of the period		31,526	53,982
Contributed by: Continuing operations		29,813	32,372
Discontinued operations and assets held for sale		1,713	21,610

Funds totalling £11.2 million were restricted at 31 March 2022 (2021: £4.4 million), see note 21.

The comparatives have been restated to reflect the change in classification of current year discontinued operations to enable an effective like-for-like comparison.

Notes to the consolidated financial statements

1 General Information

Industrials REIT Limited (the 'Company' and together with its subsidiaries the 'Group') is registered in Guernsey (Registration number 64865). The registered address of the Company is Kingsway House, Havilland Street, St Peter Port, GY1 2QE, Guernsey. With effect from 1 May 2018, the Company converted to a UK real estate investment trust ('REIT').

2 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS's) as issued by the IASB, the Disclosure and Transparency Rules of the UK's FCA and applicable Guernsey law. The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of investment properties and financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. The principal accounting policies, which are consistent with those applied in the previous annual financial statements, except for the adoption of new and revised standards (described below), are set out below. The consolidated financial statements are presented in GBP (Pounds Sterling).

Going concern

At the date of signing these consolidated financial statements, the Group has positive operating cash flows and positive net assets. Management have carefully considered the impact of the significant risks and uncertainties within the context of the Group's viability and prospects, with specific emphasis placed on the uncertainties posed to the business and the Group's occupiers as a result of the potential microeconomic impact of the COVID-19 pandemic and political events, including Brexit, and the economic sanctions imposed on Russia following the war in Ukraine.

Management subjected the Group's cash flow forecast for the period to 30 September 2023 to appropriate scenarios. The forecast model was subjected to appropriate scenarios to consider the impact of the significant risks and uncertainties facing the business, taking into account likely effectiveness of mitigating actions that the Group would have at its disposal. The significant risks and uncertainties identified as relevant to the forecast and its ability to continue to meet its obligations as they fall due, relate to the financing of acquisitions and the interest-rate environment, debt compliance, rental growth rates, rental collections, void periods, inflationary costs, and REIT obligations.

The Group has unrestricted cash reserves of £20.7 million at the start of the look forward period which is a key factor in assessing the validity of the going concern assumption for the Group. The Group has no refinancing requirements until 2025 and have utilised swaps (or fixed rate borrowing loans) to fix 75% of borrowing costs, lowering the exposure to the volatile interest-rate environment.

Sensitivities to loan covenants were assessed in detail, as well as the Group's REIT obligations. Despite the disruption in the economy caused by COVID-19, and the uncertain economic outlook with higher inflation rates and interest rate movements, we do not expect the risk of default under our debt facilities to have increased and no breach cures have been assumed in the forecast model. This is considered appropriate in light of the significant headroom which exists for all interest cover ratios and for loan-to-value ratio covenants at the time of publishing this report and during the forecast period based on projections.

In light of this review, the significant liquid assets at year end and the £72.5 million (2021: £27.0 million) of unencumbered property at reporting date, management are satisfied that the Group has access to adequate resources to meet its obligations as they fall due and will continue in operational existence for a period of at least twelve months from the date of these financial statements. The directors believe that it is therefore appropriate to prepare the accounts on a going concern basis and no material uncertainty exists in reaching this conclusion.

Note 27 to the consolidated financial statements includes the Group's objectives, policies, and procedures for managing its capital, market, credit, and liquidity risks.

Adoption of new and revised standards

In the current period no new or revised Standards and Interpretations have been adopted. At the date of approval of these consolidated financial statements, the Group has not applied the following new standards that have been issued but are not yet effective:

- Amendments to IAS 1 Classification of liabilities as current or non-current

Impact assessment of adopting new accounting standards

The Directors are in the process of assessing this standard and does not expect that the adoption of the standard listed above will have a material impact on the financial statements of the Group in future periods.

Notes to the consolidated financial statements continued

2 Basis of preparation continued

New standards in issue but not yet effective

Amendments to IAS 1 Classification of liabilities as current or non-current. In January 2020, the IASB issued amendments to IAS 1, which are intended to clarify the requirements that an entity applies in determining whether a liability is classified as current or non-current. The amendments are intended to be narrow in scope and nature and are meant to clarify the requirements in IAS 1 rather than modify the underlying principles. The amendments include clarifications relating to how events after the end of the reporting period affect liability classification, what the rights of an entity must be to classify a liability as non-current, how an entity assesses compliance with conditions of a liability (e.g., bank covenants), and how conversion features in liabilities affect their classification. The amendments are applied prospectively for annual reporting periods beginning on or after 1 January 2023, with early application permitted. However, they are yet to be endorsed for application in the United Kingdom. The IASB has proposed further amendments to the classification of liabilities under IAS 1 in a new exposure draft issued in November 2021 for non-current liabilities with covenants and the effective date is proposed to be deferred to 1 January 2024.

3 Significant accounting policies

Basis of consolidation

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, the results of the subsidiaries acquired or disposed of during the period are included in the consolidated statement of comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributed to the owners of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses, and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

When the Group loses control of a subsidiary, the gain or loss on disposal recognised in profit or loss is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest, and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e., reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRS). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 Financial Instruments or, when applicable, the costs on initial recognition of an investment in an associate or jointly controlled entity.

Joint ventures

The Group's investment properties are typically held in property-specific separate legal entities, which may be legally structured as joint ventures. In assessing whether a particular legal entity is accounted for as a subsidiary or joint venture, the Group considers all of the contractual terms of the arrangement, including the extent to which the responsibilities and parameters of the venture are determined in advance of the joint venture agreement being agreed between the two parties. The Group will then consider whether it has the power to govern the financial and operating policies of the legal entity, to obtain benefits from its activities, and the existence of any legal disputes or challenges to this control in order to conclude on the classification of the legal entity as a joint venture or subsidiary undertaking. In applying this policy and as detailed in note 18, the Group's investment in Elyson S.A. is classified as a joint venture because the share of beneficial ownership and management of the portfolio being conducted by the joint venture partner.

The consolidated financial statements account for interests in joint ventures using the equity method of accounting per IFRS 11 Joint Arrangements.

Loans to joint ventures are separately presented from equity interests in the Group's consolidated statement of financial position. The Group eliminates upstream and downstream transactions with its joint ventures, including interest and any other costs, to the extent of the Group's interest in the relevant joint venture. The classification and measurement of loans to joint ventures is determined in accordance with the Group's accounting policies for financial assets.

Business combinations and asset acquisitions

Business combinations are accounted for using the acquisition method and any excess of the purchase consideration over the fair value of the net assets acquired is initially recognised as goodwill and subsequently reviewed for impairment. Any discount received and/or acquisition costs are recognised in the consolidated statement of comprehensive income.

3 Significant accounting policies continued

The Group acquires subsidiaries that own real estate. At the time of acquisition, the Group considers whether the acquisition represents the acquisition of a business. The Group accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, the following criteria are considered:

- The number of items of land and buildings owned by the subsidiary;
- The extent to which significant processes are acquired and in particular the extent of ancillary services provided by the subsidiary; and
- Whether the subsidiary has allocated its own staff to manage the property and/or to deploy any processes, including provision of all relevant administration and information to the entity's owners.

When the acquisition of subsidiaries does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities.

There were no business combinations acquired during the 12 months to 31 March 2022 (2021: nil).

Revenue recognition

The Group earns returns from investments in direct property assets and management fees. Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be measured reliably.

Rental income

Rental income and lease incentives are recognised in accordance with IFRS 16 Leases. Rental income from investment property is recognised as revenue on a straight-line basis over the lease term. Lease incentives and costs associated with entering into tenant leases are amortised over the lease term, or if the probability that a break option will be exercised is considered high, over the period to the first break option. Rent reviews are recognised when such reviews have been agreed with tenants.

Rental income from operating leases is recognised on an accruals basis. A rent adjustment based on open market estimated rental value is recognised from the rent review date in relation to unsettled rent reviews. Where a significant rent-free period is included in a lease, the rental income forgone is allocated evenly over the period from the date of lease commencement to the expiry date of the lease.

Rental income from fixed and minimum guaranteed rent reviews is recognised on a straight-line basis over the entire lease term. Where such rental income is recognised ahead of the related cash flow, an adjustment is made to ensure the carrying value of the investment property, including the accrued rent, does not exceed the external valuation. Initial significant direct costs incurred in negotiating and arranging a new lease are amortised on a straight-line basis over the period from the date of lease commencement to the expiry date of the lease.

Where a lease incentive payment, or surrender premium is paid to enhance the value of a property, it is amortised on a straight-line basis over the period from the date of lease commencement to the expiry date of the lease. Upon receipt of a surrender premium for the early determination of a lease, the profit, net of dilapidations and non-recoverable outgoings relating to the lease concerned, is immediately reflected in income.

Lease modifications are a change in the scope of a lease, or the consideration for a lease, which was not part of the original terms and conditions of the lease (for example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term). Lease modifications are accounted for under IFRS 16 Leases. Modifications to a lease is recognised as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Deferred income relates to rental income that has been collected in advance of it being recognised as revenue.

Contingent rents, such as turnover rents, rent reviews and indexation, are recorded as income in the periods in which they are earned.

Tenant recharges

Service charge income, property fee income and joint venture and associate management fees are recognised in accordance with IFRS 15 Revenue from contracts with customers, which prescribes the use of a five-step model for the recognition of revenue. These income streams are recognised as revenue in the period in which they are earned.

Service charge income is recognised in the accounting period in which the services are rendered, and the related property expenses are recognised in the period in which they are incurred.

Other income

Other income mainly consists of solar power income and asset management fee income from the care homes joint venture. These revenue streams are accounted for under IFRS 15 Revenue from contracts with customers and are recognised as revenue in the period in which they are earned.

Notes to the consolidated financial statements continued

3 Significant accounting policies continued

Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position are expressed in GBP Sterling, which is the functional currency of the Company and the presentational currency for the Group.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each statement of financial position date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognised in profit or loss for the period in which they arise.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

Borrowing costs

Interest costs are recognised in the consolidated statement of comprehensive income using the effective interest rate method.

Borrowing costs directly attributable to arranging finance are amortised over the facility term in the consolidated statement of comprehensive income.

Current tax

The Group is a UK REIT, where profits arising in respect of the property rental business are not subject to UK corporation tax. Taxation in respect of profits and losses outside of the property rental business comprises current and deferred taxes. Taxation is recognised in the consolidated statement of comprehensive income except to the extent that it relates to items recognised as a direct movement in equity, in which case it is also recognised as a direct movement in equity.

Current tax is the total of the expected corporation tax payable in respect of any non-REIT taxable income for the year and any adjustment in respect of previous periods, based on tax rates applicable to the respective periods.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Non-controlling interests

Non-controlling interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of the changes in equity since the date of the combination. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

3 Significant accounting policies continued

Investment properties

Properties held to earn rental income and/or capital appreciation are classified as investment properties. Investment properties comprise both freehold and long leasehold land and buildings.

Investment properties are recognised as assets when:

- it is probable that the future economic benefits that are associated with the investment property will flow to the Group;
- there are no material conditions precedent which could prevent completion; and
- the cost of the investment property can be measured reliably.

Investment properties are measured initially at cost, including related transaction costs. After initial recognition, investment properties are carried at fair value, determined by the Directors and/or based on independent external appraisals performed by JLL, twice a year.

The Group uses the valuations prepared by its independent valuers as the fair value of its investment properties. These valuations are undertaken in accordance with the appropriate sections of the current Practice Statements contained in the Royal Institution of Chartered Surveyors Valuation – Professional Standards ('Red Book'). This is an internationally accepted basis of valuation. The valuations are based upon assumptions including contractual and estimated rental values, future rental income, anticipated maintenance costs, future development costs and appropriate discount rates. The valuers also refer to market evidence of transaction prices for similar properties. The valuation techniques used are consistent with IFRS 13 Fair Value Measurement.

The difference between the fair value of a property at the reporting date and its carrying amount prior to remeasurement is included in the consolidated statement of comprehensive income as a valuation surplus or deficit in the fair value gain/(loss) on investment properties account.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks with an original maturity of three months or less. Cash balances are recorded net of tenant deposits. Restricted cash represents service charge monies held by managing agents as well as rent held in bank accounts which are secured by lenders, for the purposes of debt repayments.

Expenditure

Expenses are accounted for on an accrual basis. Property expenses include the costs of professional fees on lettings and other non-recoverable costs. Operating costs include all professional fees incurred in operating the business in the best interests of the shareholders.

Financial instruments

A financial instrument is a contract that gives rise to a financial asset to one entity and a financial liability or equity instrument to another. The classification of financial assets and financial liabilities depends on the nature and purpose of the instrument and is determined at the time of initial recognition.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss ('FVTPL')) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in the statement of comprehensive income.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly.

Level 3 – Inputs are unobservable inputs for the asset or liability.

Financial assets

The Group classifies its financial assets as either at fair value through profit and loss or amortised cost. The Group classifies its financial assets based on both the Group's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets.

The Group's financial assets classified at amortised cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They include current assets with maturities or terms less than 12 months after the reporting date, as well as financial assets with maturities greater than 12 months after the reporting date, which are classified as non-current assets. These assets meet the condition of being held within a business model whose objective is to hold the financial assets in order to collect contractual cash flows and the terms of which give rise, on specified dates, to cash flows that are solely payments of principal and interest.

Notes to the consolidated financial statements continued

3 Significant accounting policies continued

Financial assets, including those relating to the purchase of Industrials REIT Limited shares (note 20), are measured at amortised cost using the effective interest method, less any loss allowance for expected credit losses (ECL) which are recognised in the statement of comprehensive income. The amount of expected credit loss is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The effective interest rate is the rate that exactly discounts estimated future cash receipts excluding expected credit losses, through the expected life of the financial instrument, or, where appropriate, as shorter period, to the gross carrying amount of the financial instrument on initial recognition.

In the case of short-term trade receivables and other debtors the Group recognises lifetime ECL in accordance with the simplified approach under IFRS 9 Financial Instruments. The expected credit losses on these financial assets are estimated based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions, and an assessment of both the current and forecast direction of conditions at the reporting date.

The carrying amount of the financial asset is reduced by the ECL directly for all financial assets. When a trade receivable is considered uncollectable, it is written off against the ECL provision account. Changes in the ECL are recognised in the statement of comprehensive income in the period.

The Group classifies its financial assets at fair value through profit or loss where it has determined that the business model for managing the financial assets and the related contractual cash flow characteristics is not consistent with the policy for classification at amortised cost or fair value through other comprehensive income (OCI). The Group has determined the bond investment in the Elyson S.A. joint venture meets the criteria disclosed in note 4.

There are no financial assets measured at fair value through OCI, which would be classified as such where they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and cash flows relate solely to payments of principal and interest.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset have expired or have been transferred and the Group has transferred substantially all risk and rewards of ownership of the asset to another entity.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual agreement.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all its liabilities. Ordinary shares are classed as equity. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

The Group's financial liabilities comprise interest-bearing borrowings, loans and payables and trade payables. Financial liabilities are recognised when the Group becomes party to the contractual provisions of the instrument. Financial liabilities are measured at amortised cost using the effective interest method. Trade and other payables are valued at their nominal value as the time value of money is immaterial for these current liabilities.

The Group derecognises financial liabilities when the Group's obligations are discharged, cancelled or they expire.

Interest rate swaps have been initially recognised at fair value, and subsequently remeasured at fair value through profit and loss in accordance with IFRS 9, Financial Instruments. They have been entered into to hedge against the exposure to variable interest rate loans as described in note 27. They have been valued by an independent valuer in line with internationally accepted practice.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or non-current liability if the remaining maturity of the instrument is more than 12 months, and it is not expected to be realised or settled within 12 months. It is Group policy not to hedge account. Other derivatives are presented as current assets or current liabilities.

Intangible assets

Intangible assets comprise computer software developed for our Industrials Hive operating platform which will allow Industrials REIT to grow its MLI business. The expenditure capitalised includes the cost of platform development as well as contractor and service provider costs. At 31 March 2022, the ERP operating platform has been built, but is not in operation. Amortisation will begin when Industrials Hive is first used on 1 April 2022. Accordingly, no amortisation or impairment has been recognised in the reporting period ending 31 March 2022.

Non-current assets and disposal groups held for sale

A non-current asset or a disposal group (comprising assets and liabilities) is classified as held for sale if their carrying amount is expected to be recovered or settled principally through sale rather than through continuing use. The asset or disposal group must be available for immediate sale, have the appropriate level of management commitment and the sale must be highly probable within one year of the reporting date. Investment properties included in the held for sale category continue to be measured in accordance with the accounting policy for investment properties.

Note, disclosures in these financial statements are recognised net of assets classified as held for sale and discontinued operations.

3 Significant accounting policies continued

Segmental reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and in respect of which it may incur expenses. An operating segment's operating results are reviewed regularly by the chief operating decision makers (the Executive Directors) to inform decisions about resources to be allocated to the segment and to assess its performance. Segmental financial information is available as disclosed in note 5.

Dividends

Dividends to the Group's ordinary shareholders are recognised when they are declared. This is when they are approved by the Board.

Industrials REIT offers shareholders the option to receive in respect of all or a part of their Industrials REIT shareholding either a scrip dividend, by way of an issue of new Industrials REIT shares (of the same class as existing shares) credited as fully paid up (the 'scrip dividend'), or a cash dividend (the 'cash dividend'). The cash dividend will be paid to shareholders unless shareholders elect to receive the scrip dividend. Scrip dividends are paid out of Industrials REIT's treasury share account.

Earnings per share

Earnings per share is calculated on the weighted average number of shares in issue in respect of the current period and is based on the profit attributable to the ordinary shareholders.

Net asset value per share

Net asset value per share is calculated on the number of shares in issue (excluding treasury shares) at the end of the current period and is based on the total equity attributable to equity shareholders.

Share-based payments

Save As You Earn Share Plan, Deferred Share Bonus Plan and Long-Term Incentive Plan

The cost of equity-settled transactions is measured with reference to the fair value at the date at which they were granted. The Company accounts for the fair value of these options on a straight-line basis over the vesting period in the statement of comprehensive income, with a corresponding increase to the share-based payment reserve in equity. The cost to the Company is based on the Company's best estimate of the number of equity instruments that will ultimately vest. Readers are referred to note 13: Share-based payments, where share-based payments are disclosed further.

Share Purchase Plan

As part of the Group's previous remuneration policy, the Company awarded shares to qualifying participants, funded through the advance of loans to the participants. Loans advanced under the share purchase plan are interest-bearing at a rate equal to the average interest rate incurred by the Group from time to time. Interest is payable six monthly in arrears. Loans are repayable within 30 days of cessation of employment or loss of office (unless the participant ceases employment in circumstances beyond his or her control, in which case the loan is repayable within 12 months) and must in all circumstances be repaid in ten years. All dividends received by such employees (or his or her nominee), by virtue of their shareholding, must first be utilised to discharge any interest outstanding from the loan advanced on the Share Purchase Plan.

The loans have full recourse to the participants and as such fall outside of the scope of IFRS 2 and are accounted for as financial instruments under IFRS 9. The participants must charge their shares by way of security for the loan and are required to waive all rights to compensation for any loss in relation to the plan. No further awards will be made under the Share Purchase Plan.

Repurchase of share capital (own shares)

Where share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Such shares may either be held as own shares (treasury shares) or cancelled. Where own shares are subsequently re-sold from treasury, the amount received is recognised as an increase in equity.

Notes to the consolidated financial statements continued

4 Critical accounting judgements and key sources of estimation uncertainty

The preparation of the consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. Although the estimates are based on management's best knowledge of the amount, events or actions, actual results may ultimately differ from those estimates. The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting year, which have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Key sources of estimation uncertainty

Valuation of the property portfolio

The Group's investment properties are stated at estimated fair value, determined by Directors, based on an independent external appraisal. The valuation of the Group's property portfolio is inherently subjective due to several factors, including the individual nature of each property, its location, expectation of future rentals and the discount yield applied to those cash flows. As a result, the valuations placed on the property portfolio are subject to a degree of uncertainty and are made based on assumptions that may not prove to be accurate, particularly in years of volatility or low transaction flow in the market. The estimated market value may differ from the price at which the Group's assets could be sold at a particular time, since actual selling prices are negotiated between willing buyers and sellers. As a result, if the assumptions prove to be different, actual results of operations and realisation of net assets could differ from the estimates set forth in these financial statements, and the difference could be significant. Further details, as well as the key sensitivity variables, can be found in note 16.

The Group currently has four continental European investment properties held in a joint venture. Further information these assets held for sale can be found in note 18 – investment in joint ventures.

Critical judgements

Assets held for sale and discontinued operations

The Directors have disclosed one (2021: two) property which meets the criteria defined in IFRS 5: Non-current Assets Held for Sale and Discontinued Operations. The Directors have classified the Guernsey, Germany (retail properties) and Switzerland operating segments as discontinued operations. The Guernsey and Switzerland operating segments no longer hold any investment property and as such the Directors have classified these segments as discontinued operations.

One UK MLI property known as Rose Kiln Court in Reading is classified as held for sale. This asset's fair value has been determined by the Directors based on an offer for sale that was received on the open market, less transaction costs.

Industrials REIT is actively trying to sell its joint venture holding of the four German care homes properties and is committed to exit the German market as soon as possible. The German care homes were first classified as held for sale at 30 September 2021. However, this investment is not classified as held for sale at 31 March 2022 because the Directors no longer consider the requirements of IFRS 5 to be met. Whilst the Directors are actively trying to find a buyer and negotiations are ongoing with several prospective buyers the Directors do not consider the imminent sale of the investment to be highly probable. Accordingly, the Directors have classified the German (care homes) segment as a continuing operation. The Directors remain committed to the plan to sell the care homes and are confident a buyer will emerge to acquire Industrials REIT's share of the care homes joint venture on equitable terms within the period to 31 March 2023.

Classification of investment in joint venture bond

Classification and measurement of financial assets under IFRS 9 are driven by the entity's business model for managing financial assets and the contractual cash flow characteristics of those financial assets. The Directors have determined that the contractual cash flow characteristics for bond investments into Elysion S.A. ('JV') (a joint venture) are not solely payments of principal and interest. The Group instead receives the return for each underlying loan net of additional fees and expenses in the JV and so it is not considered to be a basic lending arrangement under the standard. Further details on the structure are included in note 18. As such, these bond investments are required to be measured at fair value through profit or loss. In making this judgement, the Directors have considered the power the Group has to influence the investment decisions of the JV housing the underlying loans, which are managed at the discretion of the JV partner and were the Group to hold the majority interest it has been determined that the contractual cash flow characteristics for a basic lending arrangement would have been met and therefore accounted for at amortised cost.

5 Operating segments

The Group has specialised in the ownership and operation of UK multi-let industrial property. Historically the investment portfolio was geographically distributed across the United Kingdom, Germany, Guernsey and Switzerland. Apart from the Group segment, each segment derives its revenue from the rental of investment properties in their respective geographical regions.

For the year ended 31 March 2022	Continuing operations			Discontinued operations				Total £'000
	UK multi-let industrial £'000	Germany [^] £'000	Group £'000	Guernsey £'000	Germany [^] £'000	Switzerland £'000		
Net rental income	32,704	–	83	–	–	–	32,787	
Net management fee income	–	–	44	–	–	–	44	
Fair value movement on investment properties	89,509	–	–	–	–	–	89,509	
Net gain/(loss) from fair value of financial liabilities	2,139	–	(191)	–	–	–	1,948	
Loss on disposal of property	(85)	–	–	–	–	–	(85)	
Income from joint venture	–	1,707	–	–	–	–	1,707	
Net finance costs	(3,738)	–	(32)	–	–	–	(3,770)	
Tax, legal and professional fees	(545)	–	(1,401)	–	–	–	(1,946)	
Audit fees	–	–	(272)	–	–	–	(272)	
Administration fees	(42)	–	(377)	–	–	–	(419)	
Non-Executive Directors' costs	–	–	(279)	–	–	–	(279)	
Staff remuneration costs	–	–	(5,945)	–	–	–	(5,945)	
Operating costs	(2)	–	(4,578)	–	–	–	(4,580)	
Net foreign exchange gain	–	–	17	–	–	–	17	
(Loss)/gain from discontinued operations (see note 19)	–	–	–	(686)	(855)	276	(1,265)	
Tax credit	13	–	–	–	–	–	13	
Total profit/(loss) per reportable segment	119,953	1,707	(12,931)	(686)	(855)	276	107,464	
As at 31 March 2022								
Investment properties	645,082	–	–	–	–	–	645,082	
Investment in joint ventures	–	15,268	–	–	–	–	15,268	
Cash and cash equivalents	26,927	–	2,885	7	888	819	31,526	
Other	17,446	–	4,235	–	2,396	66	24,143	
Assets classified as held for sale	6,015	–	–	–	–	–	6,015	
Total assets	695,470	15,268	7,120	7	3,284	885	722,034	
Borrowings – bank loans	177,823	–	–	–	–	–	177,823	
Other	17,629	–	3,962	1	745	38	22,375	
Total liabilities	195,452	–	3,962	1	745	38	200,198	

Notes to the consolidated financial statements continued

5 Operating segments continued

For the year ended 31 March 2021	Continuing operations			Discontinued operations			Total £'000
	UK multi-let industrial* £'000	Germany ^ £'000	Group £'000	Guernsey £'000	Germany ^ £'000	Switzerland £'000	
Net rental income	22,984	–	75	–	–	–	23,059
Net management fee income	–	–	747	–	–	–	747
Fair value movement on investment properties	26,892	–	–	–	–	–	26,892
Net (loss)/gain from fair value of financial liabilities	(209)	–	2,024	–	–	–	1,815
Loss on disposal of property	(9)	–	–	–	–	–	(9)
Income/(expense) from joint ventures	–	62	(1)	–	–	–	61
Net finance (costs)/income	(4,498)	–	36	–	–	–	(4,462)
Tax, legal and professional fees	(404)	–	(831)	–	–	–	(1,235)
Audit fees	–	–	(265)	–	–	–	(265)
Administration fees	(26)	–	(251)	–	–	–	(277)
Investment advisory fees	–	–	–	–	–	–	–
Non-Executive Directors' costs	–	–	(416)	–	–	–	(416)
Staff remuneration costs	–	–	(4,100)	–	–	–	(4,100)
Operating costs	(2)	–	(3,434)	–	–	–	(3,436)
Net foreign exchange loss	–	–	(65)	–	–	–	(65)
Gain/(loss) from discontinued operations (see note 19)	–	–	–	2,544	13,011	(891)	14,664
Tax (charge)/credit	(7)	–	49	–	–	–	42
Total profit/(loss) per reportable segment	44,721	62	(6,432)	2,544	13,011	(891)	53,015
As at 31 March 2021							
Investment properties	455,070	–	–	56,150	–	–	511,220
Investment in joint ventures	–	14,261	1	–	–	–	14,262
Cash and cash equivalents	12,497	–	19,875	1,174	20,235	–	53,781
Other	13,729	–	5,820	772	2,332	–	22,653
Assets classified as held for sale	–	–	–	–	26,592	12,616	39,208
Total assets	481,296	14,261	25,696	58,096	49,159	12,616	641,124
Borrowings – bank loans	153,215	–	–	27,929	–	–	181,144
Other	11,940	–	3,662	2,062	1,330	–	18,994
Liabilities directly associated with assets classified as held for sale	–	–	–	–	9,766	5,400	15,166
Total liabilities	165,155	–	3,662	29,991	11,096	5,400	215,304

* The comparatives have been restated and now reports the previously stated UK urban logistics segment in the UK multi-let industrial segment from 1 April 2021.

^ The German operating segment has been split between continuing and discontinued operations. Due to the potential protracted time-frame it is expected to take to dispose of the care homes joint venture, this cash generating operation is being disclosed as a continuing operation. All other historic German property operations have been classified as discontinued operations. This classification does not change the Group's strategy to dispose its ownership interest in the care home's joint venture and the sales process is progressing well.

The comparative operating segments have also been restated to reflect the change in classification of current year discontinued operations to enable an effective like-for-like comparison.

6 Net rental income

	31 March 2022 £'000	31 March 2021 £'000
Rental income	35,260	27,341
Tenant recharges	8,625	3,602
Other income	301	1,075
Revenue	44,186	32,018
Direct property costs	(10,071)	(6,916)
Expected credit losses	(1,328)	(2,042)
Property expenses	(11,399)	(8,958)
Total net rental income	32,787	23,060

The comparatives have been restated to reflect the change in classification of current year discontinued operations to enable an effective like-for-like comparison.

7 Operating costs

	31 March 2022 £'000	31 March 2021 £'000
Tax, legal and professional fees	1,946	1,235
Audit fees	234	229
Interim review fees	38	36
Administration fees	419	277
Non-Executive Directors' remuneration costs	279	416
Staff remuneration costs	5,945	4,100
Share-based payments	1,126	937
ERP project expenses	718	463
Depreciation	294	274
Corporate costs	762	623
IT costs	904	678
Other operating costs	776	461
Total operating costs	13,441	9,729

Share-based payments of £1.1 million (2021: £937,000) relate to the equity-settled incentive schemes operated by the Group. As at 31 March 2022 the Group's equity reserve held £3.6 million (2021: £2.6 million) in relation to the schemes after the exercise of options at fair value of £343,000 (2021: £748,000) during the period.

The comparatives have been restated to reflect the change in classification of current year discontinued operations to enable an effective like-for-like comparison.

Notes to the consolidated financial statements continued

8 Employees' and Directors' emoluments

The average number of the Group's employees was 46 during the current financial year (2021: 33). At 31 March 2022, the Group employed 52 people (2021: 43). The aggregate remuneration paid to employees during the period, including that to Executive Directors, was:

	31 March 2022 £'000	31 March 2021 £'000
Wages and salaries	4,267	3,510
Social security costs	1,500	449
Pension costs	178	141
Share-based payments	1,126	937
Total employee costs	7,071	5,037

As at 31 March 2022, the Group had nine Directors (2021: nine). The Directors of the Group during the financial year and at the date of this report were as follows:

Non-Executive Directors	Appointed
Paul Miller	14 Sep 2016
Richard Grant (Chair of the Board)	1 May 2018
Philip Holland	1 May 2018
Patsy Watson	5 Jun 2019
Louisa Bell	4 Nov 2020
Richard Smith	4 Nov 2020
Executive Directors	Appointed
Paul Arenson (Chief Executive Officer)	2 Oct 2014
Julian Carey (Managing Director)	1 May 2018
James Beaumont (Chief Financial Officer)	5 Jun 2019

Emoluments paid to Executive Directors are disclosed in the remuneration report on page 111. Emoluments paid to Non-Executive Directors are summarised below:

	31 March 2022 £'000	31 March 2021 £'000
Non-Executive Directors		
Richard Grant	58	58
Philip Holland	43	43
Patsy Watson	35	35
Paul Miller	40	40
Louisa Bell	40	16
Richard Smith	40	16
Warren Lawlor – paid to Ferryman Capital Partners (Pty) Limited	–	18
Total	256	226

The above Non-Executive fees include all management, consulting, technical or other fees paid for such services rendered, including payments to management companies.

The Group's share-based payments comprise the Save As You Earn share plan ("SAYE"), the Deferred Share Bonus Plan ("STIP"), and the Long-Term Incentive Plan ("LTIP") for Executive Directors and Senior Management, and various share option schemes.

The Company measures the fair value of the equity-based share options at grant date and accounts for the cost over the vesting period in the statement of comprehensive income, with a corresponding increase to the share-based payment reserve. The cost is based on the quantity of shares that are likely to vest, taking into account expected performance against the relevant performance targets where applicable, and service periods. Share-based awards and the respective vesting dates are further detailed in note 13.

8 Employees' and Directors' emoluments continued

On 8 June 2022, the Board of Directors, on the recommendation of the Remuneration Committee, approved the following:

Executive Directors	Bonuses in respect of the year ended 31 March 2022				
	Cash bonus £'000	Deferred share bonus plan £'000	Number of share options (estimated)	LTIP for Executive Directors £'000	Number of share options (estimated)
Paul Arenson	171	149	82,800	657	365,000
Julian Carey	165	143	79,400	632	351,200
James Beaumont	82	43	23,900	191	106,100
Total	418	335	186,100	1,480	822,300

On 9 June 2021, the Board of Directors, on the recommendation of the Remuneration Committee, approved the following:

Executive Directors	Bonuses in respect of the year ended 31 March 2021				
	Cash bonus £'000	Deferred share bonus plan £'000	Number of share options	LTIP for Executive Directors £'000	Number of share options
Paul Arenson	169	253	162,248	572	366,058
Julian Carey	162	243	155,908	549	351,713
James Beaumont	81	40	25,850	182	116,619
Total	412	536	344,006	1,303	834,390

Directors' interests – beneficial direct and indirect holdings in the Company

As at 31 March 2022: ¹	Direct number of shares	% of shares in issue	Indirect number of shares	% of shares in issue	Number of share options held	% of shares in issue
Paul Arenson (CEO)	481,236	0.16 %	15,810,572 ²	5.29 %	2,979,246	1.00 %
Patsy Watson	–	– %	1,129,442	0.38 %	52,346	0.02 %
Julian Carey (MD)	3,344,697	1.12 %	33,705	0.01 %	2,113,000	0.71 %
James Beaumont (CFO)	57,616	0.02 %	–	– %	495,947	0.17 %
Paul Miller	21,898	0.01 %	–	– %	–	– %
Richard Grant (Chair of the Board)	–	– %	100,000	0.03 %	–	– %
Philip Holland	24,999	0.01 %	–	– %	–	– %
Louisa Bell	–	– %	–	– %	–	– %
Richard Smith	15,000	0.01 %	–	– %	–	– %

¹ In addition, the Directors' beneficial direct and indirect holding in the Company remain unchanged as at 8 June 2022, being the last practical date before publication of this report.

² 5,392,536 shares are subject to security by way of a shareholder loan (see note 13).

Notes to the consolidated financial statements continued

8 Employees' and Directors' emoluments continued

There were no further changes in the above Directors' interests from 31 March 2022 to the date of the signing of these financial statements.

As at 31 March 2021:	Direct number of shares	% of shares in issue	Indirect number of shares	% of shares in issue	Number of share options held	% of shares in issue
Paul Arenson (CEO)	472,215	0.16 %	15,311,788 ¹	5.12 %	2,562,856	0.86 %
Patsy Watson	–	– %	1,106,602	0.37 %	50,646	0.02 %
Julian Carey (MD)	3,344,740	1.12 %	32,543	0.01 %	1,738,875	0.58 %
James Beaumont (CFO)	57,756	0.02 %	–	– %	380,847	0.13 %
Paul Miller	21,898	0.01 %	–	– %	–	– %
Richard Grant (Chair of the Board)	–	– %	100,000	0.03 %	–	– %
Philip Holland	24,999	0.01 %	–	– %	–	– %
Louisa Bell	–	– %	–	– %	–	– %
Richard Smith	–	– %	–	– %	–	– %

¹ 5,392,536 shares are subject to security by way of a shareholder loan (see note 13).

9 Finance costs

	31 March 2022 £'000	31 March 2021 £'000
Interest on loans and borrowings	3,015	3,724
Amortisation of facility costs	884	786
Net finance costs	3,899	4,510

The comparatives have been restated to reflect the change in classification of current year discontinued operations to enable an effective like-for-like comparison.

10 Taxation

Real Estate Investment Trust regime (REIT regime)

The Company converted to UK REIT status on 1 May 2018. As a member of the REIT regime, profits from its UK property rental business are tax exempt. The REIT regime only applies to certain property-related profits and has several criteria which have to be met. The main criteria are:

- the assets of the property rental business must be at least 75% of the Group's assets;
- the profit from the tax-exempt property rental business must exceed 75% of the Group's total profit; and
- at least 90% of the Group's profit from the UK property rental business must be paid as dividends.

The Company continues to meet these conditions and management intends that Industrials REIT should continue as a REIT for the foreseeable future.

(i) Tax recognised in statement of comprehensive income

	31 March 2022 £'000	31 March 2021 £'000
Current tax – UK		
On net income for the year	–	–
Current tax – Foreign		
On net income for the year	(13)	(42)
Total current tax credit	(13)	(42)
Deferred tax	–	–
Total tax credit	(13)	(42)

No tax was recognised on other comprehensive income during the period (2021: nil). The United Kingdom tax rate is 19%.

(ii) Reconciliation of tax charge for the year

	31 March 2022 £'000	31 March 2021 £'000
Profit before taxation on continuing operations	108,716	38,309
Expected tax charge on ordinary activities at the standard rate of taxation of 19% (2021: 19%)	20,656	7,279
Fair value of derivative financial instrument losses/(gains) not taxable	36	(385)
Property rental business profits exempt from tax in the REIT Group	(22,791)	(8,497)
Effect of tax rates in other jurisdictions	(315)	55
Effect of tax losses	2,414	1,548
Tax provisions relating to prior periods	(13)	(42)
Total income tax credit	(13)	(42)

The comparatives have been restated to reflect the change in classification of current year discontinued operations to enable an effective like-for-like comparison.

Notes to the consolidated financial statements continued

11 Dividends

	For the year ended 31 March 2022	
	Pence per share	£'000
Amounts recognised as dividends to equity holders in the period:		
Final dividend for the year ended 31 March 2021 paid on 13 August 2021	3.375	9,721
Interim dividend for the year ended 31 March 2022 paid on 11 February 2022	3.375	9,815
Total dividends distributed	6.75	19,536
Scrip dividends issued during the period:		
Final scrip dividend for the year ended 31 March 2021 paid on 13 August 2021	3.375	(3,573)
Interim scrip dividend for the year ended 31 March 2022 paid on 11 February 2022	3.375	(2,798)
Total scrip dividends issued	6.75	(6,371)
Withholding tax liability opening balance		576
Withholding tax liability closing balance		(1,410)
Dividends paid as reported in the consolidated statement of cash flows		12,331

	For the year ended 31 March 2021	
	Pence per share	£'000
Amounts recognised as dividends to equity holders in the period:		
Final dividend for the year ended 31 March 2020 paid on 14 August 2020	3.375	9,550
Interim dividend for the year ended 31 March 2021 paid on 12 February 2021	3.375	9,551
Total dividends distributed	6.75	19,101
Scrip dividends issued during the period:		
Final scrip dividend for the year ended 31 March 2020 issued on 14 August 2020	3.375	(4,074)
Interim scrip dividend for the year ended 31 March 2021 issued on 12 February 2021	3.375	(3,119)
Total scrip dividends issued	6.75	(7,193)
Withholding tax liability opening balance		638
Withholding tax liability closing balance		(576)
Dividends paid as reported in the consolidated statement of cash flows		11,970

The Directors declared a final dividend on 9 June 2022, for the year ended 31 March 2022, of 3.475 pence per share, which is detailed in note 30.

12 Share capital

Authorised

1,000,000,000 ordinary shares with a par value of €0.000001258 each:

	31 March 2022 (no. shares)	31 March 2021 (no. shares)
Issued share capital		
Opening balance	298,775,175	298,775,175
Closing number of shares in issue	298,775,175	298,775,175
Authorised share capital	£'000	£'000
Share capital	1	1
Share premium	322,764	322,775
Total share capital and share premium	322,765	322,776

There were no changes made to the number of authorised shares of the Company during the period under review. Industrials REIT Limited has one class of share. All shares rank equally and are fully paid.

The Company has 298,775,175 (2020: 298,775,175) ordinary shares in issue at the reporting date, including treasury shares.

On 11 June 2021, the Company announced a final dividend of 3.375 pence per share in respect of the six months to 31 March 2021.

On 12 August 2021, the Company announced a take-up of the scrip dividend representing 0.92% of the issued share capital and 2,749,876 shares were subsequently issued from treasury shares on 13 August 2021.

On 3 December 2021, the Company announced an interim dividend of 3.375 pence per share in respect of the six months to 30 September 2021.

On 10 February 2022, the Company announced a take-up of the scrip dividend representing 0.48% of the issued share capital and 1,428,082 shares were subsequently issued from treasury shares on 11 February 2022.

As at 31 March 2022, the Company held 6,520,962 treasury shares (2021: 12,866,950). During the period, the shareholders were offered the option to receive either a scrip dividend by way of an issue of Industrials REIT's treasury shares, or a cash dividend.

The equity reserve account within equity combines the activities of the Company's treasury shares, including the issue of scrip dividend shares (detailed in the below table) as well as the equity-settled share-based payments that are credited to equity (see note 13). At 31 March 2022, the carrying value of the Company's treasury shares was £3,370,000 (2021: £12,851,000) and the equity-settled share-based payments reserve reduced this account by £3,559,000 (2021: £2,793,000)

Retained earnings is the cumulative net profit of the Group. Retained earnings can either be paid out to shareholders as a dividend or be reinvested in the Group as working capital.

	31 March 2022 (no. shares)	31 March 2021 (no. shares)
Treasury shares		
Opening balance	12,866,950	15,830,040
Issue of scrip dividend shares	(4,177,958)	(5,436,781)
Market buy-back of shares for the period to 31 March 2021 was at an average price of £1.18 per share	–	3,476,265
Exercised shares from the Deferred Share Bonus Plan	(55,287)	(797,797)
Exercised shares from the Long-Term Incentive Plan	(112,743)	(204,777)
Exercised shares from the Other Share Purchase Plan	(2,000,000)	–
Closing number of treasury shares	6,520,962	12,866,950

Notes to the consolidated financial statements continued

13 Share-based payments

The Group operates share incentive plans which are used to attract and retain high-calibre employees to help grow the business. All awards are considered by the Remuneration Committee and are subject to Board approval.

The Group recognised a total share-based expense of £1,126,000 in the year (2021: £937,000) in relation to the share option schemes. As at 31 March 2022, the equity reserve held £3,558,000 in relation to share-based payment transactions (2021: £2,636,000).

The incentive plans are discussed in more detail below.

Save As You Earn (SAYE) share scheme

The Board gave all employees an opportunity to purchase Industrials REIT Limited's shares in three years' time at a discount. Such share options vest in three years. Share options may be exercised three years after grant or employees may have all their savings returned to them in cash. Employees choose how much they want to contribute to the scheme each month, from £5 up to a maximum of £500 per month.

The fair value of this nil-cost option is determined using the Black-Scholes model. The key inputs used in determining the award granted on 15 March 2022 are shown below:

Share price at date of grant	188.00p
Expected option life in years	3
Option price discount	20.00%
Value per option	50.00p

Movement in options granted in terms of this plan are detailed below:

Date of grant	At 1 April 2021	Granted	Dividend equivalents	Exercised/ Other	Outstanding at 31 March 2022	Exercisable at 31 March 2022	Fair value at grant date in GBP	Exercise dates	
								From	To
15 March 2022	–	140,897	–	–	140,897	–	£0.50	1 May 2025	1 November 2025

Weighted average exercise price of Save As You Earn share options	At 31 March 2022	At 31 March 2021
	Exercisable	–
Non-exercisable	£1.55	N/A

Weighted average remaining contracted life of Save As You Earn share options	At 31 March 2022	At 31 March 2021
	Exercisable	–
Non-exercisable	3.6 years	N/A

Deferred share bonus plan

The Board may grant an award to an eligible employee following a recommendation from the Remuneration Committee over such number of shares that have an aggregate value equal to the deferred bonus. Such share options vest in three equal tranches; the first tranche vests on the date of grant with subsequent tranches vesting at the first and second anniversaries of the relevant year end. Share options may be exercised until the tenth anniversary of the grant date, after which time they will lapse.

The fair value of this nil-cost option is determined using the Black-Scholes model. The key inputs used in determining the award granted on 11 June 2021 are shown below:

Share price at date of grant	159.00p
Expected option life in years	2
Value per option	159.00p

13 Share-based payments continued

Movement in options granted in terms of this plan are detailed below:

Date of grant	At 1 April 2021	Granted	Dividend equivalents	Exercised/ Other	Outstanding at 31 March 2022	Exercisable at 31 March 2022	Fair value at grant date in GBP	Exercise dates	
								From	To
10 June 2015	247,093	–	6,700	–	253,793	253,793	£1.08	10 June 2015	10 June 2025
8 June 2016	163,010	–	4,608	–	167,618	167,618	£1.05	8 June 2016	8 June 2026
7 June 2017	14,322	–	428	–	14,750	14,750	£1.08	7 June 2017	7 June 2027
7 June 2018	188,560	–	5,988	–	194,548	194,548	£1.13	7 June 2018	7 June 2028
6 June 2019	417,732	–	14,106	(25,669)	406,169	406,169	£1.12	6 June 2019	6 June 2029
12 June 2020	124,956	–	4,984	(40,702)	89,238	89,238	£1.17	12 June 2020	12 June 2030
11 June 2021	–	414,880	15,471	(14,816)	415,535	272,085	£1.59	11 June 2021	11 June 2031

Weighted average exercise price of deferred share bonus plan share options	At 31 March 2022	At 31 March 2021
	Exercisable	£1.20
Non-exercisable	£1.59	£1.17

Weighted average remaining contracted life of deferred share bonus plan share options	At 31 March 2022	At 31 March 2021
	Exercisable	6.4 years
Non-exercisable	9.2 years	9.2 years

LTIP for Senior Management

Such share options vest in three equal tranches; the first tranche vests on the first anniversary of year end, with subsequent tranches vesting at the second and third anniversaries of the relevant year ends. Share options may be exercised until the tenth anniversary of the grant date, after which time they will lapse. The fair value of this award is determined using the Black-Scholes model. The key inputs used in determining the award granted on 11 June 2021 are shown below:

Share price at date of grant	159.00p
Exercise price at grant date	156.15p
Expected option life in years	10
Risk-free rate	0.11%
Expected volatility	33.00%
Value per option	50.00p

The volatility assumption is based on a statistical analysis of daily share prices of comparator companies over the three years prior to the 11 June 2021 grant date.

Date of grant	At 1 April 2021	Granted	Dividend equivalents	Exercised/ Other	Outstanding at 31 March 2022	Exercisable at 31 March 2022	Fair value at grant date in GBP	Exercise dates	
								From	To
24 January 2018	98,944	–	3,142	–	102,086	102,086	£0.47	31 March 2018	24 January 2028
7 June 2018	483,925	–	11,788	(112,741)	382,972	382,972	£0.27	31 March 2019	7 June 2028
6 June 2019	436,105	–	29,311	(14,656)	450,760	450,760	£0.26	31 March 2020	6 June 2029
12 June 2020	432,848	–	15,372	–	448,220	298,813	£0.37	31 March 2021	12 June 2030
11 June 2021	–	373,295	13,950	–	387,245	129,082	£0.50	31 March 2022	11 June 2031

Notes to the consolidated financial statements continued

13 Share-based payments continued

	At 31 March 2022	At 31 March 2021
Weighted average exercise price of LTIP for senior management share options		
Exercisable	£1.14	£1.12
Non-exercisable	£1.37	£1.12

	At 31 March 2022	At 31 March 2021
Weighted average remaining contracted life of LTIP for senior management share options		
Exercisable	7.2 years	7.7 years
Non-exercisable	8.8 years	8.9 years

LTIP for Executive Directors

Such share options vest on the third anniversary of grant date subject to predetermined vesting conditions being met. All options not vesting on the vesting date will automatically lapse. All vested options and shares received upon the exercise of vested options are subject to a further two-year lock-in period during which they cannot be sold. The fair value of these nil-cost options is determined by external valuers using the Black-Scholes model and the Monte Carlo model. The key inputs used in determining the award granted on 11 June 2021 are shown below:

Share price	159.00p
Exercise price at grant date	£0.00
Expected option life in years	3+2
Risk-free rate	0.12%
Expected volatility	33.00%
Value per option – non-market awards	159.00p
Value per option – market awards	91.00p

The volatility assumption is based on a statistical analysis of daily share prices of comparator companies over the three years prior to the 11 June 2021 grant date.

Date of grant	At 1 April 2021	Dividend equivalents Granted	Exercised/ Other	Outstanding at 31 March 2022	Exercisable at 31 March 2022	Fair value at grant date in GBP	Exercise dates	
							From	To
24 January 2018	243,813	–	7,293	–	251,106	£0.68	8 June 2020*	8 June 2027
7 June 2018	1,124,038	–	19,812	(500,206)	643,644	£0.52	7 June 2021*	7 June 2028
6 June 2019	1,072,297	–	36,031	–	1,108,328	£0.52	6 June 2022*	6 June 2029
12 June 2020	1,107,497	–	39,322	–	1,146,819	£0.75	12 June 2023*	12 June 2030
12 June 2020	–	834,390	31,180	–	865,570	£0.91	11 June 2024*	11 June 2031

* Lock-in period of two years applies after vesting.

	At 31 March 2022	At 31 March 2021
Weighted average exercise price of LTIP for Executive Directors' share options		
Exercisable	–	–
Non-exercisable	–	–

	At 31 March 2022	At 31 March 2021
Weighted average remaining contracted life of LTIP for Executive Directors' share options		
Exercisable	–	–
Non-exercisable	7.6 years	8.1 years

13 Share-based payments continued

Other share options

On 30 March 2017, the Company agreed to grant to Ferryman Capital Partners Limited, a company in which Warren Lawlor, a former Non-Executive Director, has a one-third beneficial interest, an option to subscribe for 2,000,000 Industrials REIT shares. The exercise price was £1.32. The full cost of this option was recognised in the year ended 31 March 2018. The option was exercised in full between 18 June 2021 and 9 July 2021.

The fair value of this award was determined using the Black-Scholes model. The key inputs used in determining the award granted on 30 March 2017 are shown below:

Share price	£1.08
Exercise price at grant date	£1.31
Expected option life in years	5
Risk-free rate	1.50%
Expected volatility	31.31%
Expected dividend yield	5.00%
Value per option	£0.13

The volatility assumption is based on a statistical analysis of daily share prices of Industrials REIT Limited over the two years prior to the 30 March 2017 grant date.

Date of grant	At 1 April 2021	Granted	Exercised	Outstanding	Exercisable	Fair value at grant date in GBP	Exercise dates	
				at 31 March 2022	at 31 March 2022		From	To
30 March 2017	2,000,000	–	2,000,000	–	–	£0.13	30 December 2017	31 March 2022

Share purchase plan

Loans advanced under the share purchase plan are interest-bearing at a rate equal to the average interest rate incurred by the Group from time to time. Interest is payable six-monthly in arrears. Loans are repayable within 30 days of cessation of employment or loss of office (unless the participant ceases employment in circumstances beyond his or her control, in which case the loan is repayable within 12 months), and must in all circumstances be repaid in ten years. All dividends received by such employees (or his or her nominee) by virtue of their shareholding must first be utilised to discharge any interest outstanding in terms of the loan advanced in terms of the Share Purchase Plan. The loans have full recourse to the participants who must charge their shares by way of security for the loans.

The table below summarises the position at year end in terms of loans advanced and the number of shares to which they relate. No further awards will be made under the Share Purchase Plan.

		31 March 2022	31 March 2021
Brought forward at start of year	(number of shares)	5,392,536	10,037,162
Share Purchase Plan shares issued in year	(number of shares)	–	–
Share Purchase Plan shares redeemed	(number of shares)	–	(4,644,626)
Carried forward at end of year	(number of shares)	5,392,536	5,392,536
Stock price at advancement	(€)	N/A	N/A
Share Purchase Plan loans advanced (including accrued interest) (see note 20)	(£'000)	6,543	6,540

Notes to the consolidated financial statements continued

14 Earnings per ordinary share

	31 March 2022 £'000	31 March 2021 £'000
Reconciliation of profit for the period to adjusted EPRA¹ earnings		
Earnings per IFRS statement of comprehensive income attributable to shareholders	107,464	53,045
Adjustment to exclude gain from discontinued operations	1,265	(14,664)
Earnings per IFRS statement of comprehensive income from continuing operations attributable to shareholders	108,729	38,381
Earnings per IFRS statement of comprehensive income attributable to shareholders	107,464	53,045
Adjustments to calculate EPRA earnings, exclude:		
Gain on fair value of investment properties	(87,107)	(35,109)
Gain on fair value of financial instruments, debt and associated close-out costs	(1,948)	(1,784)
Deferred tax in respect of EPRA adjustments	(1,719)	(1,618)
Loss/(gain) on disposal of properties	776	(639)
Tax expense on disposal of properties	1,093	3,470
Loss on disposal of subsidiaries	84	172
Adjustments above in respect of joint ventures:		
(Gain)/loss on fair value of investment properties	(75)	1,466
Gain on fair value of financial instruments	(210)	(41)
Deferred tax in respect of EPRA adjustments	88	(51)
EPRA earnings attributable to shareholders	18,446	18,911
Further adjustments to arrive at adjusted earnings:		
Costs associated with the transfer to the Premium Segment of the Main Market of the London Stock Exchange	989	–
Costs associated with ERP implementation	711	463
Adjusted earnings attributable to shareholders²	20,146	19,374
Weighted average number of shares in issue (excluding treasury shares)	291,769,203	283,549,160
Share-based payment award	1,181,961	2,167,213
Diluted weighted average number of shares in issue	292,951,164	285,716,373
Earnings per share from continuing operations		
	Pence	Pence
IFRS EPS	37.27	13.54
Diluted IFRS EPS	37.12	13.43
Earnings per share from continuing and discontinued operations		
	Pence	Pence
IFRS EPS	36.83	18.71
Diluted IFRS EPS	36.68	18.57
EPRA EPS	6.32	6.67
Diluted EPRA EPS	6.30	6.62
Adjusted EPS	6.88	6.78

¹ The European Public Real Estate Association (EPRA) issued the Best Practices Recommendations policy in October 2019, which provides guidelines for performance measures relevant to real estate companies. Their recommended reporting standards are widely applied across this market, aiming to bring consistency and transparency to the sector. The EPRA earnings measure is intended to show the level of recurring earnings from core operational activities with the purpose of highlighting the Group's underlying operating results from its property rental business and an indication of the extent to which current dividend payments are supported by earnings. The measure excludes unrealised changes in the value of investment properties, gains or losses on the disposal of properties and other items to provide additional information on the Group's underlying operational performance. The measure is considered to accurately capture the long-term strategy of the Group, and is an indication of the sustainability of dividend payments.

² As described in the EPRA Best Practice Recommendations policy issued in October 2019, should companies wish to make other adjustments to arrive at an underlying performance measure, they should do that below 'EPRA earnings' and use a different name for that measure. 'Adjusted EPS' is a measure that excludes items considered not to be in the ordinary course of business or other exceptional items that do not necessarily provide an accurate picture of the Group's underlying operational performance.

The comparatives have been restated to reflect the change in classification of current year discontinued operations to enable an effective like-for-like comparison.

As at 31 March 2022, the Company held 6,520,962 treasury shares (2021: 12,866,950).

14 Earnings per ordinary share continued

Costs associated with the transfer to the Premium Segment of the Main Market of the London Stock Exchange

On 15 December 2021, Industrials REIT transferred the trading of its ordinary shares from the Specialist Fund Segment of the Main Market of the London Stock Exchange to the Premium Segment of the Main Market of the London Stock Exchange. The costs associated with the transfer will not be reoccurring and have been adjusted for as a "company-specific adjustment".

Costs associated with ERP implementation

Industrials REIT Limited has implemented a new enterprise resource planning (ERP) platform encompassing finance and operations, and customer engagement components to help streamline and grow the business. Significant non-recurring costs were incurred and the ERP implementation expense related to this one-off project which went live on 1 April 2022. It has been adjusted for as a "company-specific adjustment".

Headline earnings per share

The JSE listings conditions require the calculation of headline earnings (calculated in accordance with Circular 1/2021 - Headline Earnings as issued by the South African Institute of Chartered Accountants) and disclosure of a detailed reconciliation of headline earnings to the earnings numbers used in the calculation of basic earnings per share in accordance with the requirements of IAS 33 – Earnings per Share. Disclosure of headline earnings is not a requirement of IFRS.

	31 March 2022 £'000	31 March 2021 £'000
Reconciliation of profit for the period to headline earnings		
Earnings per statement of comprehensive income attributable to shareholders	107,464	53,045
<i>Adjustments to calculate headline earnings, exclude:</i>		
Gain on fair value of investment properties	(87,107)	(35,109)
Deferred tax in respect of headline earnings adjustments	(1,719)	(1,640)
Loss/(gain) on disposal of properties	776	(639)
Tax expense on disposal of properties	1,093	3,470
Loss on disposal of subsidiaries	84	172
<i>Adjustments above in respect of joint ventures:</i>		
(Gain)/loss on fair value of investment properties	(75)	1,466
Deferred tax	55	(57)
Headline earnings attributable to shareholders	20,571	20,708
Earnings per share	pence	pence
Headline EPS	7.05	7.30
Diluted headline EPS	7.02	7.25

Notes to the consolidated financial statements continued

15 Net asset value metrics per share – reconciliations and bridge

EPRA's best practice recommendations are a set of guidelines for public real estate companies which enable investors and other users of annual reports to benefit from the transparency that standardised reporting offers. The real estate sector as a whole benefits from the use of these guidelines as consistency increases clarity across the industry.

EPRA recommends disclosing three measures of net asset value, namely: EPRA net tangible assets (NTA), EPRA net reinvestment value (NRV) and EPRA net disposal value (NDV).

Industrials REIT considers EPRA NTA to be the most relevant measure of the three EPRA NAVs to report on and will act as the key net asset value measure. The EPRA NTA metric is aligned with IFRS NAV in that it includes deferred tax liabilities with regard to properties classified as held for sale. A reconciliation of the three EPRA NAV metrics from IFRS NAV is shown in the table below.

	NAV	EPRA NAV measures		
	IFRS £'000	EPRA NRV £'000	EPRA NTA £'000	EPRA NDV £'000
As at 31 March 2022				
Net assets attributable to equity shareholders	521,836	521,836	521,836	521,836
Adjustments:				
Derivative financial instruments	–	(1,864)	(1,864)	–
Adjustments above in respect of joint ventures	–	1,557	1,557	–
Intangible assets	–	–	(3,542)	–
Purchaser's costs ¹	–	44,125	–	–
Net assets used in per share calculation	521,836	565,654	517,987	521,836
Number of shares in issue (excluding treasury shares) ²	292,254,213	292,254,213	292,254,213	292,254,213
Share-based payment award	1,181,961	1,181,961	1,181,961	1,181,961
Diluted number of shares in issue	293,436,174	293,436,174	293,436,174	293,436,174
	IFRS £	EPRA NRV £	EPRA NTA £	EPRA NDV £
Net asset value per share				
Net asset value per share	1.79	–	–	–
Diluted net asset value per share	1.78	1.93	1.77	1.78

¹ EPRA NTA and EPRA NDV reflect IFRS values which are net of purchaser's costs. Purchaser's costs include legal fees, stamp duty and land tax, and other local taxes. Any purchaser's costs deducted from the market value are added back when calculating EPRA NRV.

² As at 31 March 2022, the Company held 6,520,962 treasury shares.

15 Net asset value metrics per share – reconciliations and bridge continued

	NAV		EPRA NAV measures	
	IFRS £'000	EPRA NRV £'000	EPRA NTA £'000	EPRA NDV £'000
As at 31 March 2021				
Net assets attributable to equity shareholders	425,820	425,820	425,820	425,820
Adjustments:				
Derivative financial instruments	–	(1,732)	(1,732)	–
Deferred tax in relation to fair value of investment property and financial instruments ¹	–	1,712	–	–
Adjustments above in respect of joint ventures	–	714	714	–
Intangible assets	–	–	(1,784)	–
Purchaser's costs ²	–	37,798	–	–
Net assets used in per share calculation	425,820	464,312	423,018	425,820
Number of shares in issue (excluding treasury shares) ³	285,908,225	285,908,225	285,908,225	285,908,225
Share-based payment award	2,167,213	2,167,213	2,167,213	2,167,213
Diluted number of shares in issue	288,075,438	288,075,438	288,075,438	288,075,438
	NAV		New measures	
	IFRS £	EPRA NRV £	EPRA NTA £	EPRA NDV £
Net assets per share				
Net asset value per share	1.49	–	–	–
Diluted net asset value per share	1.48	1.61	1.47	1.48

¹ In the prior year, the Group's deferred tax in relation to the fair value of investment properties and financial instruments related solely to those properties in the German portfolio included in assets held for sale which comprised 4.5% of the portfolio, with a fair value of £26.2 million. No deferred tax was excluded from EPRA NTA as the deferred tax will be crystallised on sale of these properties in the short term.

² EPRA NTA and EPRA NDV reflect IFRS values which are net of purchaser's costs. Purchaser's costs include legal fees, stamp duty and land tax, and other local taxes. Any purchaser's costs deducted from the market value are added back when calculating EPRA NRV.

³ As at 31 March 2021, the Company held 12,866,950 treasury shares.

Notes to the consolidated financial statements continued

16 Investment property

The consolidated market value of investment properties at 31 March 2022 was £653.5 million (2021: £511.2 million). This now comprises only MLI properties. Apart from one MLI asset that is held for sale, the carrying amount of the investment properties are stated at estimated fair value, determined by the Directors, based on an independent external appraisal. The value of the MLI asset held for sale is based on an offer for sale that was received on the open market, less transaction costs. The registered independent appraisers have an appropriate recognised professional qualification and recent experience in the location and category of the property being valued ('valuers').

Apart from one MLI asset that is held for sale, the fair value of each of the properties for the period ended 31 March 2022, was assessed by the valuers in accordance with the Royal Institution of Chartered Surveyors ('RICS') standards and IFRS 13. Valuers are qualified for purposes of providing valuations in accordance with the 'Appraisal and Valuation Manual' published by RICS.

The valuation of the Group's property portfolio is inherently subjective due to several factors including the individual nature of each property, its location, expectation of future rentals and the discount yield applied to those cash flows. As a result, the valuations placed on the property portfolio are subject to a degree of uncertainty and are made based on assumptions that may not prove to be accurate, particularly in years of volatility or low transaction flow in the market. The estimated market value may differ from the price at which the Group's assets could be sold at a particular time, since actual selling prices are negotiated between willing buyers and sellers. As a result, if the assumptions prove to be different, actual results of operations and realisation of net assets could differ from the estimates set forth in these financial statements, and the difference could be significant.

The valuations performed by the independent valuers are reviewed internally by senior management. This includes discussions of the assumptions used by the external valuers, as well as a review of the resulting valuations.

Discussions of the valuations process and results are held between the senior management and the external valuers on a biannual basis. The Audit and Risk Committee reviews the valuation results and, provided the Committee is satisfied with the results, recommends them to the Board for approval.

The valuation techniques used are consistent with IFRS 13 and use significant 'unobservable' inputs. Investment properties are all at level 3 in the fair value hierarchy and valuations represent the highest and best use of the properties. There have been no changes in valuation techniques since the prior year and no transfers between the fair value hierarchy levels in the current or prior year.

There are interrelationships between all these unobservable inputs as they are determined by market conditions. An increase in more than one unobservable input would magnify the impact on the valuation. The impact on the valuation would be mitigated by the interrelationship of two unobservable inputs moving in opposite directions e.g., an increase in rent may be offset by an increase in yield, resulting in no net impact on the valuation. Expected vacancy rates may impact the yield with higher vacancy rates resulting in higher yield. All revenue is derived from the underlying tenancies given on the investment properties.

With the exception of ten (2021: five) recently acquired MLI properties and the MLI property held for sale, all investment properties are mortgaged, details of which can be seen in note 23. As at the date of signing this report, there are no restrictions on the realisability of any of the underlying investment properties, nor on the remittance of income and disposal proceeds.

	31 March 2022			31 March 2021		
	Investment property £'000	Assets held for sale £'000	Total - wholly owned £'000	Investment property £'000	Assets held for sale £'000	Total - wholly owned £'000
Opening balance	511,220	38,206	549,426	387,761	109,076	496,837
Acquisitions	102,705	–	102,705	96,363	–	96,363
Capitalised expenditure	3,796	102	3,898	1,514	103	1,617
Transfers to assets held for sale	(62,148)	62,148	–	–	–	–
Disposals	–	(92,807)	(92,807)	–	(76,220)	(76,220)
Net fair value gain/(loss) on investment properties	89,509	(2,487)	87,022	25,582	9,527	35,109
Foreign exchange movement in foreign operations	–	853	853	–	(4,280)	(4,280)
Net carrying value	645,082	6,015	651,097	511,220	38,206	549,426

Included in the disposals amount of £92.8 million, is £56.2 million from the disposal of LPE Limited detailed in note 25. The difference of £36.6 million relates to the disposal of German and Swiss properties. The consolidated statement of cash flows figure of £35.9 million included in proceeds on disposal of investment property, net of selling costs, is the loss on the disposal of property of £0.7 million.

16 Investment property continued

The market value of the Group's investment properties, as determined by the Group's external valuer, differs from the carrying value presented in the statement of financial position due to the Group presenting tenant lease incentives separately and the portion of joint ventures the Group does not own. The following table reconciles the net book value of the investment properties to the market value.

	31 March 2022			31 March 2021		
	Group (excl. joint ventures) £'000	Joint ventures £'000	Combined portfolio £'000	Group (excl. joint ventures) £'000	Joint ventures £'000	Combined portfolio £'000
Market value	653,475	33,099	686,574	549,426	33,165	582,591
Less: share of joint ventures not owned	–	(814)	(814)	–	(326)	(326)
Portfolio Market value	653,475	32,285	685,760	549,426	32,839	582,265
Less: tenant lease incentives	(2,378)	–	(2,378)	–	–	–
Net carrying value total	651,097	32,285	683,382	549,426	32,839	582,265

The key unobservable inputs used in the valuation of the Group's investment properties at 31 March 2022 are detailed in the table below:

	Market value 31 March 2022 (£'000)	Portfolio by market value (%)	Valuer's ERV (range) (£/sq ft)	Valuer's ERV (average) (£/sq ft)	Net initial Yield (range) (%)	Net initial Yield (average) (%)
Combined portfolio (including share of jointly controlled entities)						
Investment properties						
UK multi-let industrial	647,460	94.4 %	2.7-11.5	6.4	1.4-8.0 %	5.3 %
Assets held for sale						
Rose Kiln Court – Reading	6,015	0.9 %	22.3	22.3	9.3 %	9.3 %
Total – wholly owned	653,475	95.3 %	–	6.5	–	5.3 %
Share of joint ventures	32,285	4.7 %	8.1-15.7	12.3	5.3-9.4 %	6.4 %
Market value total	685,760	100.0 %	–	6.9	–	5.4 %

	Market value 31 March 2021 (£'000)	Portfolio by market value (%)	Valuer's ERV (range) (£/sq ft)	Valuer's ERV (average) (£/sq ft)	Net initial Yield (range) (%)	Net initial Yield (average) (%)
Combined portfolio (including share of jointly controlled entities)						
Investment properties						
Guernsey	56,150	9.7 %	38.9	38.9	7.3 %	7.3 %
UK multi-let industrial	432,910	74.3 %	2.8-9.7	5.4	1.5-8.3 %	6.2 %
UK urban logistics	22,160	3.8 %	3.4-23.7	11.7	5.5-9.2 %	7.4 %
Subtotal	511,220	87.8 %	–	9.3	–	6.4 %
Assets held for sale						
Germany	26,239	4.5 %	14.5	14.5	4.9 %	4.9 %
Switzerland	11,967	2.1 %	12.7	12.7	3.4 %	3.4 %
Total – wholly owned	549,426	94.4 %	–	9.6	–	6.2 %
Share of joint ventures	32,839	5.6 %	8.2-14.9	12.3	5.2-8.7 %	6.1 %
Market value total	582,265	100.0 %	–	9.8	–	6.2 %

Notes to the consolidated financial statements continued

16 Investment property continued

Future revenue streams comprise contracted rent and estimated rental value ("ERV") after the contract period. In calculating ERV, the potential impact of future lease incentives to be granted to secure new contracts is taken into consideration. An increase/decrease in ERV will increase/decrease valuations. The table below sets out the indicative fair value impact when applying the sensitivity of the unobservable inputs (Level 3) valuations to a 5% (2021: 10%) change in ERV.

Investment property	Fair value at	Impact on valuations		Fair value at	Impact on valuations	
	31 March 2022 £'000	+5% ERV £'000	-5% ERV £'000	31 March 2021 £'000	+10% ERV £'000	-10% ERV £'000
UK multi-let industrial	653,475	27,591	(27,591)	432,910	1,980	(2,065)
Joint ventures	32,285	825	(825)	32,839	1,400	(853)
Guernsey	-	-	-	56,150	4,991	(3,916)
UK urban logistics	-	-	-	22,160	2,120	(2,116)
Germany	-	-	-	26,239	n/a	n/a
Switzerland	-	-	-	11,967	470	(469)
Group property portfolio valuation	685,760	28,416	(28,416)	582,265	10,961	(9,419)

Net initial yield ("NIY") is the contracted rent on investment properties at the statement of financial position date, expressed as a percentage of the investment property valuation, plus purchaser's costs. An increase/decrease in NIY will decrease/increase valuations. The table below sets out the indicative fair value impact when applying the sensitivity of the unobservable inputs (Level 3) valuations to a 25 (2021: 50) basis point change in yield.

Investment property	Fair value at	Impact on valuations		Fair value at	Impact on valuations	
	31 March 2022 £'000	+25 bps £'000	-25 bps £'000	31 March 2021 £'000	+50 bps £'000	-50 bps £'000
UK multi-let industrial	653,475	(25,182)	27,094	432,910	(32,196)	37,822
Joint ventures	32,285	(1,288)	1,313	32,839	(2,598)	3,037
Guernsey	-	-	-	56,150	(3,568)	4,086
UK urban logistics	-	-	-	22,160	(1,409)	1,614
Germany	-	-	-	26,239	n/a	n/a
Switzerland	-	-	-	11,967	(708)	802
Group property portfolio valuation	685,760	(26,470)	28,407	582,265	(40,479)	47,361

The impact the pandemic had on our valuations in prior periods justified using sensitivities at higher rates. The countries the Group operates in have emerged from the pandemic where trading restrictions have returned to normal. The Directors are of the opinion the valuation sensitivities should reflect what is reasonably possible in the current economic climate. Therefore, the sensitivities used in this report have reduced from +/-10% ERV to +/-5% ERV and +/-50 bps to +/-25 bps.

17 Group companies

Details of the Group's subsidiaries as at 31 March 2022 are as follows:

Name	Principal place of business	Principal activity	% equity owned by Company	Subsidiary
BVI incorporated entities with registered address:				
Craigmuir Chambers, P.O. Box 71, Road Town, Tortola, VG1110, British Virgin Islands				
Davemount Properties Limited	England	Property Investment		100.00%
Ruby Red Holdings Limited	Guernsey	Management		100.00%
SP Corporate Services Limited	Guernsey	Management		100.00%
SP Nominees Limited	Guernsey	Management		100.00%
Stenprop Management Holdings Limited	Guernsey	Holding Company	100.00%	
Stenprop Hermann Limited	Guernsey	Property Investment		100.00%
Stenprop Victoria Limited	Guernsey	Property Investment		100.00%
Stenprop Industrials 1 Limited	Guernsey	Holding Company		100.00%
Stenprop Industrials 5 Limited	Guernsey	Dormant		100.00%
Stenprop (UK) Limited	England	Holding Company	100.00%	
Curaçao incorporated entities with registered address:				
Wilhelminalaan 13, Curaçao				
Anarosa Holdings N.V.	England	Holding Company		94.90%
C.S. Property Holding N.V.	England	Holding Company		94.90%
Lakewood International N.V.	England	Holding Company		89.00%
T.B. Property Holdings N.V.	England	Holding Company		100.00%
England incorporated entities with registered address:				
180 Great Portland Street, London, W1W 5QZ				
Industrials Management Limited	England	Management		100.00%
Industrials REIT Limited	England	Dormant		100.00%
Industrials UK Management Limited	England	Dormant		100.00%
Guernsey incorporated entities with registered address:				
Kingsway House, Havilland Street, St Peter Port, Guernsey GY1 2QE				
Bernina Property Holdings Limited	England	Holding Company		100.00%
GGP1 Limited	England	Property Investment		100.00%
Industrials UK 4 Limited	England	Property Investment		100.00%
Kantone Holdings Limited	Guernsey	Property Investment		100.00%
Stenprop Advisers Limited	Guernsey	Management	10.00%	90.00%
Stenprop Industrials Holdings Limited	England	Holding Company	100.00%	
Stenprop Industrials 6 Limited	England	Property Investment		100.00%
Stenprop Trafalgar Limited	Guernsey	Holding Company		100.00%
Stenprop (Germany) Limited	England	Holding Company	100.00%	
Stenprop (Swiss) Limited	Guernsey	Holding Company	100.00%	
Netherlands incorporated entities with registered address:				
Fascinatio Boulevard 764, 2909 VA Capelle aan den IJssel, Netherlands				
Isabel Properties B.V.	Netherlands	Non-trading		94.90%
Mindel Properties B.V.	Netherlands	Holding Company		94.50%
United States incorporated entities with registered address:				
1209 Orange Street, Wilmington, Delaware 19801, USA				
Industrials UK GP LLC	England	Holding Company		100.00%
Industrials UK LP	England	Property Investment		100.00%

Details of the Group's investments in joint ventures are disclosed in note 18.

Notes to the consolidated financial statements continued

18 Investment in joint ventures

In the current reporting period, the Directors have classified the investments in the care homes joint venture as a current asset. In line with the Directors' desire to dispose of the care home investments as soon as possible, the joint ventures are disclosed as a current asset as the Group expects to receive the proceeds on sale within the next 12 months. However, this investment is not classified as held for sale because it is not highly probable that the sale of these assets is imminent.

Details of the Group's joint ventures at the end of the reporting period are as follows:

Name	Place of incorporation	Principal activity	% equity owned by subsidiary
Luxembourg incorporated entities with registered address:			
231, Val des Bons Malades, L-2121 Luxembourg			
ElySION S.A.	Luxembourg	Holding company	50.00%
ElySION Braunschweig S.a.r.l	Luxembourg	Property company	50.00%
ElySION Dessau S.a.r.l	Luxembourg	Property company	50.00%
ElySION Kappeln S.a.r.l	Luxembourg	Property company	50.00%
ElySION Winzlar S.a.r.l	Luxembourg	Property company	50.00%

On 19 August 2021, Ardale Industrials Limited was dissolved from the Companies Registration Office in Ireland.

ElySION S.A.

Industrials REIT Limited owns 100% of the shares and shareholder loans in Bernina Property Holdings Limited ('Bernina'), the results and financial position of which is included within these consolidated financial statements. Bernina in turn owns 50% of the issued share capital and 100% of the bonds of ElySION S.A., a company incorporated in Luxembourg which is the beneficial owner of the Care Homes portfolio. The remaining 50% of ElySION S.A. is owned by a joint venture partner who manages the portfolio.

The acquired bonds have attracted, and continue to attract, a 10% compounded interest rate since inception in 2007 and have limited recourse to compartment assets within ElySION S.A., with the proceeds made available to subsidiaries in the joint venture for real estate investment in Care Homes. All costs and expenses incurred by the ElySION S.A. compartment are deducted or withheld from any payment of principal or interest. The fair value has been determined based on the net assets of the compartment which would be available to settle the outstanding bond and which is intrinsically linked to the fair value of the investment property. Further details on the estimates and assumptions used in determining the fair value of investment property can be found in note 16.

18 Investment in joint ventures continued

Summarised consolidated financial information in respect of the Group's joint ventures is set out below. Where applicable, these represent the consolidated results of the respective holding companies.

	31 March 2022 £'000
Assets	
Investment property	33,099
Fixed assets	30
Cash and cash equivalents	382
Current assets	52
Total assets	33,563
Liabilities	
Bank loans	(16,183)
Bond	(14,883)
Deferred tax	(1,489)
Financial liability	(63)
Current liabilities	(175)
Total liabilities	(32,793)
Net assets of joint ventures	770
Group's investment in joint venture bond	14,883
Group's share of joint venture's net assets	385
Profit and total comprehensive income from continuing operations	
Revenue	2,470
Finance costs	(1,769)
Net fair value loss	(100)
Tax expense	(316)
Profit and total comprehensive income	285
Group income from joint ventures represented by:	
Share of joint venture profit	142
Interest income on joint venture bond	1,465
Net profit on joint venture bond	100
Income from joint ventures	1,707

Notes to the consolidated financial statements continued

18 Investment in joint ventures continued

	ElySION S.A. £'000	Other £'000	Total 31 March 2021 £'000
Assets			
Investment property	33,164	–	33,164
Fixed assets	31	–	31
Cash and cash equivalents	82	1	83
Current assets	9	–	9
Total assets	33,286	1	33,287
Liabilities			
Bank loans	(16,947)	–	(16,947)
Bond	(14,119)	–	(14,119)
Deferred tax	(1,326)	–	(1,326)
Financial liability	(488)	–	(488)
Current liabilities	(122)	–	(122)
Total liabilities	(33,002)	–	(33,002)
Net assets of joint ventures	284	1	285
Group's investment in joint venture bond	14,119	–	14,119
Group's share of joint ventures' net assets	142	1	143
Loss and total comprehensive income from continuing operations			
Revenue	2,518	–	2,518
Finance costs	(1,821)	–	(1,821)
Net fair value loss	(1,819)	(2)	(1,821)
Tax expense	(159)	–	(159)
Loss and total comprehensive income	(1,281)	(2)	(1,283)
Group income from joint ventures represented by:			
Share of joint venture loss	(641)	(1)	(642)
Interest income on joint venture bond	1,481	–	1,481
Net loss on joint venture bond	(778)	–	(778)
Income from joint ventures	62	(1)	61

18 Investment in joint ventures continued

Reconciliation of the above summarised financial information to the carrying amount of the interest recognised in the consolidated financial statements:

	Bond	Investment in joint ventures		
	Elyson S.A. £'000	Elyson S.A. £'000	Other £'000	Total £'000
31 March 2022				
Opening balance	14,119	142	1	143
Income/(loss) from joint ventures	–	242	(1)	241
Gain on fair value movement	1,465	–	–	–
Investment receipts	(604)	–	–	–
Foreign exchange movement in foreign operations	(96)	–	–	–
Closing balance	14,884	384	–	384

	Bond	Investment in joint ventures		
	Elyson S.A. £'000	Elyson S.A. £'000	Other £'000	Total £'000
31 March 2021				
Opening balance	15,336	780	1	781
Income/(loss) from joint ventures	1,481	(642)	–	(642)
Loss on fair value movement	(780)	–	–	–
Investment receipts	(1,290)	–	–	–
Foreign exchange movement in foreign operations	(628)	4	–	4
Closing balance	14,119	142	1	143

19 Assets held for sale and discontinued operations

Management considers the property known as Rose Kiln Court in Reading, UK (2021: one property) to meet the conditions relating to assets held for sale, as per IFRS 5: Non-current Assets Held for Sale and Discontinued Operations. The property is expected to be disposed of during the next 12 months.

Non-current assets classified as held for sale are disclosed at their fair value.

The fair value of this property, and its comparative value, is disclosed in the table below along with associated assets and liabilities:

	Note	31 March 2022 £'000	31 March 2021 £'000
Investment properties	16	6,015	38,206
Cash and cash equivalents		–	201
Trade and other receivables		–	801
Assets classified as held for sale		6,015	39,208
Bank loans	23	–	13,883
Deferred tax	26	–	1,190
Tax credit		–	(603)
Accounts payables		–	151
Accruals		–	545
Liabilities directly associated with assets classified as held for sale		–	15,166

Notes to the consolidated financial statements continued

19 Assets held for sale and discontinued operations continued

The Guernsey, German (retail) and Switzerland operating segments are recognised as discontinued operations by the Group. The results of the discontinued operations were as follows:

	31 March 2022 £'000	31 March 2021 £'000
Rental income	1,819	10,804
Tenant recharges	738	2,798
Other income	15	338
Property expenses	(261)	(4,602)
Net rental income	2,311	9,338
Operating costs	(273)	(902)
Net operating income	2,038	8,436
Fair value (loss)/gain on investment properties	(2,402)	8,217
(Loss)/profit on disposal of properties	(678)	664
(Loss)/profit on disposal of subsidiaries	(2,375)	468
Foreign currency exchange gain from the disposal of subsidiaries, previously recognised in other comprehensive income	2,291	–
Net foreign exchange gain	158	22
(Loss)/profit from operations	(968)	17,869
Net gain from fair value of derivative financial instruments	–	124
Interest receivable	–	309
Finance costs	(375)	(1,419)
(Loss)/profit for the year before taxation	(1,343)	16,883
Current tax	(1,117)	(3,655)
Deferred tax	1,195	1,498
(Loss)/profit for the year from discontinued operations	(1,265)	14,726

The comparatives have been restated to reflect the change in classification of current year discontinued operations, in addition to previously reported discontinued operations, to enable an effective like-for-like comparison.

On 31 March 2022, accumulated foreign currency exchange gains of £2.3 million have been reclassified to net income from the translation of foreign subsidiaries that have been disposed of. These items were previously recognised in other comprehensive income.

Disposals

On 6 August 2021, the Group disposed of its property, Hermann Quartier shopping centre, in Berlin, Germany, held in Stenprop Hermann Limited, for €30.8 million.

On 2 September 2021, the Group disposed of its 100% shareholding in LPE Limited for a consideration which valued the property at £55.0 million. LPE Limited owned the Guernsey property known as Trafalgar Court. The property was disposed of as a subsidiary and is further disclosed in note 25.

On 2 December 2021, the Group disposed the Switzerland property, known as Lugano, for CHF12.5 million. The property, which was a health and leisure club asset, was held in Kantone Limited.

19 Assets held for sale and discontinued operations continued

Prior year disposals

On 30 September 2020, the Group disposed of its property, Neucölln Carrée retail park, in Berlin, Germany, held in Isabel Properties B.V., for €27.0 million.

On 31 March 2021, the Group disposed of its property, Victoria-Center retail park, in Berlin, Germany, held in Stenprop Victoria Limited, for €37.45 million.

On 31 March 2021, the Group disposed of five properties located in Frankfurt, Kassel, Ludwigsburg, Marburg and Sindelfingen, Germany, held in Century B.V. and Century 2 B.V. at a valuation of €27.0 million. The properties were disposed of as subsidiaries and are further discussed in note 25.

On 19 July 2018, the Group disposed of seven properties in Switzerland. As part of the agreements entered into for the sale of these Swiss properties, all of which were sold to the same buyer, Industrials REIT provided a guarantee for obligations and liabilities of each of the selling entities. The maximum amount of the guarantee is CHF6.0 million, which lasts until all obligations under the sale agreements have been fulfilled, with a backstop date of 31 July 2028. As at the date of signing these accounts, there had not been any claim under the guarantee.

20 Trade and other receivables

	31 March 2022 £'000	31 March 2021 £'000
Non-current receivables		
Other debtors	6,543	8,670
Total non-current receivables	6,543	8,670

The non-current other debtors value of £6.54 million (2021: £6.51 million) comprises a loan advanced under the Share Purchase Plan (see note 13: Share-based payments). This loan advanced under the Share Purchase Plan remains outstanding at 31 March 2022.

The remaining loan has been assessed for an expected credit loss under IFRS 9. The analysis shows that due to the full recourse nature of the loan, secured against the shares issued and underlying assets of the borrower, loss-given default is currently estimated at nil. There has been no perceived significant increase in credit risk and we have not recognised an 12-month expected credit loss on this loan. Refer to note 28 (i) to understand how the Group manages credit risk.

	31 March 2022 £'000	31 March 2021 £'000
Current receivables		
Accounts receivable	8,761	6,009
Loss allowance on accounts receivables	(3,229)	(2,311)
Net receivables	5,532	3,698
Lease incentives	2,378	1,769
Loss allowance on lease incentives	(280)	(261)
Net lease incentives	2,098	1,508
Other receivables	3,854	2,406
Prepayments	675	1,111
Total current receivables	12,159	8,723

Other receivables includes £2.11 million (2021: £2.13 million was recognised in non-current other debtors) from part of the proceeds from the sale of the Victoria retail centre in Germany. A retention of €2.5 million from the purchase price is held in an escrow account in respect of claims against, and for certain liabilities of the seller under the disposal agreement for a period of up to 13 months from the completion date of 31 March 2021.

Notes to the consolidated financial statements continued

20 Trade and other receivables continued

	31 March 2022				31 March 2021			
	Accounts receivables £'000	Rate * %	Loss allowance £'000	Net receivables £'000	Accounts receivables £'000	Rate * %	Loss allowance £'000	Net receivables £'000
Not yet due	–	–	–	–	–	–	–	–
1-30 days overdue	3,596	20 %	(476)	3,120	1,361	10 %	(37)	1,324
31-60 days overdue	702	38 %	(180)	522	1,784	50 %	(109)	1,675
61-90 days overdue	462	50 %	(121)	342	247	80 %	(99)	148
91-120 days overdue	864	59 %	(339)	525	340	90 %	(323)	17
More than 120 days overdue	3,138	80 %	(2,113)	1,025	2,277	100 %	(1,743)	534
Closing balance	8,761	–	(3,229)	5,535	6,009	–	(2,311)	3,698

*The actual loss allowance is based on the individual rates shown multiplied by the net receivables, then reduced by tenant deposits.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. To measure expected credit losses on a collective basis, trade receivables are grouped based on the shared credit risk characteristics of business status, collection history and the days overdue.

The expected loss rates on accounts receivables and lease incentives are based on the Group's historical credit losses experienced over the current period. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Group's customers.

Book value approximates fair value.

The movement in loss allowances in respect of trade receivables and lease incentives during the year was as follows:

	31 March 2022 £'000	31 March 2021 £'000
Loss allowance reconciliation		
Opening balance	2,311	541
Remeasurement of loss allowance	1,328	1,956
Bad debts written off	(130)	(186)
Closing balance	3,509	2,311

21 Cash and cash equivalents

	31 March 2022 £'000	31 March 2021 £'000
Cash at bank	31,526	53,781
Total cash and cash equivalents	31,526	53,781

Restricted cash

At the reporting date funds totalling £11.2 million (2021: £4.4 million) were classified as restricted. These funds are readily available on demand and comprise service charge monies held by managing agents amounting to £5.2 million (2021: £4.1 million), £4.8 million (2021: nil) relating to tenant deposits, £0.9 million (2021: £0.3 million) relating to rent held in bank accounts which are secured by the lenders, for the purposes of debt repayments and £0.2 million (2021: nil) of funds refundable for a tenant overpayment.

As the Group is in compliance with all the terms and conditions of its loans as at the date of signing these financial statements, there are no further restrictions, and any surplus will flow to the Group.

22 Accounts payable and accruals

	31 March 2022 £'000	31 March 2021 £'000
Trade payable	107	2,149
Accruals	7,088	4,200
Rental income received in advance	6,843	6,811
Other payables	5,551	3,356
Total accounts payables and accruals	19,549	16,516

Tenant deposits held by the Group at 31 March 2022, total £4.8 million (2021: £2.8 million). In the current year tenant deposits are included in the other payables balance of £5.5 million. In the prior year tenant deposits were netted off against the corresponding cash balance and are therefore shown as nil.

Accounts payable and accruals balances are recognised at amortised cost and approximates their fair value.

At 31 March 2022, the Group has committed to £1.8 million (2021: £1.3 million) in capital expenditure works that have not been provided for in these financial statements.

23 Borrowings

	31 March 2022			31 March 2021		
	Borrowings £'000	Assets held for sale £'000	Total – wholly owned £'000	Borrowings £'000	Assets held for sale £'000	Total – wholly owned £'000
Opening balance	181,144	13,883	195,027	154,171	43,177	197,348
New loans	29,121	–	29,121	89,558	–	89,558
Repayment of borrowings	(4,496)	(14,218)	(18,714)	(61,484)	(16,442)	(77,926)
Bank loans associated with the disposal of subsidiaries	–	(27,959)	(27,959)	–	(10,734)	(10,734)
Transfer of borrowings to assets held for sale	(27,929)	27,929	–	–	–	–
Amortisation of loans	–	(33)	(33)	–	(123)	(123)
Capitalised borrowing costs	(791)	–	(791)	(1,965)	(12)	(1,977)
Amortisation of transaction fees	774	37	811	864	84	948
Foreign exchange movement in foreign operations	–	361	361	–	(2,067)	(2,067)
Total borrowings	177,823	–	177,823	181,144	13,883	195,027

Of the movement in borrowings in the year ending 31 March 2022, £29.12 million (2021: £89.56 million) relates to cash received from new bank loans raised and £18.71 million (2021: £77.93 million) relates to repayments of bank loans. £14.22 million (2021: £16.44 million) of bank loan repayments are included in the adjustment for liabilities directly associated with assets held for sale and £27.96 million (2021: £10.73 million) was included in bank loans associated with the disposal of subsidiaries.

	31 March 2022 £'000	31 March 2021 £'000
Amount due for settlement within 12 months	–	4,489
Amount due for settlement between one to three years	49,318	77,032
Amount due for settlement between three to five years	63,052	34,375
Amount due for settlement after five years	65,453	65,248
Total borrowings	177,823	181,144
Non-current liabilities		
Bank loans	177,823	176,655
Total non-current loans and borrowings	177,823	176,655
Current liabilities		
Bank loans	–	4,489
Total current loans and borrowings	–	4,489
Total loans and borrowings	177,823	181,144

Notes to the consolidated financial statements continued

23 Borrowings continued

The facilities amounting to £180.4 million are secured by legal charges over the properties to which they correspond with a market value of £522.2 million. There is no cross-collateralisation of the facilities. The terms and conditions of outstanding loans are as follows:

Entity	Note	Amortising	Loan interest rate	Currency	Maturity date	Nominal value		Carrying value*	
						31 March 2022 £'000	31 March 2021 £'000	31 March 2022 £'000	31 March 2021 £'000
Continuing operations									
United Kingdom - MLI									
Industrials UK LP		No	1.66% fixed	GBP	03/12/2027	66,500	66,500	65,453	65,248
Industrials UK 4 Limited		No	SONIA + 1.92%	GBP	14/11/2025	64,000	34,879	63,052	34,375
Stenprop Industrials 6 Limited		No	SONIA + 1.75%	GBP	03/02//2025	49,898	49,898	49,318	49,104
GGP1 Limited		No	SONIA + 2.25%	GBP	26/05/2021	–	4,500	–	4,496
Stenprop Industrials Holdings Limited	1	Yes	N/A	GBP	21/05/2022	–	–	–	(8)
Guernsey									
LPE Limited		No	LIBOR + 2.00%	GBP	30/09/2022	–	28,000	–	27,929
Total borrowings attributable to continuing operations						180,398	183,777	177,823	181,144
Discontinued operations									
Switzerland									
Kantone Holdings Limited		Yes	1.15%	CHF	3-month rolling facility	–	5,853	–	5,853
Germany									
Stenprop Hermann Ltd		No	Euribor + 1.13%	EUR	30/06/2021	–	8,033	–	8,030
Total borrowings attributable to discontinued operations and assets classified as held for sale (note 19)						–	13,886	–	13,883
Total borrowings						180,398	197,663	177,823	195,027

* The difference between the nominal and the carrying value represents unamortised facility costs.

¹ Net carrying value of the amortised facility costs on the Investec Bank Plc revolving credit facility.

Loans are subject to loan-to-value ratios (see note 27) and interest coverage ratios. All loans are assessed quarterly for their covenant compliance and forecast headroom. No loan was in breach of its borrowing covenants during the period or at period end.

	31 March 2022		31 March 2021	
	Weighted covenant	Weighted actual	Weighted covenant	Weighted actual
Continuing operations				
Loan to value	57.2%	31.2%	57.5%	38.8%
Interest cover	2.3	5.4	2.3	9.5
Discontinued operations				
Loan to value	80.0%	51.5%	50.0%	48.9%
Debt service	1.5	2.6	n/a	n/a

24 Derivative financial instruments

In accordance with the terms of the borrowing arrangements and Group policy, the Group has entered into interest rate swap agreements which are entered into by the borrowing entities to convert the borrowings from floating to fixed interest rates and are used to manage the interest rate profile of financial liabilities and eliminate future exposure to interest rate fluctuations. It is the Group's policy that no economic trading in derivatives is undertaken by the Group. The Group uses forward foreign exchange contracts to mitigate exchange rate exposure arising from forecast sales in euros (EUR). The Group's policy is to hedge 100% of net foreign exchange exposure when a disposal contract has been signed. In the current year, the Group recognised a total net gain in fair value of financial instruments from continuing and discontinuing operations of £1,948,000 (2021: £1,850,000) and nil (2021: £124,000) respectively.

The following table sets out the interest rate swap agreements at 31 March 2022 and 31 March 2021.

Entity	Effective date	Maturity date	Swap rate %	Notional value	Fair value	Notional value	Fair value
				31 March 2022 £'000	31 March 2022 £'000	31 March 2021 £'000	31 March 2021 £'000
Continuing operations							
UK – MLI							
Industrials UK 4 Limited	07/02/2020	14/11/2024	0.89%	24,000	727	24,000	(430)
Stenprop Industrials 6 Limited	22/12/2020	01/02/2024	0.50%	42,413	1,137	42,413	138
Total swaps				66,413	1,864	66,413	(292)
EUR forward contracts							
Industrials REIT Limited				–	–	–	2,024
Total forwards				–	–	–	2,024
Assets maturing within 12 months				–	–	–	2,024
Liabilities maturing within 12 months				–	–	–	–
Assets maturing after 12 months				–	1,864	–	138
Liabilities maturing after 12 months				–	–	–	(430)
Derivative financial instruments – on the statement of financial position				–	1,864	–	1,732
Swaps included in investment in joint ventures							
Elysiion Braunschweig S.à r.l.	29/03/2018	29/12/2023	0.52%	4,952	(13)	4,984	(122)
Elysiion Dessau S.à r.l.	29/03/2018	29/12/2023	0.52%	4,899	(12)	4,932	(121)
Elysiion Kappeln S.à r.l.	31/12/2018	29/12/2023	0.63%	5,306	(23)	5,341	(150)
Elysiion Winzlar S.à r.l.	31/12/2018	29/12/2023	0.63%	3,395	(15)	3,418	(96)
Derivative financial instruments – joint ventures				18,552	(63)	18,675	(489)

Notes to the consolidated financial statements continued

25 Disposal of subsidiaries

	31 March 2022 £'000	31 March 2021 £'000
Carrying value of net assets at disposal date		
Investment property	56,150	23,001
Trade and other receivables	301	1,126
Cash and cash equivalents	434	505
Borrowings	(27,959)	(10,729)
Trade and other payables	(1,329)	(2,286)
Group loans converted to third party loans on disposal	1	(4,543)
Net assets disposed	27,598	7,074
Net disposal proceeds	25,223	7,738
Foreign exchange movement in foreign operations	–	(196)
Net assets disposed	(27,598)	(7,074)
(Loss)/profit on disposal of subsidiaries	(2,375)	468
Foreign currency exchange gain previously recognised in other comprehensive income	2,291	–
Total (loss)/profit on disposal of subsidiaries	(84)	468

Current year disposals

All current year disposals were from discontinued operations.

On 2 September 2021, the Group disposed of its 100% shareholding in LPE Limited for a consideration which valued the property at £55.0 million. LPE Limited owned the Guernsey property known as Trafalgar Court.

On 19 May 2021, the Group disposed of its 100% shareholding in Bleichenhof Grundstücksverwaltung GmbH & Co. On disposal, this entity held no investment property, as it had previously disposed of its ownership in a mixed-use asset in Hamburg, known as Bleichenhof, on 28 February 2020.

The impact of these disposals on the Group is shown above.

Prior year disposals

All prior year disposals were from discontinued operations.

On 31 March 2021, the Group disposed of its 94.90% shareholding in Century B.V. and Century 2 B.V. for a net consideration of £12.3 million. Century B.V. owned three properties located in Frankfurt, Ludwigsburg and Marburg, and Century 2 B.V. owned two properties located in Kassel and Sindelfingen, Germany. The impact of these disposals on the Group is shown above. Upon completion of the sale the Group loan of £4.5 million was repaid to Industrials REIT.

26 Deferred tax

The following is the movement in deferred tax assets and liabilities recognised by the Group during the current and prior reporting periods. All of the Group's deferred tax is attributable to liabilities directly associated with assets classified as held for sale.

	31 March 2022 £'000	31 March 2021 £'000
Liabilities directly associated with assets classified as held for sale		
Deferred tax liability opening balance	1,190	3,782
Deferred tax recognised on investment properties	1	(2,638)
Deferred tax recognised on revaluation of financial liabilities	–	22
Deferred tax on tax losses	–	121
Withholding tax on disposal of property	(1,196)	–
Other movements	–	25
Exchange movements	5	(122)
Movement in deferred tax	(1,190)	(2,592)
Deferred tax liability closing balance	–	1,190

27 Financial risk management

The Group is exposed to a variety of financial risks including capital risk management, credit risk, liquidity risk and market risk. The overall risk management strategy seeks to minimise the potential adverse effects on the Group's financial performance. Certain risk exposures are hedged via the use of financial derivatives.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing these risks, and the Group's management of capital. Further quantitative disclosures are included throughout these audited financial statements where relevant. The Group's board has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Audit and Risk Committee participates in management's process of formulating and implementing the risk management plan and it reports on the plan adopted by management to the Board.

The objective of risk management is to identify, assess, manage and monitor the risks to which the business is exposed, including, but not limited to, information technology risk. The Board is responsible for ensuring the adoption of appropriate risk management policies by management. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies are reviewed regularly to reflect changes in market conditions and the Group's activities. The Board will also ensure that there are processes in place between itself and management enabling complete, timely, relevant, accurate and accessible risk disclosure to shareholders.

To enable the Audit and Risk Committee to meet its responsibilities, terms of reference were adopted by the Board. These include appropriate standards, the implementation of systems of internal control and an effective risk-based internal audit which comprises policies, procedures, systems and information to assist in:

- safeguarding assets and reducing the risk of loss, error, fraud and other irregularities;
- ensuring the accuracy and completeness of accounting records and reporting;
- preparing timely, reliable financial statements and information in compliance with relevant legislation and generally accepted accounting policies and practices; and
- increasing the probability of anticipating unpredictable risk.

The Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to risks faced by the Group.

Notes to the consolidated financial statements continued

27 Financial risk management continued

Capital risk management

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 23, cash and cash equivalents and equity attributable to ordinary shareholders of the Company, comprising issued capital, reserves and retained earnings as disclosed in the statement of changes in equity. Industrials REIT Limited's weighted average loan-to-value ('LTV') ratio at 31 March 2022 was 25.6% (2021: 28.1%), including joint ventures and the Group is not subject to any external capital requirements. The Group strategy is to maintain a debt-to-equity ratio and LTV ratio to ensure that property performance is translated into an enhanced return for shareholders while at the same time ensuring that it will be able to continue as a going concern through changing market conditions. The Directors are of the opinion that an LTV of approximately 30% in respect of secured external borrowings is a likely target for the Group, given the current market conditions. Debt covenants are disclosed further in note 23.

The financial statements of the Group have been prepared on a going concern basis. At the date of signing these accounts, the Group has positive operating cash flow forecasts and positive net assets. Management have reviewed the Group's cash flow forecasts for the 18 months to 30 September 2023 and, considering this review and the current financial position, they are satisfied that the Company and the Group have access to adequate resources to meet their obligations and continue in operational existence for the foreseeable future, and specifically the 12 months subsequent to the signing of these financial statements. Further details are set out in note 2 to the financial statements.

Credit risk

The Group's principal financial assets are cash and cash equivalents as well as trade and other receivables. The credit risk arising from deposits with banks is managed through a policy of utilising only independently rated banks with acceptable credit ratings.

The credit quality of cash and cash equivalents can be assessed by reference to external credit ratings of the counterparty where the account or deposit is placed. The credit rating summary below represents the four (2021: seven) European financial institutions that hold more than £1 million (or GBP equivalent) of the Group's cash at 31 March 2022. Together these banks hold 94% (2021: 99%) of the Group's total cash at bank.

	31 March 2022 S&P Global Ratings	31 March 2022 Fitch Ratings	31 March 2021 S&P Global Ratings	31 March 2021 Fitch Ratings
Barclays Bank UK Plc	BBB	A	BBB	A-
Black Rock	nil	nil	AA-	N/A
The Bank of N. T. Butterfield & Son Limited	BBB+	N/A	A-	Withdrawn
Deutsche Bank AG	< £1m	< £1m	BBB+	N/A
Lloyds Bank plc	BBB+	A	BBB+	A+
Royal Bank of Scotland Group plc (NatWest Group)	A-	A+	BBB	A
Royal Bank of Scotland International Limited ¹	< £1m	< £1m	BBB	A

¹ The financial institution is a private company. The credit rating of its parent company has been disclosed.

The Directors are satisfied as to the creditworthiness of the banks where the remaining cash is held.

The majority of tenant leases are long-term contracts with rents payable quarterly in advance. Rent deposits and personal or corporate guarantees are held in respect of some leases. Taking these factors into account, the risk to the Group of individual tenant default and the credit risk of trade receivables are considered low. The concentration of credit risk is limited due to the large and diverse occupier base. Accordingly, the Directors believe that there is no further expected credit loss required in excess of that provided. Trade receivables are presented after deducting a loss allowance provision, as set out in note 20.

At the time of acquisition of a property, and from time to time thereafter, the Group reviews the quality of the contracted tenants to ensure that the tenants meet acceptable covenants. Trade receivables are presented in the statement of financial position net of allowances for doubtful receivables. An allowance for impairment is made where there is an indefinable loss event, which based on previous experience, may give risk to a non-recovery of a receivable.

Non-current other debtors are long-term loans secured against shares issued by the Group to the related parties referenced in note 20. In order to manage credit risk, the contractual terms include full recourse to assets of the borrower which are monitored alongside the aggregate value of the shares. Furthermore, in respect of the Share Purchase Plan, the terms allow recovery of amounts due through a deduction from salary or other amounts paid to the beneficiary.

The carrying amount of financial assets represents the maximum credit exposure at the reporting date.

At 31 March 2022, trade and other receivables and cash and cash equivalents amounts to £43.7 million (2021: £62.5 million) as shown in the statement of financial position. Further details on what makes up this balance can be found in notes 20 and 21.

27 Financial risk management continued

Liquidity risk

Prudent liquidity risk management requires maintaining sufficient cash resources, appropriate and adequate funding, via lines of credit, as well as managing the ability of tenants to settle their lease obligations. Through the forecasting and budgeting of cash requirements, the Group ensures that adequate committed resources are available.

By its nature, the market for investment property is not immediately liquid. Therefore, the Group's ability to vary its portfolio in a timely fashion and to receive a fair price in response to changes in economic and other conditions may be limited. Furthermore, where the Group acquires investment properties for which there is not a readily available market, the Group's ability to deal in any such investment or obtain reliable information about the value of such investment or risks to which such property investment is exposed may be limited. The Group's short-term liquidity risk is secured by the existence of cash balances, through the fact that rental income exceeds the Group's cost structures and through ensuring that facilities are managed within debt covenants.

The following table details the contractual maturity date of the Group's financial liabilities. The table has been compiled based on the undiscounted contractual maturities of the financial liabilities, including interest that will accrue to those liabilities, except where the Group is entitled and intends to repay the liability before its maturity. The discount column represents the possible future cash flows included in the maturity analysis, such as future interest or potential payments that have not been included in the carrying amount of the financial liability. The table also includes a reconciliation to the carrying value in the statement of financial position.

	Less than one month £'000	One to three months £'000	Three to 12 months £'000	One to five years £'000	Over five years £'000	Discount £'000	Total £'000
Group operations							
Interest-bearing loans	–	–	–	112,370	65,453	–	177,823
Loan interest	–	1,570	2,957	13,805	1,842	(19,589)	585
Other payables	–	674	–	4,836	–	–	5,510
Accruals	–	1,130	5,481	–	–	–	6,611
Lease obligations	2	2	24	7	–	–	35
As at 31 March 2022	2	3,376	8,462	131,018	67,295	(19,589)	190,564

	Less than one month £'000	One to three months £'000	Three to 12 months £'000	One to five years £'000	Over five years £'000	Discount £'000	Total £'000
Group operations							
Interest-bearing loans	–	4,489	–	111,407	65,248	–	181,144
Loan interest	109	1,680	2,625	11,501	2,781	(17,808)	888
Financial liabilities	–	–	–	430	–	–	430
Other payables	–	1,226	3,391	–	–	–	4,617
Accruals	–	–	4,200	–	–	–	4,200
Lease obligations	2	74	242	24	–	–	342
As at 31 March 2021	111	7,469	10,458	123,362	68,029	(17,808)	191,621

Notes to the consolidated financial statements continued

27 Financial risk management continued

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign currency risk, interest rate risk and price risk (see fair value hierarchy section). The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising returns to shareholders.

Investment in property is subject to varying degrees of risk. The main factors which affect the value of the investment in property include:

- changes in the general economic climate;
- local conditions in respective markets, such as oversupply, or a reduction in demand, for commercial space in a specific area;
- competition from other available properties; and
- government regulations, including planning, environmental and tax laws.

While a large number of these factors are outside the control of the management, market and property-specific factors relevant to maintain a sustainable income stream within the Group's yield parameters are considered as part of the initial due diligence. Properties and tenant leases are actively managed.

Fair value hierarchy

The table below analyses the Group's financial instruments carried at fair value, by valuation method. The fair value measurement for the Group's financial assets and financial liabilities are categorised into different levels in the fair value hierarchy. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e., derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31 March 2022	Total financial instruments recognised at fair value £'000	Designated at fair value		
		Level 1 £'000	Level 2 £'000	Level 3 £'000
Assets				
Investment in joint venture bond	14,883	–	–	14,883
Derivative financial instruments	1,864	–	1,864	–
Total assets	16,747	–	1,864	14,883

31 March 2021	Total financial instruments recognised at fair value £'000	Designated at fair value		
		Level 1 £'000	Level 2 £'000	Level 3 £'000
Assets				
Investment in joint venture bond	14,119	–	–	14,119
Derivative financial instruments	2,162	–	2,162	–
Total assets	16,281	–	2,162	14,119
Liabilities				
Derivative financial instruments	430	–	430	–
Total liabilities	430	–	430	–

27 Financial risk management continued

Details of changes in valuation techniques

There have been no significant changes in valuation techniques during the period under review. Derivative financial instruments are measured using the midpoint of the yield curve prevailing on the reporting date. The valuations do not include accrued interest from the previous settlement date to the reporting date. The fair value represents the net present value of the difference between the contracted rate and the valuation rate when applied to the projected balances for the period from the reporting date to the contracted expiry dates.

Significant transfers between Level 1, Level 2 and Level 3

There have been no significant transfers between Level 1, Level 2 and Level 3 during the period under review.

Unobservable inputs

Unobservable inputs for investment properties classified as Level 3 are disclosed in note 16.

The unobservable inputs used to determine the value of the bonds in the Elyson S.A. joint venture are based on the unadjusted net assets of the joint venture structure and are subject to the assumptions applied to the valuation methodology of the underlying investment property.

Fair value of financial instruments

The following table summarises the Group's financial assets and liabilities into categories required by IFRS 7 Financial Instruments: Disclosures. The carrying values approximates their fair value.

	Held at fair value through profit or loss £'000	Held at amortised cost £'000	Total carrying amount 31 March 2022 £'000
Financial assets			
Cash and cash equivalents	–	31,526	31,526
Derivative financial instruments	1,864	–	1,864
Trade and other receivables	–	12,159	12,159
Investment in joint venture bond	14,883	–	14,883
Other debtors	–	6,543	6,543
Total financial assets	16,747	50,228	66,975
Financial liabilities			
Bank loans	–	177,823	177,823
Accounts payable and accruals	–	19,549	19,549
Total financial liabilities	–	197,372	197,372
	Held at fair value through profit or loss £'000	Held at amortised cost £'000	Total carrying amount 31 March 2021 £'000
Financial assets			
Cash and cash equivalents	–	53,781	53,781
Derivative financial instruments	2,162	–	2,162
Trade and other receivables	–	8,723	8,723
Investment in joint venture bond	14,119	–	14,119
Other investments	–	1,000	1,000
Other debtors	–	8,670	8,670
Total financial assets	16,281	72,174	88,455
Financial liabilities			
Bank loans	–	181,144	181,144
Derivative financial instruments	430	–	430
Accounts payable and accruals	–	16,516	16,516
Total financial liabilities	430	197,660	198,090

Notes to the consolidated financial statements continued

27 Financial risk management continued

Foreign currency risk

The Group's presentation currency is Sterling. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency or exchange rates. At the reporting date, the following table summarises the Group's exposure to foreign currency risk in respect of assets and liabilities held in EUR (Germany) and CHF (Switzerland).

	31 March 2022 £'000	31 March 2021 £'000
Assets		
CHF	885	12,616
EUR	18,552	63,419
Liabilities		
CHF	38	5,400
EUR	26	11,096

Foreign currency sensitivity analysis

The sensitivity analysis measures the impact on the Group's exposure in Sterling (based on a change in the reporting date spot rate) and the impact on the Group's Sterling profitability, given a simultaneous change in the foreign currencies to which the Group is exposed at the reporting date.

A 10% strengthening in the Sterling exchange rate against the following currencies at year end would have decreased equity and losses by the amounts shown below. The 10% threshold was selected as a reasonable, worst-case scenario and is considered a prudent threshold. This analysis assumes that all other variables remain constant. For a 10% weakening of Sterling, there would be an equal but opposite impact on the profit and equity and the balance would be positive.

Impact of Sterling strengthening by 10%	Equity £'000	Profit or loss £'000
CHF	(85)	230
EUR	(1,853)	(184)
Total	(1,938)	46

The exchange rates against GBP during the reporting periods were:

	Average rate for year to 31 March 2022	As at 31 March 2022	Average rate for year to 31 March 2021	As at 31 March 2021
CHF	0.8071	0.8245	0.8294	0.7701
EUR	0.8364	0.8463	0.8927	0.8519

Interest rate risk

The Group's interest rate risk is associated with cash and cash equivalents, on the one hand, and interest-bearing borrowings, on the other. If the interest is variable, it presents the Group with a cash flow interest rate risk. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As stated in note 24, borrowings from credit institutions are protected against movements in interest rates. The Group uses interest rate swaps to manage its interest rate exposure and to establish more certainty over cash flows. As a result, the Group has not disclosed additional sensitivity analysis to changes in interest rates.

28 Related party transactions

Parties are considered related if one party has control, joint control or significant influence over the other party in making financial and operating decisions. Transactions with related parties are made on terms equivalent to those that prevail in an arm's-length transaction.

Directors' remuneration and interests in the ordinary shares of the Company are set out in note 8, 'Employees' and Directors' emoluments'.

Loans provided to a Director to purchase Industrials REIT Limited shares under the Share Purchase Plan can be found in note 20.

Transactions and balances with joint venture parties can be found in note 18.

There are no other related party transactions that occurred during the year.

Ultimate controlling party

The Directors do not consider there to be an ultimate controlling party.

29 Minimum lease payments

The Group earns rental income by leasing its investment properties to tenants under non-cancellable operating leases.

At the reporting date, the Group had contracted with tenants the following future minimum lease payments on its investment properties:

	31 March 2022 £'000	31 March 2021 £'000
Continuing operations		
Within one year	31,708	25,851
Between one and two years	24,033	16,058
Between two and five years	35,057	20,636
After five years	19,126	7,794
Total	109,924	70,340
	31 March 2022 £'000	31 March 2021 £'000
Discontinued operations		
Within one year	–	6,636
Between one and two years	–	6,548
Between two and five years	–	14,939
After five years	–	19,584
Total	–	47,706

The comparatives have been restated to reflect the change in classification of current year discontinued operations to enable an effective like-for-like comparison.

At the reporting date the Group had the following future minimum lease payments as a lessee:

	31 March 2022 £'000	31 March 2021 £'000
Continuing operations		
Within one year	29	324
Between one and two years	6	20
Between two and five years	–	6
After five years	–	–
Total	35	350

At 31 March 2022, Industrials REIT had no (2021: nil) lessee leases in its discontinued operations.

30 Events after the reporting period

(i) Declaration of dividend

On 9 June 2022, the Board declared a final dividend of 3.475 pence per share. The final dividend will be payable in cash or as a scrip dividend. An announcement containing details of the dividend, the timetable and the scrip dividend terms is anticipated to be made on 1 July 2022. It is expected that shares will commence trading ex-dividend on 20 July 2022 on the JSE and on 21 July 2022 on the LSE. The record date for the dividend is expected to be 22 July 2022, the last day for shareholders to submit an election to receive the scrip dividend is expected to be 29 July 2022, and the dividend payment date is expected to be 12 August 2022.

(ii) Share incentive awards

On 8 June 2022, the Board, on the recommendation of the Remuneration Committee, approved share-based awards in relation to the Long Term Incentive Plan, the Deferred Share Bonus Plan, and the Save As You Earn Plan. Details of awards made to Executive Directors can be seen in note 8.

(iii) Adjusting events

Industrials REIT has identified no adjusting events at the date of signing these consolidated financial statements.

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Additional Disclosure



industrials
REIT

Alternative performance measures

Unaudited

Industrials REIT's financial statements are prepared under IFRS. Management considers several alternative performance measures ('APMs') important to improve the transparency and relevance of our published results, as well as the comparability of our results with other listed real estate companies. APMs do not have a standardised meaning under IFRS and therefore may not be comparable to similar measures presented by other companies.

EPRA performance measures

Alternative performance measures used by Industrials REIT include those defined by the European Public Real Estate Association ('EPRA'). EPRA provides guidelines and recommended reporting standards which aim to bring consistency and transparency to the European real estate sector and which are widely applied across this market. In October 2019, EPRA issued updated best practice guidelines which are effective for accounting periods starting on or before 1 January 2020, introducing three new net asset value metrics: EPRA net reinstatement value, EPRA net tangible assets and EPRA net disposal value.

The EPRA earnings measure is intended to show the level of recurring earnings from core operational activities with the purpose of highlighting the Group's underlying operating results from its property rental business and provide an indication of the extent to which current dividend payments are supported by earnings. The measure excludes unrealised changes in the value of investment properties, gains, or losses on the disposal of properties and other items to provide additional information on the Group's underlying operational performance. The measure is considered to accurately capture the long-term strategy of the Group and is an indication of the sustainability of dividend payments.

The table below summarises the Group's EPRA performance indicators, as well as the nearest IFRS measure where applicable, and a reference to where in these results further explanation and/or reconciliation can be found.

EPRA performance measure	Nearest IFRS measure	Reference in document	31 March 2022	31 March 2021
EPRA cost ratio (excluding direct vacancy costs)	N/A	N/A	35.7 %	37.4 %
EPRA cost ratio (including direct vacancy costs) Key measure to enable meaningful measurement of the changes in a company's operating costs.	N/A	Operating and financial review	40.9 %	41.6 %
EPRA earnings A key measure of a company's underlying operating results and an indication of the extent to which current dividend payments are supported by earnings.	Earnings	Note 14	£ 18.45 million	£18.91 million
EPRA earnings per share	IFRS EPS	Note 14	6.32p	6.67p
EPRA earnings per share (diluted)	Diluted IFRS EPS	Operating and financial review and note 14	6.30p	6.62p
EPRA net disposal value per share NAV measure that assumes assets are sold and/or liabilities are not held until maturity. Deferred tax, financial instruments and certain other adjustments are calculated as to the full extent of their liability, including tax exposure not reflected in the statement of financial position.	Diluted net assets per share	Note 15	£ 1.78	£1.48
EPRA net reinstatement value per share NAV measure to highlight the value of net assets on a long-term basis. Fair value movements on financial derivatives and deferred taxes are excluded.	Diluted net assets per share	Note 15	£ 1.93	£1.61
EPRA net tangible assets per share NAV measure that assumes entities buy and sell assets, thereby crystallising certain levels of deferred tax liability, which is included.	Diluted net assets per share	Operating and financial review and note 6	£ 1.77	£1.47
EPRA NIY Annualised rental income based on the cash rents passing at the reporting date, less non-recoverable property operating expenses, expressed as a percentage of the market value of property.	N/A	N/A	5.0 %	5.8 %
EPRA "topped up" NIY	N/A	N/A	5.3 %	6.0 %
EPRA Like-for-like rental income growth This measure illustrates the change in comparable income values.	N/A	N/A	6.0 %	5.3 %

EPRA performance measure	Nearest IFRS measure	Reference in document	31 March 2022	31 March 2021
EPRA vacancy rate A 'pure' (%) measure of investment property space that is vacant, based on estimated market rental value (ERV).	N/A	N/A	5.8 %	5.1 %
Like-for-like valuation growth This measure illustrates the change in comparable property market values.	N/A	Operating and financial review	19.4 %	6.3 %
Reversion The difference between passing rent and ERV. The increase or decrease of rent arises on rent reviews and letting of vacant space or re-letting of expiries. Only figures relating to the UK MLI business are available for this reporting period. In future periods this should increase to the whole Group.	N/A	N/A	13.2 %	10.8 %

Supplementary calculations not included elsewhere in the unaudited financial statements

	31 March 2022 £'000	31 March 2021 £'000
EPRA cost ratio		
Operating costs per IFRS statement of comprehensive income (including discontinued operations)	13,714	10,630
Property expenses net of tenant recharges	2,297	7,211
Other income	(316)	(1,414)
Share of joint ventures expenses	460	520
Costs (including direct vacancy costs) (A)	16,155	16,947
Direct vacancy costs	(2,074)	(1,721)
Costs (excluding direct vacancy costs) (B)	14,081	15,226
Gross rental income - per IFRS (including discontinued operations)	37,079	38,195
Add: share of joint ventures (gross rental income)	2,409	2,518
Gross rental income (C)	39,488	40,713
EPRA cost ratio (including direct vacancy costs) (A/C)	40.9%	41.6%
EPRA cost ratio (excluding direct vacancy costs) (B/C)	35.7%	37.4%

¹ Other adjustments reflect the exclusion of the one-off cost associated with the transfer of the Company's listing to the Premium Segment of the LSE.

Alternative performance measures continued

Unaudited

Property-related capital expenditure (capex)

No costs directly attributable to overhead and operations that would normally be classified as overhead or administrative costs were capitalised by the Group during the year (2021: nil). The Group does not typically have significant assets under development, and does not have a policy of capitalising any overhead and operating expenses.

	Group (excl. joint ventures) £'000	Joint ventures (prorated) £'000	Total Group £'000
31 March 2022			
Acquisitions ¹	102,705	–	102,705
Development ²	–	–	–
Investment properties ³			
Incremental lettable space	–	–	–
No incremental lettable space	3,898	–	3,898
Tenant incentives	–	–	–
Other material non-allocated types of expenditure	–	–	–
Capitalised interest (if applicable)	–	–	–
Total capital expenditure	106,603	–	106,603
Conversion from accrual to cash basis	(15)	–	(15)
Total capital expenditure on cash basis	106,588	–	106,588

¹ Amounts spent on the purchase of investment properties (including any capitalised transaction costs).

² Amounts spent on investment properties under construction and related development projects (including any internal costs capitalised).

³ Amounts spent on the operational investment property portfolio.

	31 March 2021	Group (excl. Joint ventures) £'000	Joint ventures (pro-rated) £'000	Total Group £'000
Acquisitions ¹		96,363	–	96,363
Development ²		–	–	–
Investment properties ³				
Incremental lettable space		–	–	–
No incremental lettable space		1,617	–	1,617
Tenant incentives		–	–	–
Other material non-allocated types of expenditure		–	–	–
Capitalised interest (if applicable)		–	–	–
Total capital expenditure		97,980	–	97,980
Conversion from accrual to cash basis		(8)	–	(8)
Total capital expenditure on cash basis		97,972	–	97,972

¹ Amounts spent on the purchase of investment properties (including any capitalised transaction costs).

² Amounts spent on investment properties under construction and related development projects (including any internal costs capitalised).

³ Amounts spent on the operational investment property portfolio.

EPRA Like-for-like rental income growth (%)

	31 March 2022 (£m)	31 March 2021 (£m)	Change (£m)	Change (%)
Annualised gross rental income¹				
UK multi-let industrial ²	33.9	31.9	2.0	6.3 %
Share of joint venture ³	2.5	2.4	0.1	3.2 %
Total like-for-like	36.4	34.3	2.1	6.0 %
Acquisitions	6.4	–		
Total	42.8	34.3		

¹ Gross annual rental income generated by properties that were held by the Group for the year. There were no properties undergoing significant development. The size of the portfolio, in value, on which the change in comparable income values is based is detailed in note 16.

² Like-for-like rental growth for the UK multi-let industrial portfolio, based on passing rent, is 4.4% (2021: 5.6%) with the difference being due to rent-free periods and fixed uplifts.

³ A standardised rate has been used to translate the portfolio and remove any foreign exchange impact, for the purpose of this like-for-like analysis.

	31 March 2022 (£m)	31 March 2021 (£m)
EPRA vacancy rate		
Estimated rental value of vacant space (A)	2.8	2.3
Estimated rental value of the whole portfolio (B)	48.1	44.8
EPRA vacancy rate (A/B)	5.8 %	5.1 %

Alternative performance measures continued

Unaudited

EPRA NIY and “topped-up” NIY disclosure

	UK multi-let industrial (£m)	Joint ventures (£m)	Total (£m)
31 March 2022			
Market value (£m)	653.5	32.3	685.8
Estimated purchaser's costs	44.0	2.6	46.6
Gross up completed property portfolio valuation (B)	697.5	34.9	732.4
Annualised current passing rental income	38.2	2.5	40.7
Non-recoverable property operating expenses	(3.9)	(0.1)	(4.0)
Annualised net rents (A)	34.3	2.4	36.6
EPRA NIY (A/B)	4.9 %	6.7 %	5.0 %
Add: rent-free periods and fixed uplifts	2.1	–	2.1
Topped-up net annualised rent (C)	36.4	2.4	38.7
EPRA “topped-up” NIY (C/B)	5.2 %	6.7 %	5.3 %

	UK multi-let industrial (£m)	Guernsey (£m)	Germany (£m)	Switzerland (£m)	Joint ventures (£m)	Total (£m)
31 March 2021						
Market value (£m)	455.1	56.2	26.2	12.0	32.8	582.3
Estimated purchaser's costs	30.9	4.1	2.1	0.7	2.6	40.4
Gross up completed property portfolio valuation (B)	486.0	60.3	28.3	12.7	35.4	622.7
Annualised current passing rental income	30.4	4.4	1.3	1.0	2.4	39.5
Non-recoverable property operating expenses	(3.1)	–	(0.3)	–	(0.2)	(3.6)
Annualised net rents (A)	27.3	4.4	1.0	1.0	2.2	35.9
EPRA NIY (A/B)	5.6 %	7.3 %	3.5 %	8.2 %	6.3 %	5.8 %
Add: rent-free periods and fixed uplifts	1.5	–	–	–	–	1.5
Topped-up net annualised rent (C)	28.8	4.4	1.0	1.0	2.2	37.4
EPRA “topped-up” NIY (C/B)	5.9 %	7.3 %	3.5 %	8.2 %	6.3 %	6.0 %

Other alternative performance measures

Management use certain financial performance measures to assess the financial and operational performance of the Group. These alternative performance measures are not defined or specified under IFRS or EPRA. However, management believe they provide useful information to readers. These non-IFRS measures may not be comparable to similar measures presented by other companies. The table below summarises the additional alternative performance measures included in these results.

Other alternative performance measure	Nearest IFRS measure	Reference in document	31 March 2022	31 March 2021
Adjusted earnings	Earnings	Operating and financial review and note 14	£20.0 million	£19.4 million
Adjusted earnings per share	Earnings per share	Operating and financial review and note 14	6.88p	6.78p
Cost of debt	N/A	Operating and financial review	2.16%	1.93%
Debt maturity	N/A	Operating and financial review	4.0 years	3.9 years
Dividend per share	N/A	Operating and financial review and note 30	6.85p	6.75p
Headline earnings per share	Earnings per share	Note 14	7.05p	7.30p
Headline earnings per share – diluted	Diluted earnings per share	Note 14	7.02p	7.25p
Loan-to-value ratio (LTV)	N/A	Operating and financial review	25.6%	28.1%
Total accounting return	N/A	Operating and financial review	25.0%	11.4%

FX rates in period

Average foreign exchange rates in the period: £1.00:€1.1758; £1.00:CHF1.2552 (2021: £1.00:€1.1202; £1.00:CHF1.2057).

Period end foreign exchange rates: £1.00:€1.1816; £1.00:CHF1.2129 (2021: £1.00:€1.1738; £1.00:CHF1.2985).

EPRA investment assets

31 March 2022 - Unaudited

Portfolio at 31 March 2022	Portfolio by market value (%)	Market value (£m)	Number of properties	Area (ft ²)	Annualised gross rental income (£m)	Annualised net rental income (£m)	ERV (£m)	Vacancy by ERV (£m)	Average rent per ft ² (£/ft ²)
Continuing operations									
UK MLI	94.4 %	647.5	103 [^]	7,120,135	37.5	31.8	45.3	0.1	5.5
Assets held for sale									
UK MLI - Reading	0.9 %	6.0	1	30,176	0.7	0.7	0.6	–	23.8
Total - wholly owned	95.3 %	653.5	104	7,150,311	38.2	32.5	45.9	0.1	5.2
Joint ventures									
Share of joint ventures	4.7 %	32.3	4	208,066	2.5	2.3	2.2	–	11.9
Total	100.0 %	685.8	108	7,358,377	40.7	34.8	48.1	0.1	5.5

[^] The Group completed 18 individual estate acquisitions in the financial year ended 31 March 2022. Two of the acquisitions, known as “Redlake & Ottery” and “Waldon House” were additional acquisitions in an estate in which the Group already owned property. For internal management purposes these acquisitions have been absorbed into the existing estate, reducing the number of newly acquired estates internally to 16.

Portfolio at 31 March 2022	Passing rent of leases expiring (£m)	ERV of leases expiring (£m)	Passing rent subject to review (£m)	ERV of passing rent subject to review (£m)
Continuing operations				
UK MLI				
Within one year	3.2	2.5	2.2	2.5
Between one and two years	3.6	4.1	3.1	3.4
Between two and five years	18.6	20.1	19.9	22.1
After five years	51.7	56.2	53.5	57.9
Total	76.1	82.9	78.7	85.8

Average lease length remaining at 31 March 2022	To break (years)	To expiry (years)
Continuing operations		
UK MLI	1.9	2.8
Share of joint ventures	7.6	7.6

Additional portfolio information

Top 20 UK assets by lettable building space

Property	Location	Post code	Ownership interest %	Acquisition date	Sector	Ownership structure (freehold/leasehold)	Lettable building space (sq ft)	Vacancy by ERV (£'000)
UK								
Bradley Hall Trading Estate	Lancashire	WN6 0XQ	100%	02/07/2021	MLI	Freehold	279,885	72
Coningsby Business Park	Peterborough	PE3 8SB	100%	31/12/2017	MLI	Freehold	252,179	49
Bowthorpe Park Industrial Estate	Norwich	NR5 9JA	100%	21/07/2020	MLI	Freehold	245,730	79
Compass Industrial Park	Liverpool	L24 1YA	100%	29/06/2017	MLI	Freehold	243,276	19
Dana Trading Estate	Paddock Wood	TN12 6UT	100%	29/06/2017	MLI	Freehold	208,624	98
Capital Business Park	Cardiff	CF3 2PZ	100%	29/06/2017	MLI	Freehold	184,182	261
Anniesland Business Park	Glasgow	G13 1BJ	100%	29/06/2017	MLI	Freehold	182,218	35
Junction One Industrial Estate	Merseyside	CH41 7ED	100%	27/10/2021	MLI	Freehold	167,735	23
Gainsborough Trading Estate	Stourbridge	DY9 7ND	100%	01/03/2019	MLI	Freehold	162,007	–
Redbrook Business Park	Barnsley	S75 1JN	100%	29/06/2017	MLI	Freehold	160,120	19
Lea Green Business Park	St Helens	WA9 4TR	100%	29/06/2017	MLI	Freehold	152,638	3
Mandale Business Park	Durham	DH1 1TH	100%	10/11/2020	MLI	Freehold	136,330	29
Greenfield Business Park	Holywell	CH8 7HJ	100%	21/12/2018	MLI	Freehold	128,400	24
The Waterfront, Newburn Riverside Industrial Park	Newcastle Upon Tyne	NE15 8NZ	100%	25/02/2021	MLI	Leasehold	118,979	74
Kirkstall Industrial Park	Leeds	LS4 2AZ	100%	01/06/2018	MLI	Freehold	110,879	21
Beacon Business Park	Monmouthshire	NP26 5PY	100%	21/12/2021	MLI	Freehold	108,966	14
Headlands Trading Estate	Swindon	SN2 7JQ	100%	26/03/2021	MLI	Freehold	105,593	–
Brookfoot Business Park	Brighouse	HD6 2SD	100%	11/03/2020	MLI	Freehold	105,106	49
Old Mill Industrial Estate	Preston	PR5 6SY	100%	21/12/2018	MLI	Freehold	102,779	133
The Link at Huyton Business Park	Liverpool	L36 6BP	100%	21/12/2018	MLI	Freehold	86,971	237
Top 20 total							3,242,597	1,239

Joint venture assets by lettable building space

Property	Location	Post code	Ownership interest %	Acquisition date	Sector	Ownership structure (freehold/leasehold)	Lettable building space (sq ft)	Vacancy by ERV (£'000)
Germany								
Dessau	Dessau Roßlau	6842	50%	01/10/2014	Nursing Homes	Freehold	66,682	98
Kappeln	Kappeln	24376	50%	01/10/2014	Nursing Homes	Partial leasehold	56,241	–
Braunschweig	Braunschweig	38116	50%	01/10/2014	Nursing Homes	Freehold	44,466	262
Winzlar	Rehburg-Loccum	31547	50%	01/10/2014	Nursing Homes	Freehold	40,677	20
							208,066	380

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Other Information



Shareholder diary

Financial year end	31 March 2022
Annual report posted	June 2022
Annual general meeting	September 2022

Announcement of results

30 September 2022	Interim results	December 2022
31 March 2023	Annual results	June 2023

Dividends

2022 Interim
2023 Annual

Declared

December 2022
June 2023

Paid

February 2023
August 2023

Analysis of Shareholders

As at 31st of March 2022, the following substantial interests (5% or more) in the Company's ordinary share capital had been notified to the Company in accordance with section 5.1.2 of the Disclosure Guidance and Transparency Rules (DTRs). In addition, as at the date of signing these accounts, the Company has not been notified since 31 March 2022 of any changes in substantial interests in the Company.

Direct and indirect interest in the issued share capital of the Company greater than 5%	Percentage %
Thames River Capital	9.46 %
abrdn	7.40 %
Paul Arenson	5.45 %
Lombard Odier Darier Hentsch	5.13 %
Investec Wealth & Investment	5.08 %
Total	32.52 %

The Company does not know of any other shareholder which has a beneficial interest greater than 5% in the Company's issued share capital.

Corporate information

Industrials REIT Limited

Registered in Guernsey
Registration number: 64865
LSE share code: MLI
JSE share code: MLI
ISIN: GG00BFWMR296

Company secretary

Sarah Bellilchi

United Kingdom

Postal address of the Company

180 Great Portland Street
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Broker and financial adviser

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Independent Auditor

BDO LLP
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United Kingdom

Guernsey

Registered office of the Company

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Guernsey

Guernsey registrars

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Glossary

Adjusted earnings

Utilises EPRA earnings and applies further company-specific adjustments to earnings to exclude items considered not to be in the ordinary course of business or other exceptional items that do not necessarily provide an accurate picture of the Group's underlying operational performance. (Previously referred to as diluted adjusted EPRA Earnings).

Adjusted earnings per share

Adjusted earnings per share after considering dilutive share options. (Previously referred to as diluted adjusted EPRA Earnings per share).

Contractual rent

Rent receivable including rent contracted from expiry of rent-free periods and fixed uplifts (rent from long leaseholds are excluded).

Cost of debt

This represents the all-in interest rate after including the reference rate, the margin and interest rate derivative, if applicable. The Group weighted average cost of debt is the all-in interest rate of the Group weighted by loan size.

Debt maturity

Measured in years, the debt maturity is calculated by comparing the reference date (e.g. period-end) to the maturity date of the debt referred to.

Dividend per share

Total dividend per share that Industrials REIT makes to shareholders in respect of the financial year. Dividends are paid twice yearly.

EPRA

The European Public Real Estate Association.

EPRA cost ratio (excluding direct vacancy costs)

Administrative and operating costs (adjusted to exclude vacancy costs) expressed as a percentage of gross rental income.

EPRA cost ratio (including direct vacancy costs)

Administrative and operating costs expressed as a percentage of gross rental income.

EPRA earnings

Earnings from operational activities. A key measure of the Group's underlying operating results and an indication of the extent to which current dividend payments are supported by earnings.

EPRA earnings per share

Earnings from operational activities per share after considering dilutive share options.

EPRA like-for-like rental income growth

The change in gross contractual rental income at reporting date, generated by properties that were held by the Group for the year, excluding properties undergoing significant development. This measure illustrates the change in comparable income values.

EPRA NDV per share

EPRA net disposal value per share after considering dilutive share options.

EPRA net disposal value (EPRA NDV)

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

EPRA net initial yield (EPRA NIY)

Passing rent less non-recoverable property expenses such as empty rates, divided by the property valuation plus notional purchasers' costs. This is in accordance with EPRA's Best Practices Recommendations.

EPRA net reinstatement value (NRV)

A NAV measure that aims to represent the value required to rebuild the entity. The NAV per the IFRS financial statements is adjusted to assume that the entity never sells assets.

EPRA net tangible assets (EPRA NTA)

The NAV per the IFRS financial statements is adjusted to assume that the entity buys and sells assets, thereby crystallising certain levels of unavoidable deferred tax.

EPRA NRV per share

EPRA net reinstatement value per share after considering dilutive share options.

EPRA NTA per share

EPRA net tangible assets per share after considering dilutive share options.

EPRA "topped up" NIY

EPRA NIY adjusted for the expiration of rent-free periods (or other unexpired lease incentives such as discounted rent periods and stepped rents).

EPRA vacancy rate

Estimated rental value of vacant space divided by estimated rental value of the portfolio as a whole.

EPS

Earnings per share based on the weighted average number of shares in issue.

ERS

The annualised estimated market rental value of lettable space as determined by Industrials REIT.

Estimated rental value (ERV)

The external valuers' opinion of the open market rent which, on the date of valuation, could reasonably be expected to be obtained on a new letting or rent review of a property.

EURIBOR

EURO Interbank Offered Rate; daily reference rate, published by the European Money Markets Institute, based on the average interest rates at which Eurozone banks offer to lend funds.

Gross rental income

Rental income is as reported in the income statement, on an accruals basis, and adjusted for the spreading of lease incentives over the term of the lease. It is stated gross, prior to the deduction of property operating expenses.

Group

Industrials REIT, the Company, its subsidiaries and its share of joint ventures.

Headline earnings

A method of reporting corporate earnings, as required by the JSE listings requirements. The measure is based entirely on operational, trading, and capital investment activities achieved during the period. Excluded from the headline earnings figure are profits or losses associated with the sale or termination of discontinued operations, fixed assets or related businesses, or from any permanent devaluation or write-off of their values.

IFRS

International Financial Reporting Standards issued by the International Accounting Standards Board.

Interest cover

Represents the number of times net interest payable is covered by underlying rental income (or net rental income, as appropriate).

LIBOR

London Interbank Offered Rate, the interest rate charged by one bank to another for lending money.

Like-for-like basis

This represents the change in a measure (such as passing rent or property valuation) for reference data that applies throughout the current and previous periods under review.

Loan-to-value (LTV)

Loan to value (LTV) is the ratio of principal value of gross debt, less unrestricted cash, to the Group's aggregate value of properties.

NAV

Net asset value.

Net assets per share

NAV divided by the number of shares in issue at the period end (less treasury shares).

Net initial yield (NIY)

The passing rent expressed as a percentage of the market value, after adding notional purchaser's costs.

Net rental income

Gross rental income, less ground rents paid, net service charge expenses and property operating expenses.

Occupancy rate

Estimated market rental value (ERV) of occupied space divided by ERV of the portfolio as a whole (the inverse of EPRA vacancy rate).

Passing rent

Rental income receivable on a property as at the reporting date. Excludes rental income where a rent-free period is in operation.

Property income distribution (PID)

As a REIT, the Group is obliged to distribute 90% of its UK property tax-exempt profits. PIDs are profits distributed to shareholders, which are subject to tax in the hands of the shareholders as property income. PIDs are normally paid net of withholding tax currently at

20%, which the REIT pays to the tax authorities on behalf of the shareholder. Certain types of shareholder (e.g. pension funds) are tax exempt and receive PIDs without deduction of withholding tax. REITs also pay out normal dividends, which are taxed in the same way as dividends received from non-REIT companies and are not subject to withholding tax.

Real estate investment trust (REIT)

REITs are property companies that allow people and organisations to invest in commercial property and receive benefits as if they directly owned the properties themselves. The effect is that taxation is moved from the corporate level to the investor level as investors are liable for tax as if they owned the property directly. Industrials REIT became a UK REIT in May 2018.

Restricted cash

Represents restricted cash balances, including tenant deposits, service charge monies held by managing agents and monies held in bank accounts secured by lenders, for the purposes of debt repayments.

Reversion

The difference between passing rent and ERV. The increase or decrease of rent arises at rent reviews, the letting of vacant space or the reletting of existing leases.

SMEs

Small and Medium-sized Enterprises.

SONIA

Sterling Overnight Index Average.

Square metres (sq m)

The area of buildings' measurement used in the emissions reporting analysis. The conversion factor used, where appropriate, is one sq m = 10.7639 sq ft.

Total accounting return (TAR)

Growth in EPRA NTA per share plus dividends paid, expressed as a percentage of EPRA NTA per share at the beginning of the period.

Total shareholder return (TSR)

The growth in value of a shareholding over a specified period, assuming dividends are reinvested to purchase additional units of stock.

Treasury shares

Shares repurchased by the Company, reducing the amount of outstanding stock on the open market.

Unrestricted cash

Cash, cash equivalents and liquid investments after deducting restricted cash.

Valuer's ERV

The annualised estimated market rental value of lettable space as determined by Industrials REIT's external valuers.

Voids

Unlet space as a percentage of area, including voids where refurbishment work is being carried out unless specifically mentioned.

WAULT

Weighted average unexpired lease term, indicating the average remaining life of the leases within our portfolio.

Shareholder notes

industrials REIT

Industrials REIT

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