Directors' report

Report and financial statements

The Directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 March 2021. The Governance report forms part of this report. For the purposes of this report, the Directors' responsibilities statement and the Independent auditor's report, the expression 'Company' means Custodian REIT plc and the expression 'Group' means the Company and its subsidiaries.

The Company's principal activity is commercial property investment. The Strategic report includes further information about the Company's principal activity, financial performance during the year and indications of likely future developments. The Company's subsidiaries were all non-trading at the year end.

Details of significant events since the year end are contained in Note 20 to the financial statements.

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

Results and dividends

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

The Company paid a fourth interim dividend of 1.25p per share for the quarter ended 31 March 2021 on 28 May 2021 totalling £5.3m, and has approved a fifth interim dividend per share of 0.5p totalling £2.1m resulting in a total dividend relating to the year of 5.0p per share (2020: 6.65p), totalling £21.0m (2020: £27.5m).

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

Going concern

At 31 March 2021 the Company's forecasts indicate that over the next 12 months:

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

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

Covenant compliance

The Company operates four loan facilities which are summarised in Note 15. At 31 March 2021 the Company had significant headroom on lender covenants at a portfolio level with:

- Company net gearing of 24.9% compared to a maximum LTV covenant of 35% and £165.0m (30% of the property portfolio) unencumbered by the Company's borrowings; and
- Covenant waivers in place on its fixed-rate debt facilities for the quarter ended 31 March 2021 to mitigate risk on each individual security pool.

Reverse stress testing has been undertaken to understand what circumstances would result in potential breaches of financial covenants. While the assumptions applied in these scenarios are possible, they do not represent the Board's view of the likely outturn, but the results help inform the Directors' assessment of the viability of the Company. The testing indicated that:

- At a portfolio level, following expiry of interest cover covenant waivers, the rate of loss or deferral of contractual rent would need to deteriorate by a further 38% from the levels included in the Company's prudent forecasts to breach interest cover covenants; and
- Property valuations would have to decrease by 28% from the 31 March 2021 position to risk breaching the overall 35% LTV covenant.

The Board notes that the May 2021 IPF Forecasts for UK Commercial Property Investment survey suggests an average 0.4% increase in rents during 2021 with capital value increases of 1.8%. The Board believes that the valuation of the Company's property portfolio will prove resilient due to its higher weighting to industrial assets and overall diverse and high-quality asset and tenant base comprising 159 assets and over 201 typically 'institutional grade' tenants across all commercial sectors.

Liquidity

At 31 March 2021 the Company has:

- £3.9m of cash-in-hand and undrawn RCF with gross borrowings of £140m resulting in low net gearing, with no short-term refinancing risk and a weighted average debt facility maturity of seven years;
- An annual contractual rent roll of £38.7m, with interest costs on drawn loan facilities of only c. £4.7m per annum; and
- Received 90% of rents due relating to the April – June 2021 quarter.

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

Directors' report continued

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

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

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

Directors' fees and beneficial interests in the shares of the Company are disclosed in the Remuneration Committee report. During the year, no Director had a material interest in a contract to which the Company or its subsidiary was a party (other than their own letter of appointment), requiring disclosure under the Companies Act 2006 other than in respect of Custodian Capital Limited and the IMA as disclosed in Note 18 to the financial statements.

On 17 June 2020 Nathan Imlach resigned as Company Secretary and Ed Moore was appointed as Company Secretary. On 1 January 2021 Barry Gilbertson retired as a Director. On 1 April 2021 Elizabeth McMeikan and Chris Ireland were appointed as Directors.

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

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

Donations
No political or charitable donations were made during the year.

Capital structure
The Company's authorised and issued share capital is shown in Note 16 to the financial statements.

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

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

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

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

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

Substantial shareholdings
At 29 April 2021 the Directors were aware that the following shareholders each owned[30] 3% or more of the issued share capital:

Shareholder	Number of ordinary shares	Percentage holding[31]
Mattioli Woods	24,395,822	5.8%
BlackRock	23,497,066	5.6%

On 26 May 2021 the Company was notified that BlackRock's holding had fallen below the 5% threshold.

No other changes in substantial shareholding were disclosed between 29 April 2021 and 15 June 2021.

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

30. Ownership incorporates the control of voting rights through acting as discretionary investment manager on behalf of retail investors holding the beneficial interest.
31. Based on the issued share capital on 31 March 2021.

Change of control

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

Related party transactions

Details of related party transactions are given in Note 18 to the financial statements.

Environmental performance and strategy

Custodian REIT is committed to monitoring the performance of its assets, and using this information to develop robust strategies to minimise its environmental impact. This year, we have continued to collect data to monitor the performance of our property portfolio and implemented a centralised data management platform, hosted by the Company's environment consultants, to automate data collection and improve our understanding of building performance. This data is fundamental for the industry reporting frameworks we adhere to each year which are European Public Real Estate ("EPRA") and GRESB. Further to this, the Company supports the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD") and strives to improve our reporting against climate risk. This year we examined the Company's material climate risks and opportunities, and will use this information to shape our strategies. The Company expects to seek to set Science Based Targets[32] ("SBTs") and create a Net Zero[33] pathway.

The following information summarises our actual environmental performance over the year. Our environmental impacts include the consumption of fuels, electricity and water, and the production of waste. Our environmental impacts have been derived from both landlord obtained and tenant obtained consumption data.

GHG emissions

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

Data collected relates to the calendar years 2020 and 2019 but has been disclosed as 2021 and 2020 respectively due to the Company's March accounting reference date.

Methodology

We quantify and report our organisational GHG emissions according to the Greenhouse Gas Protocol. Consumption data has been collated by our sustainability consultant, Carbon Intelligence, and has been converted into carbon dioxide equivalent ("CO_2e") using the UK Government 2020 Conversion Factors for Company Reporting in order to calculate emissions from corresponding activity data. The EPRA guidance on the approach to floor areas was also used in calculating emissions intensity. We have also used GRESB guidance on estimating the common parts areas of assets where there are landlord-controlled premises. We reported to GRESB for the first time last year and as a result now have more accurate common parts floor areas. We have therefore restated comparative figures where necessary to reflect these floor areas in the below table.

This report has been prepared in accordance with the GHG Protocol's Scope 2 Guidance; we have therefore reported both a location-based and market-based Scope 2 emissions figure. The Scope 2 market-based figure reflects emissions from electricity purchasing decisions that the Company has made (landlord obtained). When quantifying emissions using the market-based approach we have used a supplier specific emissions factor where possible. If these factors were unavailable, a residual mix emissions factor was then used, and as a final alternative the location-based grid emissions factor was used.

To collect consumption data, the Investment Manager contacted the Company's tenants and managing agents to request the provision of data for their property. Creating strong tenant relationships is key for generating good data flows. The Investment Manager actively provides tenant benchmarking reports to illustrate how tenants are performing in terms of kWh and tCO_2e.

We have calculated both absolute performance and like-for-like performance to allow for more accurate comparison between the datasets. Like-for-like information includes assets which the Company has owned for at least two years and assets where data is available for both reporting years, but does not adjust for properties being vacant or let which impacts the proportion of emissions which are landlord controlled.

As part of our data collection, the Company undertook a materiality assessment in line with EPRA guidelines in order to determine which EPRA indicators were relevant to our organisation. Based on our professional judgement, we assessed each indicator in terms of its impact on the business and its importance to stakeholders. All environmental sustainability performance measures were considered material which includes disclosing electricity, fuel, water and waste consumption as well as GHG emissions.

32. As defined by the Science Based Targets initiative.
33. As defined by the Committee on Climate Change.

Directors' report continued

Performance

During the year the Company has put in place environmental KPI targets that will be used to assess and improve our performance across ESG issues and cover a range of initiatives including energy efficiency, green energy procurement, tenant engagement and ESG due diligence. On 1 April 2021 an ESG Committee was constituted to create a robust environmental governance structure, monitoring overall progress towards these KPI targets and ensuring the Investment Manager seeks to identify new opportunities to further embed sustainability across the portfolio and in our operations. The key responsibilities of the ESG Committee are set out in the ESG Committee report.

The Company is also currently undertaking a Scope 3 screening exercise for the first time, calculating emissions for relevant Scope 3 categories including capital goods and upstream transportation and distribution. This work will establish an emissions baseline footprint which is key for setting SBTs, a Net Zero pathway as well as monitoring emission reductions.

Some properties within the Company's property portfolio source energy from renewable sources. Out of total absolute energy consumption in 2021, 74% of total electricity consumption is from renewables, up from 12% in 2020.

The table below shows absolute energy consumption for the past two years as well as year-on-year change. Overall, we have observed a 5% increase and 18% increase in absolute electricity and gas consumption respectively from 2020 to 2021.

Absolute energy consumption (MWh)		**2021**	2020	Year-on-year % change
Fuels	Landlord obtained	**89**	97	(8%)
	Tenant obtained	**16,052**	13,590	18%
		16,141	13,687	18%
Electricity	Landlord obtained	**758**	887	(15%)
	Tenant obtained	**9,287**	8,723	6%
		10,045	9,610	5%
		26,186	23,297	12%

Overall, our absolute emissions intensity for Scope 1 and 2 emissions (location-based) has decreased by 5% from 2020 to 2021, and our absolute emissions intensity for Scope 3 emissions has decreased by 24%. We have also chosen to voluntarily disclose a selection of our Scope 3 emissions which includes water and waste emissions, as well as our tenant consumption emissions.

Reporting boundaries and limitations

The GHG sources that constitute our operational boundary for the reporting period are:

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

This year has been the second time tenants' consumption data has been collected. Of the Company's entire property portfolio, our environmental data covers 29% of the total floor area (combined landlord and tenant data), compared to last year's total coverage of 32%[34]. The impact of the COVID-19 pandemic has affected a number of our tenants, particularly those from the retail sector, and it was not unexpected that a lower coverage was obtained with some tenants' priorities lying elsewhere this year.

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

34. 2020 floor area coverage figure has been restated using our latest common parts floor area calculations using GRESB guidance.

Assumptions and estimations

In some instances where data is missing estimations have been applied to fill the gaps, calculated either through extrapolation of available data from the reporting period or through data from previous years as a proxy. We have maintained detailed records of all instances of estimation which are stored within our reporting evidence pack.

The table below shows absolute performance and like-for-like performance of our Scope 1, 2 and 3 emissions:

GHG emissions (tCO_2e)		Absolute performance 2021	2020	% change	Like-for-like performance[35] 2021	2020	% change
Scope 1	Landlord fuel consumption (MWh)	**89**	97	(8%)	**89**	54	65%
	GHG emissions	**16**	16	–	**16**	15	–
Scope 2 (market-based)	Landlord electricity consumption (MWh)	**718**	721	0.5%	**718**	443	62%
	GHG emissions	**177**	197	(10%)	**177**	126	40%
Scope 2 (location-based)	Landlord electricity consumption (MWh)	**758**	887	(15%)	**758**	492	54%
	GHG emissions	**177**	197	(10%)	**177**	126	40%
	Total Scope 1 & 2 emissions (market-based)	**183**	200	(9%)	**183**	142	29%
	Total Scope 1 & 2 emissions (location-based)	**193**	213	(9%)	**193**	142	36%
	Scope 1 & 2 (market-based) emissions intensity ($tCO_2e/m^2/yr$)	**0.04**	0.04	–	**0.04**	0.03	36%
	Scope 1 & 2 (location-based) emissions intensity ($tCO_2e/m^2/yr$)	**0.04**	0.05	(9%)	**0.04**	0.03	36%
Scope 3	Tenant fuel consumption (MWh)	**16,052**	13,590	18%	**13,353**	10,440	28%
	Tenant electricity consumption (MWh)	**9,287**	8,723	6%	**4,679**	4,438	2%
	Water consumption (dam^3)	**51**	35	47%	**14**	11	21%
	Total waste sent to landfill (tonnes)	**162**	371	(56%)	**25**	158	(84%)
	Total waste diverted from landfill (tonnes)	**2,591**	1,266	105%	**416**	176	136%
	Total Scope 3 emissions	**5,426**	4,698	16%	**3,667**	3,102	18%
	Scope 3 emissions intensity ($tCO_2e/m^2/yr$)	**0.02**	0.03	(24%)	**0.05**	0.04	18%
	Gross Scope 1, 2 and 3 emissions (market-based)	**5,600**	4,898	14%	**3,841**	3,231	19%
	Gross Scope 1, 2 and 3 emissions (location-based)	**5,619**	4,911	14%	**3,860**	3,244	19%

The emissions intensity calculation is based upon the floor area metrics available relative to the Scope 1, 2 and 3 emissions.

Financial risk management

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

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

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

The Company's financial risk management policy is further detailed in Note 19 to the financial statements.

Auditor

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

35. Like-for-like information includes assets which the Company has owned for at least two years and assets where data is available for both reporting years, but does not adjust for properties being vacant or let which impacts the proportion of emissions which are landlord controlled.

Directors' report continued

Directors' statement as to disclosure of information to the auditor

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

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

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

Annual General Meeting

The AGM of the Company will be held on 25 August 2021 at 10:00am. The results of the meeting will be published on the Company's website following the meeting.

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

Engagement with suppliers, customers and others

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

Events since 31 March 2021

Details of significant events occurring after the end of the reporting year are given in Note 20 to the financial statements.

Approval

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

David Hunter
Chairman
15 June 2021