



Space for Change

Ethical Property Company
Annual Report 2011/12

ethical
PROPERTY
INVESTING IN
SOCIAL CHANGE

Our centres



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Introduction

Ethical Property exists to promote a more just, equitable and sustainable society through the provision of property and support services to organisations, communities and individuals who share the same objectives. We aim to offer excellent quality and affordable space to our building users and an outstanding property management service to like-minded landlords, combined in all cases with a commitment to minimising the negative environmental impacts of our activities. At the same time, through our equity-based financial model, we give an opportunity for individuals and institutions to invest their capital ethically.



The communal garden at Development House, London

Chair's statement

Thank you for taking the time to read the Ethical Property Annual Report, an overview of one of the UK's leading social businesses. In a tough economic climate we have been able to maintain our profitability, reduce our void levels, sustain our levels of tenant satisfaction and improve our energy use.

Ethical Property was established in 1998. Over the last 14 years, we have grown significantly from owning two small buildings in Bristol and North London, housing 12 charitable organisations, to what is now 15 centres across the UK providing 15,000 sqm/161,000 sqft of space for 239 tenants. In addition to this we also manage a further seven centres under Property Management Contracts, which house a further 45 organisations.

We are continuing to develop 'The Ethical Property Family', a group of international property and property services organisations, established upon the same principles as ourselves. The family includes Ethical IT and the Ethical Property Foundation in the UK, together with three companies in mainland Europe – Ethical Property Europe, which owns two centres in the Belgian cities of Brussels and Namur, étic which manages centres in Lyon and Paris, France, and Ethical Property Nederlands, which manages a centre in Haarlem and is currently working on plans for a new centre in The Hague.

As part of our commitment to transparency and delivering our 'Triple Bottom Line', we continue to place equal importance in this Annual Report on our social and environmental impact as on our financial performance.

Reporting on the activities that have taken place in our 15 owned, and seven managed centres is based on the 'Quintessentials', a set of five management principles designed to ensure that we and other members of the Ethical Property Family meet our common aims. In 2011/12 and for the previous three years we have also had our social and environmental accounts audited by an external auditor.

With work continuing on the development of The Foundry, our largest project to date, we remain incredibly grateful for the continued support of our shareholders, tenants and staff and we look forward to another successful year in 2013.

A handwritten signature in black ink, appearing to read 'Bob Burlton', with a long horizontal flourish underneath.

Bob Burlton
Chair
The Ethical Property Company

Highlights

Profit before exceptional items increasing from £304,246 to £316,423 • **Occupancy rate up to 94.5% despite economic climate** • **Securing two large property management contracts** • **The successful development of The Foundry** • **Significant growth and development within The Ethical Property Family**

This report is being written at the end of a year which has seen significant progress on key issues within the company; it has been a challenging but highly rewarding year. Although we were working in a very difficult climate we continued to grow, successfully developing our biggest project to date, seeing occupancy levels increase and securing more Property Management Contracts. The changes in the economic environment brought new challenges for the social change sector and the communities we serve but we have successfully responded to those changing needs by continuing to evolve our offer and the way we work.

The Foundry

The Foundry project, previously known as 'The Social Justice Centre', has made significant progress. More details about this project can be found on pages 3 and 5, but it is worth noting that this is a departure from our traditional structure, and is a joint venture with charitable foundations and ethical financial institutions. Greater partnership working is an exciting opportunity for us, and this project has enabled us to engage with a much wider variety of stakeholders across the sector.

Our centres

It is a difficult time for the voluntary sector at the moment, and this makes our role even more important. We have worked hard to respond to changing demands whilst ensuring that our service remains fit for purpose and that we are offering the right package of support. I'm delighted that we have, overall, seen an increase in demand for our services, although it is fair to say that the economic hardships are increasing the north-south divide with much higher demand in the south and rising vacancies in the north.

Property management

We continue to grow and expand our property management business, and now manage two additional large centres, Resource for London and Brighton

Community Base, as well as several smaller buildings. We are very committed to this area of development as it allows us to apply our skills to a wider group of centres and to grow without investing capital.

Financial summary

Our profit before exceptional items was £316,423, an increase of 4%. Net income from property was up 2.5% on last year and turnover from property management contracts increased from £142,000 to £550,000. Ethical IT LLP, our joint venture with JADe (see page 10), has continued its success and we saw our share of income from its activities grow by £28,000 over the year. Unfortunately, property values (see page 17) have once again suffered some significant drops outside London, which the continued strength of the London market has not been able to offset this year. We have recognised further permanent losses in property purchased at the height of the property market.

Social and environmental performance

The social and environmental impacts of our business are fundamental to our values and the way we operate (see pages 11–15). One of our principal social impacts lies in the way we support our tenants to carry out their work, so it is reassuring that a high proportion of tenants report that being in an Ethical Property centre helped them to achieve their strategic objectives. In terms of our environmental impact, our overall energy consumption has fallen by 1.5% since last year. There is also a significant reduction in our carbon emissions as a result of Development House now having a 100% renewable electricity supplier.

People

After 13 years on the Ethical Property board our founder, Jamie Hartzell, resigned from the Board in April having been Managing Director until September 2010. Jamie is spending more time developing Ethex, the on-line portal for social investment.

As I write this we are in the process of recruiting two new members of the board to replace Jamie and Rod Schwartz who left the Board in 2011.

Operationally, we have continued to expand our staff team and now employ over 60 people, compared to 42 last year. Most of this increase was generated by transferring staff from our two largest Property Management Contracts.

We are also delighted to welcome a new Finance Director, Gerry Duffy, who joined us in October 2012. Gerry comes with many years' experience in both the voluntary and commercial sectors and has already proven himself to be a valued member of the team. I am sure he will manage the finances with a steady pair of hands over the years ahead.

(Profiles of all staff members can be found on our website at www.ethicalproperty.co.uk)

The Ethical Property Family

During the year we have had dialogue between family members about sharing good practice and clarifying how we want to work together. For the first time all international family members reported to the UK Audit Committee on how they were complying with the Quintessentials, which is our collective statement of principles.

So, in summary, we have had a busy and successful year. This Annual Report and the Ethical Property website contain more detail on many of the issues mentioned above – I hope you find it interesting.



Susan Ralphs
Managing Director
The Ethical Property Company

Future plans

“Ethical Property will be an exemplar for how property can be used in the best interest of society that is considered fairer for the planet, the employees, the users and the investors. Our buildings will offer excellent quality space and provide an outstanding property management service. By 2016 we will be the provider of choice for organisations working for a more just, equitable and sustainable society. We will drive forward growth of an international family of similar organisations.” – The Ethical Property five year strategic plan

In December 2011 the The Ethical Property Board approved our five year strategic plan for the period 2011 – 2016. The strategy was formulated over a number of months, in a process involving staff throughout the organisation.

In July 2012 we evaluated how we were performing against this plan, identifying some areas where we were doing well and other areas where we wanted to improve performance. As a result of this process we will be focusing on the following areas over the next 12 months.

Improving our financial analysis

We want to continue to improve our internal financial reporting to ensure that we have an accurate assessment of current operations and the profitability of each area of the business. By focusing on each area of activity we hope to maintain and improve our profitability. We will further develop our long term financial model, to ensure we have a clear picture of the options available for us to finance both growth and our loan liabilities.

Investing in staff development

We want to improve the skills and resilience of staff throughout the organisation. We must not underestimate what is required to meet our business objectives and growth ambitions in this economic climate. Our plans include the development of our Senior Management Team, both individually and collectively, and the continuation of this year's training programme for other staff members in both line management and specific technical skills.

Development of The Foundry

We continue to work towards the successful redevelopment and opening of our newest centre, The Foundry, in South London (see page 5). This is the largest project Ethical Property has been involved with and we will commit sufficient resources throughout the organisation to ensure its success, whilst not losing focus on other parts of the business. A project team is in place and as the redevelopment nears completion we will bring in additional support from our Operations Team to ensure it opens on time with all the space and facilities that the tenants are expecting.

Development of our strategy for The Ethical Property Family

One of our strategic objectives is to lead the development and growth of the international family. To ensure we do this effectively we will better define the company's vision for the growth of the family and develop better international structures to improve dialogue and enable further development to take place.

Creating a better definition of our product

Since its inception the company has developed an eclectic range of properties which meet a wide variety of needs within the social change sector. We want to improve the way we communicate to current and potential tenants, to ensure more consistency and increase our company profile. As part of this process we will look more closely at what exactly we are currently providing to the sector and how we can more formally classify our range of products to ensure that we continue to meet longer term needs.

Developing a more sophisticated investment plan

Over the last 13 years we have had four share issues, both public and more recently private. However, this route offers only one way in which interested parties can invest in the company. Given our ambition to grow we will need to raise more capital and we are working with advisers to look at whether we should raise investment in a more varied way, suited to the needs of a more diverse group of investors.

We will also work with Ethex, the online portal for social investment to improve information for current and prospective investors, which should increase liquidity in our shares.



An artist's impression of The Foundry, London

It's been an exciting year with Ethical Property now owning 15 centres and managing a further seven across England and Scotland.

Following good progress in 2010/11 we have continued to evolve our offer in response to our tenants' needs. As a result of the economic challenges we have seen more tenants wishing to increase or decrease space and a rise in the levels of tenants moving in and out; although occupancy levels have remained high we have overseen 141 moves in the past year (including internal moves), compared with 129 the previous year and 62 the year before.

A key operational priority has been maintaining high levels of tenant satisfaction, ensuring we are competitively priced and are delivering the best value service to our tenants and other building users. We aim to deliver excellent customer service and have now created Centre Manager roles; staff members responsible for tenant satisfaction in those regions which have sufficiently large, or sufficiently numerous, properties. In addition we have also focused on how we market our space and as a result have created a new sales role and a more efficient space filling process to ensure we respond to potential customers' needs appropriately.

As a result of these changes we have improved occupancy levels from the previous year to an average of 94.5% and have seen a significant rise in the number of enquiries for space which is impressive in the current climate. Tenant satisfaction also remains high, with 89% reporting that being a tenant of Ethical Property helps them to achieve their strategic objectives and 80% stating that it helps support their day-to-day operations. We have also seen improvements in levels of satisfaction in a number of key areas including finance and operations as a result of focused attention during the year, which is very encouraging.

Moving forward there are still areas which we are looking to improve, such as the quality of the communal spaces we provide including meeting rooms, kitchens and reception areas. We recognise that in some buildings these are now looking rather tired and do not adhere to the standards we aspire to across our portfolio.

We have set aside funds in the maintenance budgets for the improvement of the worst-affected buildings in the coming year. As part of this work we have been developing a new colour scheme and specification for our paintwork and carpeting, which ties in with the branding used on our new website and printed materials.

To ensure consistent quality and environmental performance of the products we use we are also developing a 'specification guide' for Property Managers covering all aspects of our maintenance and refurbishment work.

Environmental performance has improved in most areas this year, with energy use and carbon emissions both down on last year, and car use amongst tenants also reduced. The biggest impact on carbon emissions has been the switch to a 100% renewable tariff at our largest building, Development House. Unfortunately this tariff is not financially viable at our smaller buildings at present, but we hope that will change in the future.

Over the past year we have continued to grow the portfolio of property we manage on behalf of other landlords and now provide management services for seven centres located in Bath, Brighton, Bristol, London and Oxford. The buildings are owned by a range of like-minded landlords including individuals, faith-based groups and charitable organisations. Our managed portfolio now comprises some 8,080 sqm/87,000 sqft and includes office, meeting, conference and community space as well as a café. 45 organisations benefited from being tenants within these buildings whilst a further 478 organisations benefited from using the meeting and conference room space.

The service we provide depends on the landlord, the building and its users. We tailor our services to meet client needs, from ensuring that properties comply with health and safety legislation through to providing a full management package incorporating the delivery of financial, building and facility management services.

We actively work with the landlords to deliver cost savings through achieving greater economies of scale as well as supporting them in optimising income by improving occupancy and usage levels.

We also work with the landlords, tenants and building users to identify ways to increase the social and environmental performance of the space. This includes increasing accessibility for tenants and building users as well as introducing new policies, procedures and services that benefit tenants and staff. We are championing the installation of energy efficient mechanical and electrical equipment, encouraging greener procurement and embedding environmental sustainability in any redevelopment plans where possible.

In a time of cuts and economic hardship this activity has been vital in helping to safeguard community assets. Owners and tenants both benefit from knowing that their properties are professionally and ethically managed which enables them to focus on their core objectives. Meanwhile, we have benefited from continuing to grow without the need for more capital which has led to greater economies of scale, more sustainable staff teams and an improved offering, in terms of location and type of space.

Looking forward we aim to build on our progress to date to ensure we continue to evolve and improve the support we can offer the social change sector.



Green Park Station, Bath

Development projects

2011/12 also proved a productive year in terms of development and Property Management Contracts as we secured a number of new projects with more planned for 2013. The economic environment has made it harder for social change organisations but has also created a growing demand for our services. Over the past year we have successfully adapted our offer and approach in response to these dynamics.

Over the past year, we have renewed our focus on 'partnerships'. By working with a wider pool of investors and owners we can dramatically increase the social, environmental and financial impacts that we would achieve working on our own. In broad terms this work has taken two forms.

- Firstly, through our work with owners of existing centres that are facing threats and uncertain futures, to develop and deliver an appropriate management service that can safeguard valuable community assets
- Secondly, through the development of joint investment vehicles with other social investors, providing them with new Mission Related Investment opportunities, and importantly, enable the provision of more space benefiting the social change sector by increasing the scale and number of projects.

Over the past year we have secured two new Property Management Contracts. The first is a partnership with Resource for London. Resource for London owns a 5,100 sqm/55,000 sq ft centre in north London and aims to tackle poverty through providing affordable office, conference and meeting rooms for organisations who meet their vision. The second is partnership with Brighton Community Base who own a 1,858 sqm/20,000 sqft centre in central Brighton that offers affordable office and conference space for the local community and voluntary sector.

We are also negotiating a number of new Property Management Contracts in London and Bristol, as well as working with the public and private sector to develop opportunities to create temporary centres, in empty buildings, that can support the regeneration of communities and increase wealth creation opportunities by providing affordable space for social enterprise, sustainable business and the creative industry sector.

In addition, we are now working in partnership with a range of investors, on the development of a new centre, 'The Foundry' – previously referred to as the Social Justice Centre. The new name reflects both its industrial heritage and its aim to be a place that social justice organisations, the public and new ideas are brought together to forge a fairer, more just and more equitable society. The project is a joint venture between Ethical Property, Barrow Cadbury, Joseph Rowntree Charitable Trust, LankellyChase and Trust for London, with further investors joining as the project develops.

As part of the research process for The Foundry, we spent time working with groups to understand their property needs; this led to a lengthy search for suitable premises before finally purchasing a building in Vauxhall, London. This will be the largest centre we have delivered comprising over 3,250 sqm/35,000 sqft of space and costing in excess of £10,000,000. At the time of writing we are just about to begin the refurbishment and extension of the building and aim to open in late 2013.

This centre will bring together some of the most innovative and progressive social justice and human rights organisations into one space where they can share ideas, work together, enhance their public profile and improve their ability to engage with and educate the public on social justice and human rights issues. We are also aiming to make the centre fully accessible to organisations and individuals who are interested in finding out more about these issues and our design plans include event, conference and meeting space as well as a café, all of which will be open to the wider public. The concept is proving very popular with potential tenants and we currently have over 70 organisations on the waiting list.

A second joint investment project we have been working on is Brighton Open Market. This is a very exciting initiative designed to regenerate part of Brighton and is a joint venture, managed by a Community Interest Company for local benefit, involving Hyde Housing Association, the local authority, local traders and Ethical Property.

The redevelopment will include a mix of affordable housing, arts and craft workshops, street entertainment and a revitalised market. The market will adopt some of the ethos of a 'farmers' market' and have at its heart fresh, nutritious and local food to reflect current concerns over health and environmental sustainability as well as promoting local enterprise and job creation. Demolition works have been completed, the redevelopment of the site is well underway and the final scheme should be completed in summer 2013. Whilst this is taking place we are busy working with potential tenants and partners to maximise the economic, social and environmental benefits this project can deliver for the local community.

Looking forward, 2013 promises to be another exciting year, opening two new centres, both with a strong public profile, and working on a number of new property management projects across a wide range of locations. These developments will enable us to improve our Triple Bottom Line returns and the support we offer to social change organisations.



Resource for London, London

Our tenants

As of September 2012, our 15 owned centres across the UK provided office space to 239 tenants, two thirds of which are charities or not-for-profits, with the remainder providing consultancy and other services to social and environmental organisations. For more information on our tenants, see page 12 or visit www.ethicalproperty.co.uk/ourtenants

London and the South East

Archway Resource Centre, London

Conscience Taxes for Peace not War • Everyman Project • North London Trading System (NLLETS) • Peace Brigades UK • Stop the War Coalition • Sudan Social Development Organisation UK • The Association of Visitors to Immigration Detainees (AVID) • The International Action Network on Small Arms (IANSA) • Zimbabwe Human Rights Forum

Brighton Eco-centre, Brighton

Aptivate • Arka Original Funerals • Brighton and Hove Green Party • Brighton Peace and Environment Centre • Food Ethics Council • Friends of the Earth • Harmony Culture • Low Carbon Trust • Pilot Fundraising Consultants • Re-Cycle • The Bike's the Business • The Kaloko Trust UK

Brighton Junction, Brighton

Ben Parker Marketing • Brighton and Hove Community and Voluntary Sector Forum • Brighton and Hove Impetus • Cabrini Children's Society • Friends Centre • Internship in Brighton • Sports 13 • Oxford Consultants for Social Inclusion • Refugee Radio • Spurgeons • The Actors of Dionysus • The Big Issue • The Brighton Treasure Hunt Company

Development House, London

Afghanaid • Agency for Co-operation and Research in Development (ACORD) • Aleutia • Amos Trust • Asian Foundation for Philanthropy • AVA • Better Cotton Initiative UK • Childhope (UK) • Children of The Andes • Ethical IT • Global Partners and Associates • Green Belt Movement International • Green Net • International Childcare Trust • Keep Britain Tidy • Malaria Consortium • Oxford Research Group • Pan African Development Education and Advocacy Programme (PADEAP) • Peace Brigades International • Peace Direct • Pesticide Action Network UK • Pragya • Relief International UK • Respect • Stakeholder Democracy Network Ltd • The Ethical Property Foundation • The Green Party • The Resource Alliance • The Verification Research Training and Information Centre (VERTIC) • Wikimedia UK • Womankind • Women's Aid Federation of England

Durham Road Resource Centre, London

Alexandra Marr and Associates • Blenheim CDP • Catch 22 North Islington YIP • Greentraveller • Jeremy Corbyn MP • Medical Justice Network • Nicaragua Solidarity Campaign • Well Grounded

The Grayston Centre, London

Alternatives to Violence Project • China Dialogue Trust • Free Tibet • Jubilee Debt Campaign • London Community Resource Network • Medact • Media Legal Defence Initiative • On Road Media • Saferworld • Sri Lanka Campaign for Peace and Justice • Talk Action • The Burma Campaign UK • UK Consortium on AIDS and International Development

The South West

Brunswick Court, Bristol

African Initiatives • Bristol Drugs Project • City Car Club • Clinks • Industrial Common-Ownership Finance • National Playbus Association • Oxfam • Mifumi UK • Stonham/Home Group • The Factory • Third Sector Systems • Tree Aid • Womankind Bristol Women's Therapy Centre • Women's Aid Federation of England

Colston Street Centre, Bristol

Avon and Bristol Law Centre • Bikeworkshop • Blaze Studio • Chesapeake Studio • City Chameleon • Colston Forge • Fern Housing • Intrigue • Makers • Monica Barlow • Mothers for Mothers • Snowline Productions • Streets Alive • Sue Ryall • The Pituitary Foundation • The Spark • Thread Design and Development

Green Park Station Market, Bath

PJ's Farm • The Bath Farmers' Market • The Painted Flowers • Various individual traders

Green Park Station Shops, Bath

Bath Office Supplies and Systems • deafPLUS • Eco-logic Books • Green Park Express • Green Park Bike Station • Green Park Brasserie • Green Park Leather and Luggage • Hacketts Hair • Source Antiques • The Bath Society • The Manning Partnership

Green Park Station, South Vaults, Bath

Bath and North East Somerset Racial Equality Council • Bath East Asian Chinese and Friends Group • Black Families Education Support Group • Burkeway • CTC – The UK's National Cyclists' Organisation • DEVELOP Enhancing Community Support • Furthr • Go Travel Solutions • Melrose Computing Solutions • PropertECO • Second Step Housing Association • The Shaw Trust

Picton Street Centre, Bristol

Bristol Community Accountants • Deki • Eco-Villages Network • Friends of the Earth • Labour Behind The Label • Mental Health Matters • Sustco • Yogasara C.I.C. • Your Sushi

Oxford and the Midlands

The Old Music Hall, Oxford

Big Difference International • Chauncy Maples Malawi Trust • Climate Outreach • Domains.coop • Ethex Investment Club • Information Network • InsightShare • Institute for Food, Brain and Behaviour • Kuumba Nia Arts • Living Stories • Mokoro Limited • Oxford Change Management • Oxford Human Resource Consultants • Oxford International Language School • Oxfordshire Children and Voluntary Youth Services • Oxfordshire Primary Care Trust • Reachability • Reading Quest • Redeemers Relief Agency • Reducing the Risk of Domestic Abuse • Refugee Resource • Seeds for Change • SOS Sahel International UK • Sahel Consulting • Sumatran Orangutan Society • Sustrans • The Children's Society (OASIS and Harbour Projects)

The Old Music Hall, Oxford, part-time tenants

Africa Now • Architecture Sans Frontières • Community Glue CIC • Smartstruct • So Local • Tracks Investigations

South Pennines

Green Fish Resource Centre, Manchester

Community Arts North West • Depaul UK • Jesuit Volunteer Community • Oxfam • Pam Wright • Paul Cowham Accountancy • Radio Regen • Slade and Cooper • The Audience Agency

Green Fish Resource Centre, Manchester, part-time tenants

Accessible Events • Ethical IT • Locality • London Eritrean Community • Manchester Friends of the Earth • Skills – Third Sector • Web Advertising

Roundhay Road Resource Centre, Leeds

Hilton Heritage and Conservation • Juvenile Diabetes Research Foundation • Leeds Development Education Centre • Medical Foundation for the Care of Victims of Torture • Radio Asian Fever CIC • RETAS Leeds

Scotia Works, Sheffield

CRESST • Development Education Centre • Green Sphere • MESH CCS • Northern Refugee Centre • Pedal Ready Co-operative • Sheffield Association for the Voluntary Teaching of English • REMEDI • Sheffield Domestic Abuse Outreach Service • The Sheena Amos Youth Trust • Thornely and Hill

Scotland

Thorn House, Edinburgh

Action on Depression • Association of Chief Officers of Scottish Voluntary Organisations • Cancer Research UK • Carplus Trust • Conference of Socialist Economists • Elizabeth Finn Care • Evaluation Support Scotland • Friends of the Earth • International Voluntary Service • Learning Disability Alliance Scotland • Link Community Development Scotland • Living Streets • Network of International Development Organisations in Scotland • Social Enterprise Academy (Scotland) • Social Enterprise Scotland • The Melting Pot • Transform Scotland • Voluntary Service Overseas • World Development Movement Trust

Dividend waiver

Highlights

Increasing support for tenants suffering financial hardship by 23% • Continuing to support the development of The Ethical Property Family • Supporting the Ethical Property Foundation initiative to develop ethical workplaces

The Making Waives Fund allows us to explore and develop initiatives that strengthen our social and environmental returns. If you are a shareholder interested in supporting the fund you can do so at any time by completing a dividend waiver form.

Dividend waiver expenditure in 2011/12 was as follows:

	Actual	Budget
Brought forward	£14,027	£14,027
Contributions for the year	£17,394	£20,000
Total income	£31,421	£34,027
Rent hardship fund and supporting start-up organisations	£13,057	£15,000
Development and support for international development	£12,000	£10,000
Support to the Ethical Property Foundation	£6,000	£6,000
Total expenditure	£31,057	£31,000
Carried forward	£364	£3,027

The Rent Hardship Fund

We have continued to give financial support to both new and existing tenants as funding continues to be a challenge for some of our tenants. The causes of the lack of funds include loss of grant income and seasonal impacts of income streams on already poorly funded organisations. During the year we funded twelve organisations that were experiencing short-term funding problems – this included both rent holidays and rent discounts. We believe the funding constraints on the organisations we seek to support will continue and that this is an area of continued need during the next financial year.

Development and support of The Ethical Property Family

Between September 2011 and March 2012 Jamie Hartzell, our founder, worked two days a week to support individual family members and develop our structures to support the international family as a whole. As a result specific support was given to Ethical Property Nederland, which is now in a much stronger position and about to embark on its first major project. Dialogue between senior staff at each international family member is now more regular, sharing experiences and knowledge. Additionally, Chairs of each company are meeting to discuss how we strengthen the family structure.

Support of the Ethical Property Foundation's fairplace scheme

A key initiative of The Ethical Property Foundation is to develop a quality mark for ethically managed buildings (see page 10). We are very supportive of this initiative and this year gave a one-off contribution to the Foundation of £6,000 to support this work.

The proposed budget for Making Waives in 2012/2013 is as follows:

Dividend waiver – next year's priorities

Brought forward	£364
Contributions for the year	£17,000
Total budget for the year	£17,364
Rent hardship fund and supporting start-up organisations	£12,500
Support for The Ethical Property Family	£4,000
Total expenditure	£16,500
Carried forward	£864

The Rent Hardship Fund and supporting start-up organisations

We do not anticipate a reduction in need from our tenants in the forthcoming year; we therefore want to allocate £12,500 in anticipation of continued need from tenants as public spending cuts continue.

Support for the Ethical Property Family

One of the company's key objectives is to lead the growth of the Ethical Property family in both Europe and further afield. We are still refining our strategy for achieving this but have allocated funds for development, with the view that this is a long-term initiative. The work done in the last year has enabled more sharing of ideas and experiences, as well as supporting specific developing companies, but this needs to be continued.



Colston Street Centre, Bristol

The Ethical Property Family

The Ethical Property Family consists of companies operating in four countries, providing a variety of property, IT and advice services to charities and social change organisations.

Ethical Property in the UK has holdings in a number of these companies, as well as providing management support, as detailed below.

Links to the Ethical Property Family

	Holding	Investment value		Management interest
		£	€	
Ethical Property Nederland	50.7%		75,000	One senior manager of Ethical Property on senior management team
Ethical IT LLP	50%	45,000		Two Ethical Property representatives on management team
Social Justice & Human Rights Centre Ltd (The Foundry)	45.95%	1,699,500		Two Directors of Ethical Property on Board
Ethical Property Europe sprl	39%		2,000,000	One Director of Ethical Property on Board
étic (France)	2.25%		10,000	-
Ethical Property Foundation	-	-	-	One Director of Ethical Property is Chair of Trustees

Ethical Property Nederland

In August 2012, Ethical Property Nederland (EPNL) undertook its second share issue to raise €75,000 for the further development of its Mundo Den Haag project. This company now has five shareholders and a total share capital of €148,000, with Ethical Property holding a majority 50.7% stake.

For the Mundo Den Haag project a 2000 sqm/21,528 sqft building has been identified in The Hague and exclusivity granted in order to undertake due diligence and confirm financing. The building's visible central location is at the crossroads of The Hague's commercial, cultural, political and retail centres and within walking distance of bus, tram and train connections. The centre will be a vibrant and inspiring workplace and will offer affordable and flexible space, meeting rooms and a café as well as support services and events.

EPNL expects to be in a position to finalise purchase of the building during the first quarter of 2013 with a view to opening at the end of 2013. In the meantime, Mundo Den Haag is to launch 'Mundo in Motion', a temporary location providing work-desks and meeting space for EPNL/Mundo Den Haag employees and work-groups. See www.ethicalproperty.nl for more information.

étic (France)

Founded in September 2010 and based in Lyon, étic now has Property Management Contracts in place in three locations; Woopa, a 9,300 sqm/100,150 sqft office building in Vaulx-en-Velin co-owned by nine cooperatives; BeeoTop, a 2,000 sqm/21,528 sqft office and conference space in Paris; Le COMPTOIR étic, a 350 sqm/3,770 sqft co-working space for social entrepreneurs, based in Woopa.

A purchase agreement is also now in place for a derelict factory located in a Paris suburb to create Mundo-Montreuil. When refurbished, this building will include approximately 2,000 sqm/21,528 sqft of space and will host around 150 workstations, meeting and conference rooms as well as a café. Renovation works are due to begin in 2013 with a view to opening the centre early 2014.

To finance this purchase, €440,000 has been raised and a further share issue has been launched to reach €2,000,000 by the end of the year. Once achieved, this will mean that étic will have reached all of its key financial, environmental and social targets in its first two years of activity. See www.etic.co for more information.

Ethical Property Europe

Ethical Property Europe (EPE) owns and manages two centres in Belgium, one in Brussels (Mundo-B) and another in Namur (Mundo-Namur) as well as operating a management contract for a set of youth organisations that currently share office space. Altogether, EPE owns and/or manages 8,000 sqm/86,110 sqft of offices and conference facilities for the non-profit sector, providing accommodation to almost 90 social change organisations.

The social and environmental performance of EPE's centres remains their strongest feature with the centres having gained several awards. Tenants remain satisfied by EPE's services and 240 additional groups benefited from their conference facilities in 2011/12, an increase of 48%.

Three new projects are planned: a new centre in Brussels for organisations caring for young people and two new Mundo centres in Flanders: one in Antwerp (where progress is most advanced) and one in Ghent.

From a financial perspective, EPE has been working hard over the past year to create a sustainable and profitable business and expect to pay a dividend to its shareholders for the first time in the coming year. See www.ethicalproperty.eu for more information.

Ethical IT and The Ethical Property Foundation

Ethical IT – Highlights

Successful roll out of the 'Ethical Cloud' platform, already hosting over 100 users • Major internet connectivity upgrades to Ethical Property centres planned for 2013 • Customer numbers up 25% on 2010/11 • £56k profit contributed to Ethical Property

Ethical IT LLP is an equal partnership between JADe (Joint Application Development Enterprises Ltd) and Ethical Property, first launched in early 2008 and formalised as a Limited Liability Partnership on 1st February 2011.

Ethical IT provide IT solutions, telephone services and support to tenants based within The Ethical Property Family's centres in the UK and Belgium as well as supporting many external customers such as ActionAid, Greenpeace and the Ramblers Association. As of September 2012, 50 customers were UK charities, 20 UK not-for-profit organisations and 14 were Belgian not-for-profit organisations. All services are provided to them while giving appropriate consideration to the environmental and social impact of the products used or recommended.

Progress over the last year has included:

- Successful installation of a 'Hosting Platform' at Development House, offering new clients the option of moving to a centrally managed system, virtualising their desktops and enabling them to run basic, cheap computers in their offices
- Implementation of a number of successful projects for larger clients such as ActionAid and Greenpeace
- Roll out of 'Thin Client' terminals, using 90% less energy than standard PCs, and the virtualisation of servers for key new customer Deafblind UK
- Taking on an apprentice from The National Apprentice Scheme who has now been employed full time – a second apprentice is now on the team

- Recruitment of three female members of staff to the Technical Team; improving the gender balance in what is traditionally a male-dominated industry
- Generating £56,000 in profit in its first full year, as an LLP.

Ethical IT hopes to continue to support The Ethical Property Family through its expansion plans, including The Foundry. In addition, they aim to utilise our centres to provide further IT services to customers including Business Continuity and extended Cloud Services.

For more information visit www.ethicalit.net, email enquiries@ethicalit.net or call **0845 337 2989**.

Ethical Property Foundation – Highlights

Launching the Property Advice Service nationwide • Partnering the Charity Commission on research project • Launching charity property consultancy service • Planning the launch of the 'fairplace award'

The Ethical Property Foundation is a separate charity set up by Ethical Property in 2004 to help charities, community groups, social enterprises and other not-for-profits to resolve their property issues and to promote ethical property management.

Their Property Advice Service has successfully helped over 2,500 organisations to rent, buy, let or manage property by providing independent property advice and project delivery support. Dealing with property is a daunting task for much of the sector and the Foundation assists them, from answering quick questions to providing longer-term support. This allows the sector to spend less time and money on their property problems, transforming buildings into assets that support organisations' work.

During the last year, the Foundation has successfully launched its services nationwide. This has enabled them to provide vital property support to over 170 charities, securing free advice from property professionals for 43 charities.

Their consultancy service has exceeded its income target, delivering projects that have included feasibility studies, social audits and option appraisals. Projects have been completed by their in-house team and in partnership with other organisations. Many interesting projects are in the pipeline and it is envisaged that consultancy will be a key contributor to the financial sustainability of the Foundation in the future.

In addition, over 500 organisations received training this year on a variety of property related topics ranging from guidance on buying property to property management for non-property managers.

The training events continue to be popular and well attended.

The Foundation are also planning to launch their quality mark – the 'fairplace award' – in the next year, recognising buildings managed with people and the planet in mind. The Fairplace Award is being piloted in early 2013 and it is anticipated that it will be a popular and successful venture for the Foundation.

Late 2012 also saw the completion of a policy research project looking at the issues that affect charities with regard to premises, a joint venture alongside The Charity Commission. Results will be released shortly via briefing documents, press articles and organised events.

For more information visit www.ethicalproperty.org.uk, email mail@ethicalproperty.org.uk or call **0300 333 6595**.

Social, environmental and financial performance

Underpinning all that we do at Ethical Property is a set of principles which provide an ethical framework for the way The Ethical Property Family do business.

Our activities and targets

Our principles are enshrined in 'The Quintessentials'¹, a core document which not only defines the principles in abstract terms but also sets out very concrete definitions and targets for putting them into practice in terms of social, environmental and financial performance. These form the basis of our reporting in this Annual Report.

As our business grows and the family diversifies, we recognise that The Quintessentials need to be reviewed to ensure that they remain applicable. It is our intention to do this, in conjunction with other members of the family, during the coming year. The aim will be to ensure that the fundamental principles on which Ethical Property was established, as a property-owning company in the UK, can be translated into the various different contexts in which we and other members of the family operate, now and in the future: for example, managing property for others, operating within different legal frameworks and running spin-off businesses such as Ethical IT.

How we report

This year we are taking advantage of the flexibility offered by digital technology to make some changes to the format of our social and environmental reporting. To make these sections of the Annual Report more accessible and engaging, we are using this main printed report to present an overview of our social and environmental performance, whilst publishing the more detailed data and technical explanations in a supplement that is available through our website. Please see below for details.

We hope that this approach will encourage more people to take an interest in our social and environmental performance, whilst enabling us to improve our transparency by ensuring that our claims are fully supported by data.

It will also save money and resources by using less paper and making the printed document less bulky to distribute.

Both the printed text and the supplement have been independently audited by a social auditor (see page 15).

Ongoing monitoring and improvement

Over the past five years, the company's success has resulted in significant growth. One consequence of this growth is the need to become more systematic in our approach to distributing information within the company and monitoring our performance on an ongoing basis. We have therefore just initiated a programme of internal reviews of each of our owned centres, which will ensure that a group of senior managers will examine the social, environmental and financial performance of each centre in detail at least once a year, and more often if there are particular causes for concern. These reviews will include some of the key quantitative measures from The Quintessentials, such as tenant satisfaction, carbon emissions, car use and water consumption and will ensure that our internal management systems are consistent with our external reporting.

Our managed properties

In the last year we have taken on two major property management contracts, at Resource for London and Brighton Community Base (see page 5). Under the contracts, we are required to report on their social and environmental performance to the client organisation at the end of their financial year and we will also be developing our own internal reporting to enable us to reflect our impacts in this area of our business. Because their financial years do not end until December 2012 and March 2013 respectively, performance indicators for them are not included in this year's Annual Report but will be included for the first time in next year's report.

The Ethical Property Family

We have financial and management interests in six other organisations which together with ourselves constitute 'The Ethical Property Family', as shown in the table on page 9.

We do not include the performance of the various members of the Ethical Property Family within our own social, environmental and financial reporting, though some aspects of performance are reflected in the relevant sections of this Annual Report. As mentioned above, we are reviewing The Quintessentials to ensure that they are relevant to the different members of the family and it is intended that they should report their performance in their own reports against The Quintessentials.

In the past year we have also started a process of joint internal monitoring of performance against The Quintessentials, whereby all family members report on performance against The Quintessentials to our Audit Committee.



The Old Music Hall, Oxford

Supplement available at www.ethicalproperty.co.uk/annualreports
To request a printed version, please call 01865 207 810 or email info@ethicalproperty.co.uk

¹ <http://www.ethicalproperty.co.uk/ourquintessentials.php>

Social performance

As a company driven by values as well as profit, it is a fundamental principle that we should only engage in business activities which have a positive impact on society.

Our positive social impact is achieved by:

1. Working with a range of organisations that are striving to create a more equal society or to protect the environment
2. Providing good value premises and supportive property management services to such organisations
3. Contributing to local economies in areas of deprivation
4. Being an ethical employer
5. Being fair, honest and transparent with all stakeholders.

In this Annual Report we highlight the aspects of our social performance that we think are the most significant in terms of their impact or interest. A full report on our social performance is provided in the supplement.

Our tenants

The overall profile of our tenants has not significantly changed in recent years. We have 239 tenants in our owned centres – a slight increase from 2011 – and, as last year, about two thirds are charities or other types of not-for-profit, with the remainder providing consultancy and other services to social and environmental organisations, together with a few small local traders. However, within the overall total, nearly a quarter are new tenants – 50 organisations moved out during the year and 57 new tenants moved in, reflecting the upheaval that is affecting the sector as a whole. The level of turnover was similar last year, but is a marked increase on 2009–10, when only 20 tenants moved in and 25 moved out.

Our services

Our annual tenant survey is one of the main ways in which we assess how successful we have been in providing the premises, facilities and services that our tenants demand. For us, a key question is – do we support our tenants in achieving their goals? We are pleased that once again this year we received a very favourable response – 89% of tenants reported that being in an Ethical Property centre has a

positive impact in terms of fulfilling their strategic objectives and 80% said that it supported their day-to-day operations.

Looking at the more specific survey questions, tenants are reporting approximately the same level of satisfaction as in previous years – an overall average rating of 3.8 on a scale of 1 (very negative) to 5 (very positive). When broken down into individual aspects of our provision, we are clearly more successful in some areas than others – our standard lease terms and our interactions with new tenants scored highly, whilst some of our communal facilities and services fell short. However, we have already made, or are planning investments in staff and building fabric that should result in higher levels of satisfaction next year. Scores for individual questions and a breakdown by building can be seen in the supplement.

One of the bonuses for our tenants of being in an Ethical Property centre is the opportunity to interact with like-minded organisations and individuals. 85% of survey respondents said that this had a positive impact on their organisation and many individual comments endorsed this. In the past year we have introduced a new digital ‘tenant resources’ system, hosted on our new website and designed to better facilitate tenant interaction as well as giving them reliable and secure channels through which to book meeting rooms and place notices in front of other building users. Whilst our Property Managers arrange occasional social events in some of our centres, many of the most successful interactions are initiated by tenants themselves, springing from their own interests and skills. In Bristol, one tenant offers yoga classes to other tenants, whilst in the Grayston Centre TalkAction hosts skills-sharing workshops. Development House continues to buzz with activity – there is a new tenant-led cycle group, a gardening club and a series of monthly talks by different tenants. Some of our centres organised events to tie in with WasteWatch’s ‘Waste Less, Live More’ campaign and in Development House there was a joint attempt on the world record for chutney-making!

Whilst many of our tenants’ staff struggle to find time to dedicate to formal networking events, they nevertheless value the opportunities for information-sharing fostered by casual contacts in kitchens and other social spaces in our centres. We are now considering different ways in which we might support tenant interaction and stimulate collaboration in our centres, as perhaps the organisation of ‘events’ is no longer the best way of achieving this. We hope to develop our thinking on this over the coming year.

Our locations

Many of our centres are located in areas of significant social deprivation – and five of them fall within the most deprived 25% of local areas in the country, according to the Government’s Index of Multiple Deprivation. We believe that having a lively, well-maintained building in such an area can contribute both to the local economy and the quality of the environment for the people who live and work there. More information on our locations is provided in the supplement.

Our staff

As an ethical employer, we believe that it is important to create a positive working environment for our staff, to pay salaries which are fair and appropriate and to follow employment practices which promote equality of opportunity.

Our working environment

There are many ways in which we seek to create a positive working environment for our staff. Some of these are quite concrete, such as our pay structures, performance management processes and equal opportunities policies. Others are more intangible, but are reflected in our annual staff survey – such as a good ‘atmosphere’ at work, shared values, clarity about what is expected of staff, the opportunity to achieve a good work/life balance and a sense of feeling supported when there are problems outside work.

Supplement available at www.ethicalproperty.co.uk/annualreports
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We are delighted that 100% of staff responding to the staff survey said that they enjoyed working for the company. 80% would definitely recommend working for us to a friend and the rest said they would maybe do so. A similar proportion said that they shared the company's values entirely, with the others sharing them to some extent.

Salaries

We have two key ethical policies relating to pay which we believe really set us apart from many other employers, even in the social change sector.

– Paying a Living Wage

We are committed to paying all our staff at a level which enables them to meet their basic needs. All our staff are paid at least at the level of the 'Living Wage', the recommended minimum pay level set independently by the Living Wage Foundation² and designed to reflect the actual basic cost of living in the UK. The Living Wage is £7.20 per hour for individuals outside London and £8.30 for those in London (whilst the legal Minimum Wage is only £6.19). We are planning to apply for accreditation by the Living Wage Foundation in the coming year.

The employees benefiting most from this policy are our 16 cleaning staff, who clean our communal spaces and some tenants' offices as well. A recent report³ found that 70% of cleaners and domestic staff in the UK are paid below the Living Wage.

Because of the notoriously bad pay and working conditions in the contract cleaning industry, we employ most of our cleaners direct, to ensure that their pay and conditions meet our ethical standards. More information on this is provided in the Supplement.

– Minimising pay differentials

As well as ensuring that our lowest paid staff receive an adequate salary to meet their basic needs, we also avoid large differentials in pay between senior managers and other staff. We believe that, although some reflection of different levels of responsibility through salaries is justified, large disparities are divisive and unfair within the company as well as having adverse consequences in wider society.

The ratio of the difference in salary between our highest paid employee and the lowest is only 4.6 : 1; this can be compared with average ratios of 15 : 1 in the public sector and 10 : 1 in the voluntary sector.

– Equal opportunities

At a time when the low proportion of women on company boards, especially in executive positions, is attracting a lot of media attention, we are pleased that two out of our five Board members are women and that one of these is our Managing Director. Whilst recognising that there are much wider issues in society which affect the opportunities available to women at senior levels, we believe that the composition of our Board is partly a reflection of our fair and open recruitment practices, which also have a positive impact throughout the company.

Fairness, honesty and transparency

In the supplement we explain how we are planning to become more systematic in our communications with our tenants in order to improve our transparency. We also report for the first time on our creditor payment record – an important aspect of fair treatment of our suppliers. Our average number of days for payment is 34, against our target of 30 days.

In the past year we have also been focusing on improving our shareholder communications. With our new website in place, we now offer shareholders the chance to receive communications via email rather than mail and print. Periodic regional shareholder meetings in addition to our March AGM have now been introduced to increase the opportunities for shareholders to meet our senior staff and discuss our activities – the first one was held in Manchester at the end of September.

We have also chosen to be featured on Ethex⁴, a not-for-profit organisation providing information to potential ethical investors on a range of social businesses. This web-based service makes data on social, environmental and financial performance easily accessible and gives investors the opportunity to compare the returns between different ethical investment opportunities. We believe that this will make it much easier for our current shareholders and those interested in investing in us in future to assess the performance of the company and to find out how it compares with other social businesses such as Traidcraft, Ecology Building Society and CaféDirect.



Scotia Works, Sheffield

Supplement available at www.ethicalproperty.co.uk/annualreports

To request a printed version, please call 01865 207 810 or email info@ethicalproperty.co.uk

² <http://www.livingwage.org.uk/home>

³ <http://www.kpmg.com/UK/en/IssuesAndInsights/ArticlesPublications/NewsReleases/Pages/One-in-five-UK-workers-paid-less-than-the-Living-Wage.aspx>

⁴ www.ethex.org.uk

Environmental performance

As a property company, we accept that some of our activities will have a negative impact on the environment. We use building materials to maintain and improve our properties, we provide heating, water, lighting and power to our tenants and our staff, and our building users all commute, consume resources and generate waste. Whilst we cannot eliminate the environmental consequences of these activities, we are committed to minimising their negative impacts and encouraging practices that help to sustain the environment.

To minimise our impact on the environment, we focus on the following issues:

- minimising our carbon emissions
- minimising use of nuclear power
- reducing water consumption
- promoting sustainable transport
- using sustainable materials
- reducing waste.

As with the reporting on our social performance, detailed figures and explanations for our environmental performance are provided under each of these headings in the Annual Report supplement on our website, website; we use this section of the Annual Report to highlight the most significant aspects of our performance.

Minimising carbon emissions

Our electricity suppliers

Having switched to Good Energy's 100% renewable supply for Development House towards the end of last year, nearly all our buildings now use electricity provided by a dedicated green electricity supplier⁵ and generated from fully or partially renewable sources. This has led to a huge decrease of 34% in our carbon dioxide emissions from last year, when calculated on the basis of the fuel used by those particular electricity suppliers. However, until fully renewable electricity is sufficiently affordable, we will not be able to meet our target of no emissions associated with our electricity supplies.

Generating our own electricity

We took a notable step forward this year with the installation of solar panels on the roof of three of our buildings: Brunswick Court in Bristol, The Grayston Centre in London and The Old Music Hall in Oxford.

Despite the poor weather this year and the fact that they were only installed part way through the year, the electricity they generated represented 1.7% of the total electricity we used across the company.

Reducing energy use

Our overall energy use decreased by 1.5% from last year, to an average of 131 kWh per square metre of floor area. Whilst gas consumption went up a little, there was a 3.8% decrease in electricity use. This may be attributable to higher levels of vacancies in some buildings. Despite the fact that we buy our electricity from green suppliers, it is still important to reduce our electricity consumption as well as gas, because there are still some carbon dioxide emissions associated with our suppliers and there is a shortfall in renewable energy currently available in the UK compared with overall demand for electricity. Across the country as a whole, electricity generation is associated with much higher CO₂ emissions than gas (almost three times as much) so nationally, reductions in electricity usage have a more significant impact than reductions in gas use.

The supplement contains a much more detailed explanation of how we measure and set targets for our carbon dioxide emissions, looking at both the national supply of electricity and our own suppliers.

Reducing water consumption

Our water consumption has decreased by about 1% this year. It is likely that this is due to changes in occupation and visitor numbers in some of our centres, as we have not invested in significant water saving measures this year.

Sustainable transport

Surveys of our staff and tenants indicate that car use for travel to work in our centres

has decreased since the last survey⁶ – staff car use has decreased from 26% of staff to 15% and tenant car use has decreased from 18% to 14%. Not only is this improvement welcome in its own right but it has taken our staff and tenants even further below the national average of 67% of commuter journeys being made by car.

We believe that our choice of building location, with good public transport connections, and the facilities we offer to cyclists and pedestrians contribute to this low rate of car usage for commuting. Over the past year we have made particular progress in Development House – thanks to a lot of hard work by tenants and our London staff team, we were successful in receiving a grant from Transport for London under the Superhighways Cycling Scheme for improved cycle parking facilities, cycle training and cycle maintenance sessions. So far the funding has resulted in four new undercover cycle shelters and 13 tenants and staff participating in cycle training ranging from one-to-one complete beginner tuition, through to advanced cycle training for our more experienced cyclists. We held an inauguration for the new cycle racks at our annual barbecue in September, with Jenny Jones from the Green Party (also Development House tenants) cutting the ribbon, alongside the three building users who cycle the furthest to work – one of whom cycles 14 miles each way!

Unfortunately our own car use for business purposes has increased this year, from 1% of our total business travel expenditure to 6%. Although this is still very low compared with our use of public transport, we will be looking at measures to reduce it. We have already clarified the section on car use in our staff handbook to make our policies clearer and to set them in the context of our aim of reducing our environmental impacts.

Supplement available at www.ethicalproperty.co.uk/annualreports

To request a printed version, please call **01865 207 810** or email info@ethicalproperty.co.uk

⁵ The two exceptions are buildings where there is a problem with identifying the electricity supplier

⁶ In 2011 for staff, in 2010 for tenants

Social and environmental audit

Auditor's assurance statement – The Ethical Property Company Limited, 2012

Scope and objectives

The Ethical Property Company Limited ('Ethical Property') commissioned Henriques & Co. Ltd ('the Auditor') to undertake independent assurance of its 2011/12 Social Report, (pages 11–14) of this Annual Report, ('the Report') together with the supplementary material available online. Henriques & Co. Ltd has no other relationships with Ethical Property that might compromise its independence. This is the third year that the Auditor has reviewed the Ethical Property Social Report. The assurance process used AA1000AS (2008) and was designed to provide Type 2 moderate assurance. The Global Reporting Initiative (GRI) Quality of Information Principles were used as criteria for evaluating performance information.

Responsibilities of the Directors of The Ethical Property Company Limited and of Henriques & Co. Ltd

The Directors of Ethical Property have sole responsibility for the preparation of the Report. This statement represents the Auditor's independent opinion and is intended to inform all Ethical Property's stakeholders, including management. A balanced approach towards Ethical Property stakeholders was adopted. The Auditor was not involved in the preparation of the Report. A management letter was also produced. The work was performed by Adrian Henriques; see www.henriques.info for information on independence and competence.

Basis of our opinion

The Auditor's work was designed to gather evidence with the objective of providing assurance as defined in AA1000AS (2008).

To prepare this statement, the Auditor reviewed the Report and supplementary online information, visited Ethical Property sites and interviewed managers and staff. Feedback was provided to Ethical Property on drafts of the Report and other material and where necessary changes were made.

We are satisfied that we have been allowed unhindered access to the financial and non-financial accounts, documentation and reports covering Ethical Property's activities and stakeholder engagements and to its managers and staff.

Findings and opinion

On the basis of the work we have done, we believe the Report reasonably represents Ethical Property's principal stakeholder relationships, impacts on its stakeholders and its responses to their concerns.

However the report does not cover the international activities of Ethical Property or the major management contracts that were operated during the year.

Observations

Without affecting our assurance opinion we also provide the following observations.

Inclusivity concerns the participation of stakeholders in developing and achieving an accountable and strategic response to sustainability.

Ethical Property has consistently consulted its key stakeholders, tenants and staff, about the issues that concern them. Moreover stakeholder response rates to surveys conducted in the reported year were good.

With few exceptions, and despite relatively high turnover, tenant satisfaction remains positive.

Material issues are those which are necessary for stakeholders to make informed judgments concerning Ethical Property and its impacts.

The Report covers the main issues specified in the Quintessentials and of concern to stakeholders and the environment. The emphasis on energy and carbon emissions as well as tenant and staff issues is appropriate. This year the report also covers Ethical Property's impact on its suppliers and use of sustainable materials, which is helpful.

As Ethical Property develops major contracts and other new types of business, the boundary of the report and the corresponding data systems will need to be reviewed. Future reports should include the impacts of the major management contracts operated during the year.

The description of the process used to select issues for reporting should also be expanded appropriately.

Responsiveness concerns the extent to which an organisation responds to stakeholder issues.

The year reported saw unusually high staff turnover, due to expansion as well as staff leaving. Nevertheless staff attitudes were extremely positive, which is a real achievement.

For the owned property portfolio, energy use has declined, which is welcome. Ethical Property intends to review the use of targets for carbon emissions and water. Both are complex areas and a revision would be appropriate. However key performance and targets need to be reflected in the main report as well as in supplementary online material.

Performance data

There appear to be no major inaccuracies in the data. However protocols for the various measures used should be documented. Also, it would increase the reliability of the reported performance if the data systems for staff-related issues were more automated.



Adrian Henriques
Social Auditor

Henriques & Co. Ltd,
London; 21st November 2012

Financial performance

Highlights

Turnover increasing by 14.4% • Value of Property Management Contracts and Consultancy increasing from £142,442 in 2010/11 to £549,799 in 2011/12 • Operating Profit increasing by 4% • Lost rent down to 5.5% for the year

This section aims to draw out key elements of shareholder interest from the annual accounts using a series of indicators detailed below:

Dividends

This is a measure of the financial returns offered by the company, calculated as the proposed dividend per share, as a proportion of the dividend forecast in the most recent share issue. The dividend disclosed in these accounts is 2.0 pence per share, this represents the dividend distribution announced in the 2011 accounts and paid in April 2012. The measure is then 54%.

Therefore, the dividend is below the forecast in the 2010 share issue prospectus. This is due to concerns over our ability to increase rent, levels of empty space and delays in getting a return on the capital raised from the last share issue.

Net asset value per share

This is a measure of the capital value of each share in the company, calculated as net asset value per share. This year the net asset value is 77 pence per share (last year 77 pence).

Dividend waivers

This is a measure of the percentage of all shares on which dividends were waived at the last distribution. In 2012 this was 6.4%, making a total contribution to the dividend waiver fund of £17,394. This compares with 6.4% and £26,203 in 2011.

Selling shares

This is a measure of how easily shareholders can sell their shares on the Matched Bargain Market. We use the level of activity in the market and the surplus shares left untraded at the year-end as indicators of the liquidity of our shares.

We define liquidity as shareholders being able to sell their shares when they need to. We measure this as the percentage of shares presented for sale, that were sold. Thus if all shares were sold by the year end, liquidity would be 100%. If there are sellers on the market at the year end, liquidity is less than 100%, whereas if there are buyers on the market liquidity is over 100%.

This year a total of 76,000 shares were traded on the market (2011: 38,710), with a surplus of 283,124 shares left untraded at the year end (2011: 477,890). There was a single buyer in the market seeking to

purchase 500,000 shares at 10 pence each – far below historical trading levels. This order has been excluded from the liquidity calculation below to avoid distortion.

This year liquidity was 21.2% (last year 7.5%). A graph of liquidity over the last five years is set out below.

Repairs and maintenance

This is a measure of the percentage of annual rental income spent on repairs, maintenance and insurance of buildings. This year £127,182 was spent in these areas on the property portfolio (2011: £116,697). This represents 6.5% of rental income (2011: 6.1%). Further capital spending of £80,189 (2011: £70,251) to improve the fabric of our properties was also made.

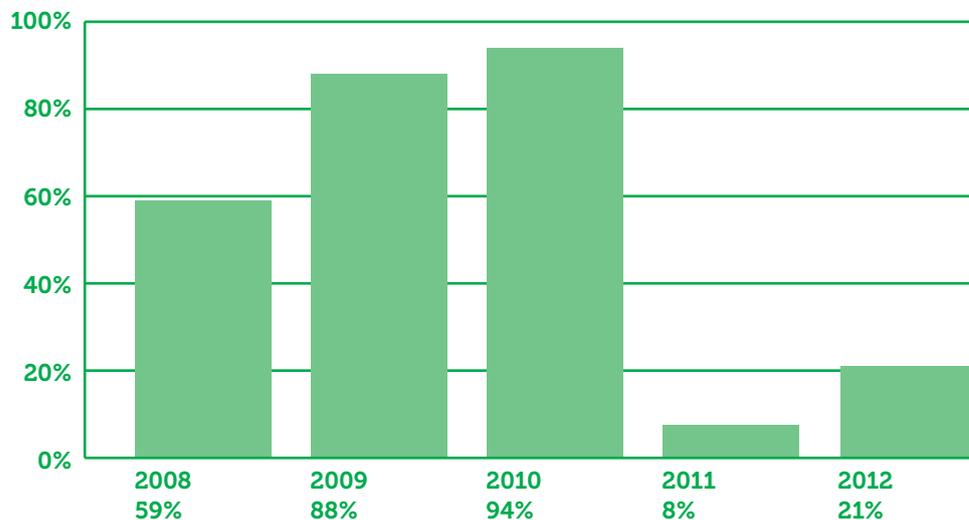
Empty space and lost rent

The lost rent is a measure of the percentage of the value of lost rent as a proportion of total expected rent. The basis of calculation has been changed so that the total expected rent is now defined as actual rental income plus discounts plus voids, rather than total budgeted income. This is a more accurate measure since it takes account of actual changes in lettable space which had not been foreseen when the budget was set. The comparator for last year has therefore been restated on the new basis. For the year, the percentage of empty space in all our buildings was 5.5% compared with a restated figure of 6.0% for last year.

Rental levels

We continue to monitor rental levels and in January 2012 completed a review of our rents compared with a range of properties in the same locality. As in previous years, we continue to find that Ethical Property buildings are good value and compare well with similar buildings. However, as Ethical Property buildings offer a far more comprehensive package, with more costs included, it can on first glance appear that our buildings are more expensive.

Liquidity over the last five years



Tenants in other buildings pay the landlord slightly less, but have to arrange for additional services themselves, and pay service providers directly. This is particularly the case for meeting spaces and IT services, which are often additional costs that Ethical Property include.

The findings of this review were taken into account when we set the new rent levels for each centre in April 2012, resulting in increases of up to 4%. We also continued to take account of the difficult economic climate within which our tenants are working.

Property values

In the table below, we provide an indication of the overall increase or decrease in the capital value of our properties over book cost since they were purchased. 'Book cost' is the amount we have actually spent on the purchase of and subsequent improvement to a property.

Values are based on September 2012 valuations undertaken by GVA Grimleys on our highest value properties; all other properties have been valued internally by the Directors.

There has been a decrease in the value of our portfolio of 2%. As in other years, within this are significant variances between properties: Development House has increased by 7.2% whilst Brunswick Court has fallen by 11%.

The Directors' report within the financial statements explains the process we have been through to determine the extent to which any of the reductions in value will ensue for more than five years. As a result we have transferred £1,528,000 to the Revaluation Reserve from the profit and loss account. At the AGM in March 2012 we passed a resolution to transfer £1,658,000 from the share premium account to the profit and loss account in anticipation of further reductions in value.

Return on property investment

This is a measure of the return on investment, in the form of rental income, from the book cost of our properties. 'Return on Book Cost' shows the annual rents received, by property, after maintenance and insurance costs as a percentage of the book cost. Overall this has increased from 7.5% to 7.6%.

Archway Resource Centre, Brighton Eco-centre, Development House and Durham Road have all increased their returns through more rents generated. Scotia Works and The Old Music Hall have declined due to higher levels of empty space and additional discounts. Picton Street Centre has seen a decline in net rentals due to higher maintenance costs in the year.

Summary of property cost, value and growth rates

Property	When purchased	2012 book cost	2012 value	2011 value	Annual compound growth rate
Archway Resource Centre	Jan-01	£203,650	£372,300	£365,000	5.10%
Brighton Eco-centre	Nov-03	£349,928	£225,000	£250,000	-4.80%
Brighton Junction	Sep-09	£960,505	£745,000	£925,000	-7.90%
Brunswick Court	Jan-01	£1,148,989	£925,000	£1,040,000	-1.80%
Colston Street Centre	Oct-98	£382,433	£409,500	£455,000	0.50%
Development House	Mar-04	£6,215,874	£6,080,000	£5,670,000	0.30%
Durham Road Resource Centre	Jun-01	£419,617	£433,500	£425,000	0.30%
Grayston Centre	Jul-03	£2,345,838	£2,000,000	£2,000,000	-1.70%
Green Fish Resource Centre	Jan-04	£776,110	£571,500	£635,000	-3.40%
Green Park Station	Nov-08	£39,512	£1,380,000	£1,325,000	0.00%
Old Music Hall	Dec-07	£3,856,862	£1,875,000	£2,080,000	-2.00%
Picton Street Centre	Dec-00	£181,851	£144,000	£160,000	-1.10%
Roundhay Road Resource Centre	Aug-00	£510,698	£328,500	£365,000	-3.60%
Scotia Works	Feb-03	£445,772	£396,000	£440,000	-1.20%
Thorn House	Feb-07	£3,162,555	£900,000	£1,000,000	-19.90%
Total		£21,000,194	£16,785,300	£17,135,000	

Report of the Directors

For the year ended 30 September 2012

The Directors present their report and the audited financial statements for the year ended 30 September 2012.

Principal activities and review

The Ethical Property Company supports charities, co-operatives, community and campaign groups and ethical business by developing and running centres that are focal points for social change. At these centres the tenant organisations benefit from reasonable rents, flexible tenancy terms and office space and facilities designed to meet their needs. They also become part of a working community where they can exchange skills and ideas under one roof. The Ethical Property Company offers investors the opportunity to make an ethical investment in property that supports groups working for social change.

From the 1 February 2011 we entered into a joint venture (50/50) Limited Liability Partnership with Joint Application Development Enterprises Limited, trading as Ethical IT LLP. This has now completed its first full year.

In March 2012 the Social Justice & Human Rights Centre Limited, a company we formed in May 2011 with Trust for London, Barrow Cadbury and LankellyChase, purchased a building in London (The Foundry) and now have vacant possession. During the year we have appointed architects and submitted a planning application for a major refurbishment and extension, raised the required capital for the works and worked with a large group of organisations wanting to become tenants.

During the year we have continued to increase our income from property management and consultancy, formally taking over the running of Resource for London, Brighton Community Base and Hub Commercial Ventures CIC.

During the year we invested £62,988 in Ethical Property Nederland, which is a property management company. This represents 50.7% of the total share capital of the company.

Property valuations

Properties have been revalued at 30 September 2012. When reviewing the property valuations we consider whether any losses are likely to be recovered over a five year period.

- We have considered the value of each property on both a commercial and ethical basis, whichever is greater, assuming that if the property is sold we will maximise value
- We have made an assumption of an increase in value over the next five years, currently assuming a 15% uplift over the whole five year period; we think this is reasonable, although we don't expect a significant uplift in the next 12 months
- We have looked at each building separately and where the costs are greater than the value, and we haven't seen an increase of more than 5% in the year, we have written off any material difference to the profit and loss account, as an exceptional item. This process has resulted in us charging £1,527,812 (2011: nil) to the profit and loss account.

Results and dividends

The profit on ordinary activities after taxation and before the exceptional item amounted to £316,423 (2011: £304,246). No tax is payable this year due to capital allowances and tax losses brought forward.

On 1 February 2012 the Directors declared a dividend of 2.0 pence per share which was paid in April 2012. The dividend was £272,805 of which £17,394 was waived.

The company also uses an extensive range of non-financial indicators to measure its environmental and social performance. It sets targets for this and reports on them in its published annual report.

Financial risk, management objectives and policies

The company's management has a key objective to reduce the risks the company faces. It does this through a number of specific policies and close management of the day-to-day operations in order to avoid, for example, bad debts. More recently, we have sought to diversify the company's sources of income through the development of new business areas based on the company's existing operations.

Currently, the principal risks the company faces are:

Expiry of Term Loans in 2016 which may not be renewed

The company reviews its forecasts on a regular basis and maintains close links with its lenders to ensure it has sufficient funding to meet its needs.

Further reduction in the value of the property

The company is exposed to movements in the value of the property against which our bank loan is secured. We monitor the property indices monthly, and keep in regular contact with Triodos Bank. Continued diminutions in the value of our properties could compromise the company's ability to pay dividends.

Directors and their interests

The Directors who served during the year and their beneficial interest in the company are as follows:

	Ordinary shares of 50 pence each	
	At 30 September 2012	At 1 October 2011
J G Hartzell (Resigned on 22 March 2012)	-	123,877
P N Bellack	25,000	25,000
S Ralphs	3,500	3,500
N Coker	3,000	3,000
J Whitaker	Nil	Nil
B Burlton	12,500	12,500

Shareholdings

As at 30 September 2012, the composition of shareholdings of ordinary shares in the company was as follows:

Number of shares held	Number of shareholders	Total shares	% of all shareholders	% of all shares
500 or less	319	127,210	24%	1%
501 to 1,000	276	258,169	20%	2%
1,001 to 2,000	185	310,822	14%	2%
2,001 to 5,000	268	1,001,911	20%	7%
5,001 to 10,000	142	1,149,121	11%	8%
10,001 to 50,000	114	2,546,831	8%	19%
50,001 to 100,000	13	896,777	1%	7%
100,001 to 500,000	27	5,747,176	2%	42%
500,001 to 1,000,000	1	571,428	less than 1%	4%
1,000,001 to 5,000,000	1	1,030,810	less than 1%	8%
Total	1,346	13,640,255	100%	100%

Financial statements

Company's policy for payment of creditors

It is the intention of the company to pay its suppliers in good time, showing particular consideration to small businesses and enterprises. We aim to pay suppliers within 30 days. The trade creditors outstanding at the year end represented 34 days (2011: 30 days) supply of goods and services received during the last quarter of the financial year.

Responsibilities of the Directors

In preparing these financial statements which give a true and fair view, the Directors should follow best practice and:

- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to assume that the company will continue on that basis.

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

Statement of disclosure to auditors

- (a) so far as the Directors are aware, there is no relevant audit information of which the company's auditors are unaware, and
- (b) they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

A resolution to appoint Critchleys LLP as auditors for the ensuing year will be proposed at the annual general meeting in accordance with section 489 of the Companies Act 2006.

Approved by the Directors on February 6th and signed on their behalf by



Susan Ralphs
Company Secretary

Independent auditors' report

To the members of The Ethical Property Company Limited

We have audited the financial statements of The Ethical Property Company Limited for the year ended 30 September 2012 which comprise the profit and loss account, the balance sheet, the cash flow statement, the Statement of Total Recognised Gains and Losses and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards.

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

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 3 the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2012 and of its results for the year then ended
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

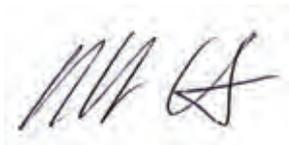
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Robert Kirtland
Senior Statutory Auditor
for and on behalf of

Critchleys LLP – Statutory Auditor
Chartered Accountants
Greyfriars Court, Paradise Square, Oxford, OX1 1BE

February 8th

Financial statements

For the year ended 30 September 2012

Profit and loss account

	Note	2012 £	2011 £
Turnover	2	3,562,933	3,115,273
Cost of sales		(1,425,772)	(1,010,931)
Gross profit		2,137,161	2,104,342
Administrative expenses		(1,536,004)	(1,497,275)
Other operating income		92,820	64,000
Operating profit	3	693,977	671,067
Profit on disposal of investments		-	-
Interest receivable		21,145	1,143
Interest payable	6	(398,699)	(367,964)
Profit on ordinary activities before exceptional item		316,423	304,246
Exceptional item:			
Write down in value of investment properties	7	(1,527,812)	-
(Loss)/profit on ordinary activities after exceptional item and before taxation		(1,211,389)	304,246
Tax on profit on ordinary activities	8	-	-
(Loss)/profit for the financial year		(1,211,389)	304,246
Earnings per share (pence)	10	2.32	2.23
Earnings per share including exceptional items (pence)	10	(8.88)	2.23

None of the company's activities was acquired or discontinued during the above two financial years.

Movements in funds are disclosed in note 21 to the financial statements.

Statement of total recognised gains and losses

	2012 Total £	2011 Total £
(Loss)/profit for the financial year	(1,211,389)	304,246
Movement on revaluation of properties	1,372,769	91,044
Total recognised gains and losses in the year	161,380	395,290

The notes on pages 26 to 34 form part of these financial statements

Financial statements

For the year ended 30 September 2012

Balance sheet

	Note	2012 £	2011 £
Fixed assets			
Intangible fixed assets	11	56,667	73,667
Investment properties	12	16,653,249	16,728,103
Other tangible fixed assets	13	527,392	567,832
Investments	14	4,234,362	1,945,292
		21,471,670	19,314,894
Current assets			
Debtors	15	721,835	487,147
Cash at bank and in hand		361,984	386,638
		1,083,819	873,785
Creditors: amounts due within one year	16	(915,424)	(682,148)
Net current assets		168,395	191,637
Total assets less current liabilities		21,640,065	19,506,531
Creditors: amounts falling due after one year	17	(11,150,764)	(9,022,070)
Total net assets		10,489,301	10,484,461
Capital and reserves			
Called up share capital	19	6,820,128	6,820,128
Share premium account	20	2,086,262	3,741,298
Revaluation reserve	20	(285,066)	(1,657,835)
Capital redemption reserve	20	288,251	288,251
ESOP reserve	20	(54,928)	(54,928)
Dividend waiver reserve	20	364	14,027
Unrealised profit on sale of subsidiary	20	80,321	80,321
Profit and loss account	20	1,553,969	1,253,199
Total shareholders' funds	21	10,489,301	10,484,461

Approved by the Directors on February 6th and signed on their behalf by



Susan Ralphs
Company Secretary

The notes on pages 26 to 34 form part of these financial statements

Financial statements

For the year ended 30 September 2012

Cashflow statement

	2012 £	2011 £
Net cash inflow from operating activities		
Operating profit	693,977	671,067
Depreciation of tangible fixed assets	142,807	144,757
Increase in debtors	(234,688)	(41,063)
Increase / (decrease) in creditors	233,276	(110,787)
	835,372	663,974
Returns on investment and servicing of finance		
Interest received	21,145	1,143
Interest paid	(398,699)	(367,964)
	(377,554)	(366,821)
Capital expenditure		
Purchase of tangible fixed assets	(119,566)	(111,490)
Purchase of investment properties	(80,189)	(74,888)
Purchase of investments	(2,289,070)	(109,134)
	(2,488,825)	(295,512)
Equity dividends paid	(255,411)	(383,005)
Net cash outflow before financing	(2,286,418)	(381,364)
Financing		
New loans	2,128,694	-
Investment in employee share ownership plan	-	(3,109)
	2,128,694	(3,109)
Cash outflow for the year	(157,724)	(384,473)

The notes on pages 26 to 34 form part of these financial statements

1. Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and preceding year, is set out below:

a) Basis of accounting

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, and in accordance with applicable accounting standards and the Companies Act 2006.

b) Turnover

Turnover comprises rents, service charges, management fees and consultancy fees receivable by the company, exclusive of value added tax. Turnover in respect of provision of IT hardware is recognised on delivery. Turnover in respect of provision of IT services is recognised either to the extent that the specific work has been completed, or over the period that support is provided.

c) Pensions

The company operates a defined contribution pension scheme and the pension charge represents the amounts payable by the company to the fund in respect of the year.

d) Borrowing costs

Borrowing costs are recognised as an expense in the year in which they are incurred, except to the extent that they are capitalised. Borrowing costs that are directly attributable to land or buildings held during the course of development are capitalised. Capitalised borrowing costs are either written off over the useful life of the asset or become part of the cost of an investment asset which is subsequently subject to annual revaluation.

e) Investment properties

Investment properties are accounted for in accordance with SSAP 19 and stated at valuation. Any surplus or deficit on revaluation is transferred to the revaluation reserve unless a deficit below original cost, or its reversal, is expected to be permanent, in which case it is recognised in the profit and loss account for the year. When considering whether a fall in value is permanent or not, we will consider the likely change in value over the subsequent five years. No depreciation is provided in respect of leasehold investment properties where the lease has over 20 years to run. Although the Companies Act would normally require the systematic depreciation of fixed assets, the Directors believe that the policy of not providing for depreciation is necessary in order for the financial statements to give a true and fair view, since the current value of investment properties, and changes to the current value, are of prime importance rather than a calculation of annual depreciation.

When an investment property is sold, the difference between the most recent valuation reflected in the accounts and the net sale proceeds is shown as profit in the profit and loss account.

f) Intangible fixed assets and amortisation

Goodwill is stated at cost less amortisation. Goodwill is amortised on a straight line basis over the depreciation period of the assets to which it predominantly relates.

g) Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, on a straight line basis over their expected useful lives as follows:

Furniture, fittings and equipment	3 to 5 years
Computer equipment	4 to 5 years
Plant and machinery	6 to 12 years

h) Grant aided renovation

The cost of qualifying investment properties enhanced with the benefit of Government Grant Aid is stated at purchase price less grants receivable, upon confirmation of successful application. The company fully intends to comply with the conditions of each grant, thus negating any requirement to provide for potential repayment of the grant or interest. When such properties are revalued, then the revalued amount is shown in the financial statements.

i) Operating leases agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

j) Financial instruments

Financial instruments are classified and accounted for, according to the substance of the contractual agreement, as either financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

k) Deferred taxation

Provision is made in full for all taxation deferred in respect of timing differences that have originated but not reversed by the balance sheet date, except for timing differences arising on revaluations of fixed assets which are not intended to be sold and gains on disposal of fixed assets which will be rolled over into replacement assets. The company discounts deferred tax liabilities and assets to reflect the time value of money. No provision is made for taxation on permanent differences.

l) Investments, associated companies and joint ventures

Investments and holdings in joint ventures are stated at the lower of cost and estimated net realisable value.

Associated companies are those in which the company holds between 20% and 50% of the share capital and over which it has significant influence but not control. Investments in associated companies are stated at cost less any impairment.

m) Employee Benefit Trust

Assets held in the Employee Benefit Trust (EBT) are recognised as that of the company until they vest unconditionally in identified beneficiaries. The company has applied the accounting treatment under Urgent Issues Task Force (UITF abstract 32), which is to record this as a deduction in arriving at shareholders funds. All expenses of the Trust are settled directly by the company and charged in the profit and loss account as incurred.

n) Dividends

Dividends on ordinary shares are treated as a distribution from profit and loss reserves, rather than being treated as a distribution out of the result for the year.

o) Foreign currencies

Profit and loss account transactions in foreign currencies are translated into sterling at the exchange rate ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated into sterling at the closing rates at the balance sheet date and the exchange differences are transferred to reserves.

2. Turnover

Turnover is attributable to the letting and managing of property and to the provision of IT services to tenants and others. All arose within the United Kingdom.

3. Operating profit

	2012 £	2011 £
The operating profit is stated after charging:		
Auditors' remuneration		
audit	7,000	9,000
accountancy and tax advice	3,105	2,165
Depreciation of owned tangible fixed assets	142,807	144,757
Amortisation of goodwill	17,000	11,333
Operating lease rentals		
office equipment	14,163	13,773

4. Staff costs

Staff costs, including Directors' remuneration, were as follows:

	2012 £	2011 £
Salaries	1,099,635	809,000
Social security costs	107,965	83,738
Other pension costs	68,122	79,558
	1,275,722	972,296

The average monthly number of full time equivalent employees, including Directors, during the year was as follows:

	2012	2011
Administrative staff	36.3	28.1
Management staff	3.7	4.5
	40.0	32.6

5. Directors' remuneration

	2012 £	2011 £
Emoluments	76,463	100,127
Company pension contributions to a money purchase pension scheme	5,224	5,319
	81,687	105,446

During the year salaries were being paid, and retirement benefits, in respect of a money purchase pension scheme, were accruing to 2 (2011: 2) Directors.

In addition to the above remuneration, fees of £19,500 (2011: £16,500) were paid to non-executive Directors.

6. Interest payable

	2012 £	2011 £
Interest payable on bank borrowing	398,699	367,964

7. Exceptional item

The Directors have reviewed the valuations of investment properties and consider that a sum of £1,527,812 will not be recovered within five years. This amount has been taken to the profit and loss account as a permanent diminution in value.

8. Taxation

	2012 £	2011 £
Current tax:		
UK corporation tax	-	-
Deferred tax:		
Origination and reversal of timing differences	-	-
Tax on profit on ordinary activities	-	-

Tax reconciliation

The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 26% (2011: 28%). The differences are explained below:

	2012 £	2011 £
Profit on ordinary activities before tax	316,423	304,246
Tax at 26% (2011 - 28%)	82,270	85,189
Capital allowances for the year	(71,113)	(76,620)
Expenses carried forward for tax purposes	(11,157)	(8,569)
	-	-

9. Dividends

	2012 £	2011 £
Total dividends declared	272,805	409,208
Dividends waived	(17,394)	(26,203)
	255,411	383,005

On 1 February 2012 the Directors declared a dividend of 2.0 pence per share payable in April 2012 and included in these financial statements. The Directors are satisfied that they were legally entitled to make the payment at the time it was made.

10. Earnings per share

The calculation of the basic and diluted earnings per share is based on earnings of £316,423 (2011: £304,246) and on 13,640,256 (2011: 13,640,256) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

The calculation of the basic and diluted earnings per share after exceptional items is based on losses of £1,211,389 and on 13,640,256 ordinary shares, being the weighted average number of ordinary shares in issue during the year.

11. Intangible fixed assets

	Goodwill £
Cost	
At 1 October 2011	85,000
At 30 September 2012	85,000
Amortisation	
At 1 October 2011	11,333
Charge for the year	17,000
At 30 September 2012	28,333
Net book value	
At 30 September 2012	56,667
At 30 September 2011	73,667

Goodwill relates to the purchase of intangible fixed assets on the formation of Ethical IT LLP.

12. Investment properties

	Investment property in the course of development £	Investment property in use £	Investment property total £
Valuation			
At 1 October 2011	179,637	16,548,466	16,728,103
Additions	-	80,189	80,189
Permanent diminution in value	-	(1,527,812)	(1,527,812)
Revaluation movement	-	1,372,769	1,372,769
At 30 September 2012	179,637	16,473,612	16,653,249

Investment property in the course of development includes the following amounts:

	2012 £	2011 £
Development House Extension, London	179,637	179,637

GVA Grimleys Chartered Surveyors, independent valuers, revalued the six highest value properties on an open market basis at 30 September 2012, which amount to 81.5% of the total value of the properties. The Directors carried out an internal valuation of the remaining properties.

	2012 £	2011 £
The historical cost of investment properties	21,004,829	20,924,641
Value of long leasehold properties included within Investment properties	3,523,507	3,638,484
Historical cost of long leasehold properties	2,659,571	2,659,571

The company received no grants during the year or the prior year. The value of total grants received as at 30 September 2012 is £824,056 (2011: £824,056).

Finance costs have been capitalised as follows:

	2012 £	2011 £
Finance costs included within additions in the year	10,192	12,694
Aggregate amount of finance costs capitalised at the year end	296,742	286,550
Rate used for capitalisation of finance costs	3.5%	4.3%

13. Other tangible fixed assets

	Plant and machinery £	Furniture, fittings and equipment £	Total £
Cost			
At 1 October 2011	651,518	612,102	1,263,620
Additions	55,715	63,851	119,566
Written off	(17,199)	-	(17,199)
At 30 September 2012	690,034	675,953	1,365,987
Depreciation			
At 1 October 2011	239,144	456,644	695,788
Charge for the year	71,523	76,335	147,858
Written off	(5,051)	-	(5,051)
At 30 September 2012	305,616	532,979	838,595
Net book value			
At 30 September 2012	384,418	142,974	527,392
At 30 September 2011	412,374	155,458	567,832

14. Investments

	Cost at 1 October 2011 £	Additions £	Cost at 30 September 2012 £
Ethical Property Europe sprl	1,834,907	-	1,834,907
The Phone Co-Op	7,099	1,082	8,181
étic	8,786	-	8,786
Ethical IT LLP	45,000	-	45,000
Social Justice and Human Rights Centre Limited	49,500	1,650,000	1,699,500
Ethical Property Nederland	-	62,988	62,988
Loan to:			
Social Justice and Human Rights Centre Limited	-	575,000	575,000
Total	1,945,292	2,289,070	4,234,362

The investment in Ethical Property Europe represents 39% of the total share capital of this company. At 30 September 2012 the latest EPE management accounts show that it had net assets of £4,212,055 (2011: £4,446,878) and its profit for the year was £239,385 (2011: £178,678). The €/£ exchange rate for 30th September 2012 was 1.242 (2011: 1.162) and the Euro equivalent value of net assets at that date was €5,231,372 (2011: €5,167,272). The profit for the year was €297,316 (2011: €207,624).

The investment in Social Justice and Human Rights Centre Limited represents 45.95% of the total share capital of this company. The terms of the loan, of £575,000, are interest only over five years at 6.25% per annum. The company was incorporated on 11 May 2011. At 30 September 2012 the latest management accounts of the company show that it had net assets of £3,713,242 (2011: £94,500) and a profit for the period of £13,742 (2011: NIL).

Ethical IT LLP is a joint venture between the Ethical Property Company Limited and Joint Application Development Enterprises Limited. Ethical IT LLP was incorporated on 4 November 2010 and started trading on 1 February 2011. At 30 September 2012 the latest management accounts of the LLP showed that it had net assets of £170,875 (2011: £87,029) and its profit for the year was £113,672 (8 months 2011: £37,029).

The investment in Ethical Property Nederland represents 50.7% of the total share capital of this company. Ethical Property Nederland has not been consolidated into these financial statements on the grounds of immateriality.

15. Debtors

	2012 £	2011 £
Trade debtors	331,217	289,869
Amounts owed by Ethical Property Europe sprl	-	30,607
Other debtors	8,904	1,486
Prepayments and accrued income	381,714	165,185
	721,835	487,147

16. Creditors: amounts falling due within one year

	2012 £	2011 £
Trade creditors	175,380	146,353
Amounts owed to Ethical IT LLP	3,829	-
Other tax and social security	157,072	105,233
Other creditors	579,143	430,562
	915,424	682,148

17. Creditors: amounts falling due after more than one year

	2012 £	2011 £
Bank loans	11,150,764	9,022,070
Between two and five years:		
Bank loans	11,150,764	9,022,070

The bank loans to the company are secured by a charge over certain of the properties of the company.

The company has a loan agreement with Triodos Bank NV. The current agreement expires in October 2016.

The rates of interest applicable on the loans as at the year end are as follows:

Revolving credit agreement	1% above Bank of England base rate subject to a minimum rate of 3.50%
Sterling fixed loan	3.98%
Euro denominated loan	1.1% above European central bank rate
First euro fixed interest loan	3.85%
Second euro fixed interest loan	3.50%

18. Deferred taxation

Deferred tax provided and unprovided for in the financial statements is set out below:

Unprovided deferred tax would crystallise on the sale of assets at their balance sheet value.

	2012 £	2011 £
Provided for:		
Unrealised capital gains	-	-
Taxable expenses carried forward	-	-
	-	-
Unprovided for:		
Liability in respect of unrealised capital gains	(260,178)	(266,300)
Asset in respect of unrealised capital losses	2,392,623	2,317,916
Asset in respect of taxable expenses carried forward	67,668	99,190
Net unprovided asset	2,200,113	2,150,806

A deferred tax asset has not been included in the accounts in respect of the revaluation losses as the company does not intend to sell the assets.

19. Share capital

	2012 £	2011 £
Authorised:		
20,000,000 Ordinary shares of 50 pence each	10,000,000	10,000,000
Allotted, called up and fully paid:		
13,640,256 Ordinary shares of 50 pence each	6,820,128	6,820,128

20. Reserves

	Share premium account £	Revaluation reserve £	Unrealised profit on sale of shares in EPE £	Capital redemption reserve £	ESOP reserve £	Dividend waiver reserve £	Profit and loss account £
At 1 October 2011	3,741,298	(1,657,835)	80,321	288,251	(54,928)	14,027	1,253,199
Profit for the year on ordinary activities after exceptional item	-	-	-	-	-	-	(1,211,389)
Equity dividends	-	-	-	-	-	-	(255,411)
Transfer to dividend waiver	-	-	-	-	-	17,394	(17,394)
Release from dividend waiver	-	-	-	-	-	(31,057)	31,057
Release from share premium account	(1,658,000)	-	-	-	-	-	1,658,000
Share issue costs	2,964	-	-	-	-	-	-
Difference on exchange	-	-	-	-	-	-	95,907
Revaluation movement (note 12)	-	1,372,769	-	-	-	-	-
At 30 September 2012	2,086,262	(285,066)	80,321	288,251	(54,928)	364	1,553,969

At the 2012 AGM shareholders agreed a transfer from the share premium account to the profit and loss account to reflect the reduction in the value of the investment property per the revaluation reserve as at 30 September 2011.

The unrealised profit on sale of shares in EPE represents profit generated by the reduction in holding of a continuing investment.

21. Reconciliation of movements in shareholders' funds

	2012 £	2011 £
Shareholders' funds at 1 October	10,484,461	10,530,928
(Loss)/profit for the year	(1,211,389)	304,246
Equity dividends paid	(255,411)	(383,005)
Foreign exchange difference	95,907	(211)
Purchase of shares in employee share option plan	-	(3,109)
Share premium account	2,964	(55,432)
Surplus on revaluation	1,372,769	91,044
Shareholders' funds at 30 September	10,489,301	10,484,461

22. Reconciliation of net cashflow to movement in net debt

	2012 £	2011 £
Decrease in cash in the year	(157,724)	(384,473)
Cash (inflow) / outflow from debt	(1,995,624)	(129,311)
Movement in net debt in the year	(2,153,348)	(513,784)
Net debt at 1 October	(8,635,432)	(8,121,648)
Net debt at 30 September	(10,788,780)	(8,635,432)

23. Analysis of changes in net debt

	At 1 October 2011 £	Cashflow £	At 30 September 2012 £
Cash at bank and in hand	386,638	(24,654)	361,984
Loans falling due after more than one year	(9,022,070)	(2,128,694)	(11,150,764)
	(8,635,432)	(2,153,348)	(10,788,780)

24. Pension commitments

The company makes contributions to a Group Personal Pension Plan. The assets in the scheme are in a separately administered fund. The pension cost charge represents contributions payable by the company to the schemes and amounted to £68,122 (2011: £79,558). Contributions totalling £20,058 (2011: £5,340) were payable to the fund at the balance sheet date and are included in other creditors.

25. Obligations under operating leases

At 30 September 2012 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings £	Other £
Expiring within one year	-	-
Expiring after one year	-	12,920

26. Capital commitments

In the year ended September 2008 the company sold a piece of land adjacent to Development House in London. The sale agreement allows that the purchaser will build an extension to Development House at the same time as developing the land. The Ethical Property Company has committed to pay for the extension at cost, and estimates that this will be £2,600,000.

During the year a 12 month option was granted to Paul Street Hotels LLP for the freehold of the land adjacent to Development House. Since the year end the option has been renewed for a further 12 months and during this period the commitment to pay for the extension is suspended.

27. Related party transactions

During the year, the company paid £1,282 (2011: £1,148) to a partnership of which Paul Bellack, a director and shareholder of the company, is a partner. This was reimbursement of the company's share of the insurance costs of Green Fish Resource Centre, a property on which the company owns a long leasehold and in which Paul Bellack has a freehold interest. The amount owed at the end of the year was £891 (2011: £891). The transactions were carried out in the normal course of business.

Ethical IT LLP is a joint venture (50/50) Limited Liability Partnership with Joint Application Development Enterprises Limited which started trading on 1 February 2011. During the year, the company received purchase invoices from Ethical IT LLP amounting to £115,897 plus VAT (2011: £64,714 plus VAT) for IT services. The company raised invoices to Ethical IT LLP during the year amounting to £20,709 plus VAT (2011: £44,763 plus VAT) for management fees and £25,233 plus VAT (2011: £17,146 plus VAT) for rent and related services. The amount owing by Ethical IT LLP to Ethical Property Limited at the end of the year was £34,806 (2011: £53,848). The amount owed by Ethical Property Limited to Ethical IT LLP at the end of the year was £27,730 (2011: £1,539). The transactions were carried out in the normal course of business.

The Social Justice and Human Rights Centre Limited is a Joint Venture with Trust For London, Barrow Cadbury, The Joseph Rowntree Charitable Trust and Lankelly Chase. The Ethical Property Company manages the company and all the transactions going through, including payment of management fees. During the year the company invested £1,650,000 in the share capital of Social Justice and Human Rights Centre Limited. In addition the company made a loan to it of £575,000, on which £19,889 interest was received. The terms of the loan are interest only over five years at 6.25% per annum. The loan is secured by a legal charge over the freehold interest in the building.

Detailed profit and loss account

	2012 £	2012 £	2011 £	2011 £
Property income				
Rental income	1,946,021		1,897,753	
Service income	787,142		729,935	
Telephone and IT income	216,276		231,429	
Office services	58,465		55,654	
		3,007,904		2,914,771
Property costs				
Services provided to tenants	(724,934)		(604,236)	
Telephone and IT expenses	(204,264)		(172,732)	
Office services expenses	(27,725)		(33,767)	
Property insurance	(31,421)		(31,568)	
Direct salary costs	-		-	
Other property expenses	(152,491)		(135,129)	
		(1,140,835)		(977,432)
Net property income		1,867,069		1,937,339
Other income				
Property management and consultancy	549,800		142,442	
Property management salaries	(276,380)		-	
External IT expenses	(8,557)		(33,499)	
External IT income	5,229		58,060	
Grant Income	-		-	
		270,092		167,003
Gross profit		2,137,161		2,104,342
		59.98%		67.55%
Other operating income				
Share of profit in Ethical IT LLP	56,794		20,000	
Management fees from Ethical IT LLP	36,026		44,000	
		92,820		64,000
Employment costs				
Staff salaries	(823,255)		(809,000)	
National insurance	(107,965)		(83,738)	
Pension contributions	(68,122)		(79,558)	
		(999,342)		(972,296)
Company costs				
Legal and professional	(101,265)		(80,810)	
IT fees	(14,780)		(45,244)	
Depreciation	(142,807)		(144,757)	
Amortisation	(17,000)		(11,333)	
Travel and subsistence	(57,275)		(57,438)	
Phone and IT	(40,291)		(48,082)	
Marketing	(44,680)		(33,947)	
Printing and stationery	(18,829)		(25,089)	
Accountancy	(3,105)		(2,165)	
Recruitment	(10,936)		(18,774)	
Bank charges	(10,984)		(20,412)	
Audit	(7,000)		(9,000)	
Training	(21,965)		(9,040)	
Rent, rates and service charge	(12,386)		(17,689)	
Sundry expenditure	(13,859)		15,402	
Bad debt	-		(101)	
Directors' fees	(19,500)		(16,500)	
		(536,662)		(524,979)
Interest payable		(398,699)		(367,964)
Other income				
Interest receivable	21,145		1,143	
		21,145		1,143
Profit for the year before exceptional item		316,423		304,246

London and the South East



Archway Resource Centre, London



Brighton Eco centre, Brighton



Brighton Junction, Brighton



Development House, London



The Grayston Centre, London



Thorn House, Edinburgh

Scotland

South Pennines



Green Fish Resource Centre, Manchester



Roundhay Road Resource Centre, Leeds

The South West



Brunswick Court, Bristol



Picton Street Centre, Bristol



For more information on The Ethical Property Family, please visit the appropriate website, as below:

- United Kingdom
www.ethicalproperty.co.uk
- Europe
www.ethicalproperty.eu
- étic
www.etic.co
- Nederland
www.ethicalproperty.nl
- Ethical IT
www.ethicalit.net
- The Ethical Property Foundation
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