ETHICAL PROPERTY COMPANY ANNUAL REPORT 2010/2011

ethical
PROPERTY
INVESTING IN
SOCIAL CHANGE

OUR CENTRES

MANCHESTER
- Green Fish Resource Centre

EDINBURGH
- Thorn House

LEEDS
- Roundhay Road Resource Centre

SHEFFIELD
- Scotia Works

BRISTOL
- Brunswick Court
- Colston Street Centre
- Picton Street Centre

Managed centres:
- The Unitarian Chapel
- St. Michael's Parish Hall
- SNAP Studios

LONDON
- Archway Resource Centre
- Development House, Old Street
- Durham Road Resource Centre
- Grayston Centre, Old Street

Managed centre:
- Resource for London, Holloway

BATH
- Green Park Station

Managed centre:
- Friends Meeting House

OXFORD
- Old Music Hall

Managed centre:
- Turl Street

BRIGHTON
- Brighton Eco-Centre
- Brighton Junction

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INTRODUCTION

The Ethical Property Company owns and operates 15 centres across the UK, providing 15,000 sq m/161,000 sq ft of rentable office, event and retail space to charities, social enterprises, voluntary and campaign groups. We also provide management services to other like-minded landlords and are currently responsible for the operation of an additional six centres across the country. In total, we support over 230 organisations as tenants while over the last year an additional 460 organisations have taken advantage of the meeting and conference space within the centres we manage.

Tenants within our centres can expect well designed and practical facilities, flexible contracts and the presence of similar organisations and individuals – all of whom can provide further support and partnership opportunities as well as a sense of community to otherwise potentially isolated groups.

Ethical Property in the UK is part of a wider international family of organisations providing office space, IT services and property advice.

Our sister organisations operate centres in Brussels (Mundo B) and Namur (Mundo N) in Belgium and the recently opened WOOPA centre in Lyon, France while plans are progressing to open centres in the Netherlands and Kenya (See page 8). In addition both Ethical IT and The Ethical Property Foundation continue to grow – more details can be found on pages 7 and 9 respectively.

We remain determined to make each centre a catalyst for social change, providing tenant organisations with a network of buildings that are visually consistent and share common standards in terms of facilities, practicality, cleanliness and security while allowing the organisations within them to focus upon their core objectives.

All of our buildings are managed with the environment and our tenant organisations in mind, with our performance, good or bad, audited on an annual basis – details can be found on page 20. In addition, we seek to ensure that our internal operations take place in an ethical and equitable way and that our staff enjoy working for us in a safe and discrimination free environment.

Our 1,357 shareholders continue to have the security of a property based investment while also secure in the knowledge that their capital will help support lasting social change. An annual dividend has been paid for each of the last twelve years.

In dealing with all stakeholders – tenants, staff, shareholders and partners – we continue to abide by the 'Quintessentials', a set of five management principles designed to ensure that all members of the Ethical Property family meet our common aims:

- Our Triple Bottom Line
- Our ethical criteria for tenancy and other services
- Our Code of Practice for the management of property
- Our governance procedures
- Our reporting procedures

This Annual Report has been written to give readers an overview of our activities in the UK over the past year while demonstrating our commitment to the above principles.

For more detailed information on the Quintessentials, Ethical Property UK and the wider Ethical Property family, please visit **www.ethicalproperty.co.uk**.

MANAGING DIRECTOR'S REPORT

HIGHLIGHTS

15 owned centres and 6 managed properties totalling 21,225 sq m/225,000 sq ft • Major contract signed with Resource for London after 12 month handover period • 5-year strategic plan now in place • Investment pledged, property identified and offer accepted for proposed Social Justice Centre • Brighton Open Market – contract agreed to purchase 12 units in 2012

My first year as Managing Director of Ethical Property has been a fascinating, exciting and busy time in what is a challenging climate, particularly for organisations within the social change sector. However, I am lucky to have skilled and committed colleagues and a very supportive Board who continue to enable us to thrive and develop. We are conscious of the responsibility we have towards supporting our tenants and the wider sector through this period and beyond and have made efforts to offer even greater flexibility to organisations within our centres.

In January 2011, I took over from our founder Jamie Hartzell as Managing Director. Jamie and I have since worked closely to ensure a smooth transition, meeting regularly, sharing ideas and discussing strategy. I have enormous respect for Jamie and all he achieved – and thank him for allowing me to further develop the company he created.

In May we appointed Emma Firth to fill my previous role as Director of Finance. Emma has experience in both the voluntary and commercial sectors and remains part-time Head of Finance for one of our former tenants, People in Aid. She joins our Director of Property and Operations, Peter Allen, our Director of Development, Conrad Peberdy, and myself in forming our Senior Management Team. (Profiles of all staff members can be found on our website at **www.ethicalproperty.co.uk**)

COMPANY GOVERNANCE

Our 2011 Annual General Meeting took place in Leeds, and resulted in a stimulating debate about the company's performance over the previous year and the challenges and opportunities on the horizon. At the AGM, shareholders formally adopted the Quintessentials, including them in the articles of association.

The key change at Board level this year was the departure of Rod Schwartz in April 2011. Rod was a great asset to the company over the last four years, with his knowledge of the social business sector and the wider economy greatly valued. Profiles of all Board members can be found on our website.

The Board has gone through a process of self-evaluation, assessing both the performance of the Board as a whole and the contribution of each member. Both processes considered the specific needs of the company and more generic governance requirements. Overall the review produced positive results and has enabled us to build on our strengths and address our weaknesses.

STRATEGIC DEVELOPMENT

One of our most important achievements over the past year has been the development of a new strategic plan for Ethical Property, setting the company's direction for the next five years (see page 4). The plan focuses on six key areas of activity, combining exciting and ambitious plans for expansion of the business with the development of the strong internal infrastructure that is needed to support such growth. Our vision is to lead the way in how property can be used in the best interests of society and the planet. Development of this plan involved the Board and many members of staff and was discussed at our staff conference in July.

FINANCIAL SUMMARY

Operating profit for the year was £671,067, compared with £713,868 in 2010, a drop of 6.0%. Net income from owned property remained at similar levels to last year; however we have increased staff costs to fund our planned expansion of property management contracts. This has been successful, but as with many new ventures has not generated a net profit in the first year. Ethical IT has generated an additional £40,000 compared with last year following the formalisation of Ethical IT LLP, our joint venture with JADe. (See page 7). This income is not included as turnover but as net profit. For the first time since 2008 our property values have overall remained stable, although strength in the London property market has offset drops, particularly in Edinburgh.

At the AGM, our shareholders approved a resolution to transfer £2,540,000 from the share premium account to the profit and loss account reflecting the amount that was considered a permanent reduction in our property values.

Looking forward, we are very mindful of the uncertain economic environment and the impact this may have on the voluntary sector. Therefore, one of our strategic aims is to focus on ensuring that we have a robust financial model to enable us to continue to properly support our tenants. (See page 4)

OUR OWNED CENTRES

The past year has clearly been a difficult period for the social change and voluntary sector. We feel that our special commitment to this sector has enabled us to be particularly responsive to its needs and hopefully we have helped to make a difficult situation somewhat more manageable for a number of our tenants over the year. It is notable that the overall number of tenants has actually increased by about 20 over the year, showing that although the sector is struggling and is being more economical with space than in the past, Ethical Property centres are still seen as an attractive option because of the overall package of benefits and services that we offer.

MANAGING DIRECTOR'S REPORT

Alongside the standard office space we provide within our 15 owned centres, we now provide more shared, open plan space. We are engaging with specialist space planners to make these shared spaces as efficient and attractive as possible – something we envisage rolling out to all centres in time.

We have also focused on improving our property management service and the support we provide to our tenants in terms of legal compliance, best practice and general communications.

THE SOCIAL JUSTICE CENTRE

We have dedicated significant time this year to the development of our proposed Social Justice Centre. This exciting and innovative project is a partnership with four charitable foundations who are interested in the concept of a centre for social justice organisations in London, but who also want to make a mission-related investment. In November 2011 after many months of looking, we had an offer accepted for a building in the Vauxhall area of London which we hope will become a catalyst for social change in the capital. We are aiming to have completed refurbishments by late 2012 with a view to opening the centre in early 2013.

PROPERTY MANAGEMENT

This year we have significantly grown the portfolio of property that we manage on behalf of like minded landlords. Having invested resources in this with the appointment of Conrad Peberdy as Director of Development in 2009 we now manage six centres, in Bristol, Bath, Oxford and London comprising 6,225 sq m/67,000 sq ft. This activity enables us to grow without investing capital while at the same time utilising our expertise in property management. We only take on contracts in buildings occupied by organisations fitting our ethical criteria, so this growth also enables us to increase our support for the sector.

OUR SOCIAL AND ENVIRONMENTAL PERFORMANCE

As always, the social and environmental impacts of our business remain a key concern of ours and we devote several pages of this report to assessing our performance in these areas over the year. We have made an effort during the past year to focus on our social and environmental performance more explicitly in our internal management processes – monitoring and analysing our performance in these areas regularly alongside our financial performance.

One of our principal social impacts lies in the way in which we support our tenants to carry out their work, so it is reassuring that 80% of tenants responding to our tenant survey reported that being in an Ethical Property centre helped them to achieve their strategic objectives.

In terms of our environmental impact, our energy consumption has fallen by 7% since last year, with a resultant positive impact on our carbon emissions.

As I write, photovoltaic solar panels are being installed overhead at the Old Music Hall and have recently been fitted at the Grayston Centre. This should have a significant effect in reducing our carbon emissions next year and is a clear sign of our continuing commitment to reducing our environmental impact despite the difficult financial situation.

THE ETHICAL PROPERTY FAMILY

The last year has seen continued growth within the Ethical Property family with activities being developed in the Netherlands and Kenya and étic (France) launching its first share issue and taking on the management of the WOOPA centre in Lyon.

Back in the UK, Ethical IT is now a legal entity and continues to gain more contracts both through its work within Ethical Property centres in the UK and Europe and by virtue of its increasing presence in the wider sector. The potential development of IT infrastructure in Africa is of particular focus at the moment working with WaterAid and other established NGOs.

The Ethical Property Foundation has also had a very successful year, helping over 375 organisations to rent, buy, let or manage their properties while continuing to lead the development of an ethical property award. Working with a number of partners, the award for acknowledging the good social and environmental performance of property management has been welcomed by many in the industry as a much needed step to recognising and encouraging positive work in the sector.

I hope this gives you a flavour of what has been going on in the last 12 months. There is more detail in the rest of the Annual Report on many of the issues above; we have presented this is in a slightly different format than in previous years with less building by building information, but more analysis of our results. I hope you find it interesting.

Susan Ralphs
Managing Director
The Ethical Property Company

OUR STRATEGIC PLAN

OUR VISION

Ethical Property will be an exemplar for how property can be used in the best interests of society and in a way 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 and in the longer term we want to inspire others so that the type of buildings we provide will be available to all.

Over the last nine months we have reviewed and updated our five year strategy. This has involved the Board, our Senior Management Team, a wider group of senior managers and all staff attending the staff conference. We have reviewed the current position of the company, both in terms of its internal strengths and weaknesses and the external environment. There has been significant change internally, as we wanted to ensure that we had the right plans, processes, procedures and structures to enable us to meet the opportunities and challenges that we face.

We have identified six key strategic aims. Over the next five years we will:

- provide excellent services in well-managed and well maintained buildings
- expand our activities to better meet the needs of the sector and society
- encourage and facilitate more investment in the company
- build on financial sustainability, by ensuring we have a robust financial model
- promote the business model
- create a strong platform for growth within the company.

PROVIDE EXCELLENT SERVICES

In the 13 years that Ethical Property has been established, the type of buildings we have purchased, the quality of refurbishments we have undertaken, and our standards of maintenance and management have evolved and improved.

To build on this experience we aim to focus on four key areas and over the next five years we will:

- define clear standards for each building
- establish a clear picture of the type and level of staffing required in each building
- initiate a regular review of each building to evaluate its financial, social and environmental performance
- establish a five year plan for each UK region.

EXPAND OUR ACTIVITIES

We aim to continue the strategic growth of the organisation through direct investment and hybrid models such as the Social Justice Centre, more property management contracts, additional spin-off activities, such as Ethical IT and we will lead the expansion of the Ethical Property family.

ENCOURAGE AND FACILITATE INVESTMENT

We will do this by supporting various ethical investment channels such as Ethex, an ethical investment club that aims to make it easier for individuals to invest in truly ethical businesses, by communicating with shareholders more regularly and by offering a broader range of ways in which both individuals and institutions can invest in the company.

BUILD ON OUR FINANCIAL SUSTAINABILITY

We intend to refine our financial model to ensure we have sufficient resources to maintain our buildings effectively, to undertake major refurbishments, to improve financial reporting and to develop financial skills throughout the organisation.

PROMOTE THE ETHICAL PROPERTY MODEL

We want to actively and strategically communicate what Ethical Property does. We will develop an external communications policy and ensure we are regularly in the appropriate media and at the relevant conferences.

CREATE A STRONG PLATFORM FOR GROWTH

The company has grown significantly over the last 10 years, and has experienced substantial change, particularly over the last year. We need to ensure we have robust decision-making processes and operational procedures to enable our plans to be delivered. This will include a staff development strategy to ensure that all staff have excellent induction and training, are fully engaged with the company's objectives and are appropriately rewarded for their efforts.

OUR OWNED CENTRES

HIGHLIGHTS

15 owned centres across the UK • Particular focus on meeting our tenant's needs • Changes made to our operations teams to improve efficiency • Large London property secured for our new Social Justice Centre

Ethical Property currently owns 15 centres in the UK totalling 15,000 sq m/161,000 sq ft, providing space for 232 organisations across five regions: South East, South West, Oxford, Pennines and Scotland. Each region is overseen by a Regional Manager supported by their respective property management teams, with central support from our head office in Oxford.

Over the past 12 months the property management teams have been working to ensure we better meet our tenants' needs, that our services are cost efficient and constantly improving and that our centres deliver Triple Bottom Line returns.

A key focus has been working with tenants to help them reduce their rental expenditure. The financial pressures on the voluntary sector have led to many tenants wanting to reduce space, or identify ways to achieve greater cost savings. This has brought us challenges but also opportunities.

We have responded to the sector's needs by setting up more shared, open plan spaces. This allows us to be more flexible in reducing or increasing a tenant's space as the situation demands as well as providing a base for new, smaller organisations. It also encourages interaction between organisations, which is especially important for very small groups. We are working with specialist space planners to make these shared spaces as efficient and attractive as possible.

In order to respond to the external financial pressures we have also spent more time filling space. As a result of these efforts we have been able to keep empty space to under 7% over the year. Although this is higher than we have experienced in the past, it is low when compared to many commercial property companies.

We have also been working to ensure that our services are delivered to a consistently high standard across the country. To help achieve this we have recently established an Operational Management Team comprising Regional Managers and colleagues from head office; this has helped us to improve operational efficiency and enabled the Senior Management Team to focus on strategic issues. We are planning to put in place a programme of management training for our property management teams, many of whom have limited previous experience of line management.

In terms of centre development we have sold an option on the freehold of the land adjacent to Development House dependent on planning permission, and we are in discussions with Sainsbury's about their plans for the site adjacent to Green Park Station in Bath and how we might benefit from this.

SOCIAL JUSTICE CENTRE

We have some very exciting plans for the future. Following our share issue in 2009, which raised over £3,500,000, we have been developing several new investment projects. The Social Justice Centre is a joint venture with several charitable trusts and foundations wanting to make mission-related investments. Having spent most of the year developing the project we secured a 3340 sq m/36,000 sq ft property in Vauxhall, London at the end of 2011, which will be refurbished and is expected to open in early 2013. We will invest around £2,500,000 in equity and loans in the project and we are in contact with more than 50 social change organisations, 20 of whom have indicated that they may take space within the new centre.

OUR FUTURE CENTRES

Outside of London, we are pushing ahead with our plans for The Open Market Workshops in Brighton, which are part of a major redevelopment of the London Road Market by Hyde Housing Association, designed to help to regenerate the area. The 12 workshops will provide spaces for artists and craftspeople to make and sell their work, and is expected to open in mid 2013.

Looking back over the past year, we have successfully balanced the need to respond to a changing economic environment by improving the professionalism of our services whilst working on some exciting new projects to meet the needs of a greater number of social change organisations.

OUR MANAGED PROPERTIES

HIGHLIGHTS

Now manage 6 centres totalling 6,225 sq m across the UK • 460 organisations have used centres managed by Ethical Property over the last year • Full management of Resource for London now in place

Last year we made significant progress in our plans to support social change organisations in the management of their own properties. This work allowed us to improve our Triple Bottom Line returns whilst enabling us to better respond to the high number of requests we received from groups who require support in developing professional property management services.

Over the past 12 months we have worked with a wide range of social change organisations to manage their properties or to support their asset development plans. Partners have included Resource for London, from whom we took over property management responsibilities in December 2011, as well as The Quakers, The Unitarians, CRISIS and Student Hubs. Some of this work has led to formal partnerships whilst others are longer term development projects. This activity has helped to protect community assets, increase the sustainability of social change organisations and encourage responsible building management practices.

We feel that this work has delivered significant Triple Bottom Line benefits for both Ethical Property and the social change movement. Over the past year we have worked with over 20 social landlords and we now manage six centres, located in three cities totalling 6,225 sq m/67,000 sq ft of space. In addition to office space, these centres offer meeting room and conference space for a wider range of social change organisations as well as restaurant/cafe spaces for sustainable businesses and social enterprises.

This activity has also enabled us to increase our social return with the centres we manage making a valuable contribution to society. Resource for London for example aims to support organisations tackling poverty in London, whilst Student Hubs promotes student activism and volunteering across the UK.

In providing property management services, we are also able to offer more space, across a wide range of locations. Over the past year 460 different organisations have used the centres we manage on behalf of like-minded landlords, be it as tenants or as users of conference and meeting space. This has enabled an even greater number of groups to benefit from the advantages of being in space managed by Ethical Property.

This work has helped increase our environmental return by working with third party landlords to reduce their buildings' carbon emissions, water usage and waste. This has involved delivering a programme of physical environmental improvements including new heating systems, LED lighting, light sensors, cycle parking and water management systems.

We have also made efforts to champion positive behavioural change, seeking to convince landlords to adopt ethical procurement polices including switching to greener electricity tariffs, local purchasing and sourcing fair trade goods. Tenants and centre users are encouraged to adopt ethical behaviour, encouraging them to promote green travel among staff and visitors and identifying ways in which they can further reduce waste production and energy consumption.

This work has also delivered financial returns for the social change movement, as we have been working with organisations to ensure that centres for social change are financially sustainable. We have helped our partners to optimise income through our experience in building and finance management and to reduce costs through greater efficiency and economies of scale. This has helped all our centres to become more cost effective; has enabled owners to make more informed decisions, and has ensured that centres are managed on a full cost recovery basis which provides adequate funds for future maintenance liabilities. Ultimately, this helps ensure that the building remains an asset for the owner, the tenants and the community well into the future.

Adopting this approach has enabled us to improve our own financial performance at the same time, as we spread our costs over a wider portfolio resulting in greater economies of scale as well as benefiting from a small management fee.

Looking forward, next year looks even more exciting. Due to the economic challenges organisations face demand is increasing and we are already working with a number of progressive organisations to see how we might assist them with their plans.

ETHICAL IT

HIGHLIGHTS

Formal partnership between Ethical Property and JADe now in place • Substantial JADe contracts transferred in February 2011 • Total number of customers now 67, up 30% • Increase in turnover of 29% since Sept 2010 • Upgrade of core IT infrastructure at three centres • Implementation of core IT and telephony infrastructure at a further three centres

Ethical IT LLP is a partnership between JADe (Joint Application Development Enterprises Ltd) and the Ethical Property Company, providing IT solutions, telephone services and support to charities and social change organisations. The joint venture was first launched in early 2008 and was formalised as a Limited Liability Partnership on 1st February 2011. Services are provided within Ethical Property centres across the UK and Europe to many of our tenants and to external customers such as ActionAid, Greenpeace, and the Ramblers Association.

As of September 2011, 40 customers were UK charities, 10 UK not-for-profit organisations and 17 were Belgian not-for-profit organisations.

The holistic service provided by Ethical IT includes telephony and internet access systems; e-mail and file storage services; helpdesk support and IT health-checks and consultancy. All services are provided giving appropriate consideration to the environmental and social impact of the products they use or recommend to their customers.

Following the set-up of the formal partnership with JADe, Ethical IT LLP is now one of the UK's key service providers of IT and telephony services to the social change sector. Turnover for the partnership is projected to be in excess of £1,000,000 for the 2011-12 financial year.

Additional progress during the year included:

- Successful installation of telephony and IT systems at three Ethical Property centres
- Improvements to their marketing approach, including a new web site and marketing materials
- The implementation of a number of successful projects for their larger clients such as ActionAid and Greenpeace
- Provision of local consultants in seven African countries for WaterAid
- Employing an IT apprentice from the National Apprentice Scheme to work with front line staff while receiving managed and structured training

FUTURE PLANS

Ethical IT intends to continue to support the Ethical Property family through its expansion plans, with several new centres due to open in the next 12 months. In addition, they aim to utilise our centres to provide further IT services to customers including business continuity and extended cloud services (e.g, email, file storage, remote backups, web systems hosting, etc). This will take place during the current financial year.

With regard to the wider marketplace Ethical IT will be running a marketing campaign within the NGO sector to leverage JADe's long-standing experience with organisations such as ActionAid, to whom they have been providing a wide variety of IT support and consultancy services for more than 10 years.

They are also continuing to research ways to reduce the environmental impact of their IT services, and are committed to researching new technologies that can both be of benefit to their clients and reduce their carbon emissions. They will also offer audits to tenants to highlight ways in which they can reduce the environmental impact of their IT infrastructure.

OUR INTERNATIONAL ACTIVITY

HIGHLIGHTS

New centre open in Namur, Belgium • Namur and Brussels properties now 100% full • étic team expanded to five • First property in Paris close to being secured • Ethical Property Nederland established • Partnership agreement signed to explore developing a centre in Nairobi

During the year the Ethical Property family continued to extend our model to a number of cities around the world and to further develop our operations internationally. This work was led by our founder Jamie Hartzell, working two days a week. Costs have been shared between the five operational countries with the cost to the UK company covered by the dividend waiver scheme in 2011/12. (See page 10)

For the time being, the family has moved away from adopting a centralised approach of undertaking one Euro-wide public share issue through Ethical Property Europe, and is instead pursuing private share issues in each individual country.

ETHICAL PROPERTY EUROPE

The past year has been a period of consolidation for the Belgian company, following rapid growth in 2010. A great deal of time has been spent improving financial and management systems, and a number of staff changes have now taken place. In particular, Frédéric Ancion has assumed sole responsibility for the Belgian company, providing a clearer and more focused management structure. The Board has also been strengthened, with Bob Burlton, Chair of the UK company, becoming a Director.

Our second Belgian centre, Mundo Namur, opened in December 2010. Both centres in Brussels and Namur are now 100% full, with a number of groups wanting more space. More intensive marketing of the Brussels conference centre has resulted in greater take-up, and the Mundo-B café is always busy and is becoming one of Brussels' best kept secrets.

ÉTIC

Following Cécile Galoselva's decision to leave the UK company and to move back to France to build the Ethical Property model there, progress in establishing étic has been rapid.

She has succeeded in winning the contract to manage the 11,000 sq m/118,000 sq ft WOOPA centre in Lyon, allowing her to expand her team from two to five people. The eight social businesses occupying the centre all moved in in January 2012, and the étic team continue to work on getting to know their new tenants and setting up the facilities management arrangements.

In Paris, they have secured the right to purchase a property of 1,850 sqm/19,900 sq ft in Montreuil, an area to the east of the city that is very popular with social change organisations. Work on the design has now begun, and the property will be purchased in 2012 once planning permission is received.

To finance this work, étic has raised €238,000 in new share capital from 13 investors. Four of these investors are committed to investing a further €1,410,000 once planning is received, thereby ensuring there is sufficient capital for the Montreuil project to go ahead.

étic has been awarded 'Enterprise Solidaire' status by the French government and has also won the national 'Talent des Cités' award for most promising small enterprise working in areas of deprivation. Cécile received the award from the president of the French Senate as well as from Caîsse des Dépôts, one of étic's major potential investors for future share issues.

ETHICAL PROPERTY NEDERLAND

Ethical Property Nederland has now been formed as a private company and its first share issue will take place in 2012.

A partnership has been formed with Meurkens and Meurkens, a company that manages public or housing association owned properties that are under-used, and then lets them out at low rates to voluntary organisations, artists and small businesses.

This partnership has both strengthened Ethical Property Nederland's operational capacity and provided a space to temporarily house organisations looking to move into our first Dutch centre at a later date.

ETHICAL PROPERTY KENYA

Work to establish the Ethical Property model in Nairobi, which is grant supported, has further progressed with the signing of a development agreement with the Windle Trust Kenya to undertake exploratory architectural work to see if it is possible to develop a Social Justice House on the land Windle owns in the Kilimani district of the city.

If the results of this study prove positive, plans are in place to launch the Mzima fund, an opportunity to invest in the development of civil society in Nairobi through investment in property – Mzima means 'life' or 'spring' in Swahili. It will be established as a separate fund to the Ethical Property Company as the risks and returns will differ to the main UK offering. However we will remain closely involved with the management of the project.

OUR INTERNATIONAL ACTIVITY

FUTURE PLANS

We continue to receive strong interest in the Ethical Property model from other countries and we need to ensure we respond to these requests in a clear and considered manner.

The new strategy of decentralised national development has reduced both cost and complexity in the short term and has enabled us to move forward quickly. However it presents new challenges for the further development of the Ethical Property family internationally in the future.

On the management side, we need to ensure that the separate companies work closely together and share their knowledge and experience to best effect. To assist with this we have established an international collaboration group co-ordinated out of Brussels and consisting of Jamie and the four countries' European Managing Directors. Jamie also continues to represent the family on all four Boards of Directors.

On the investment side, we now have investors local to each country as well as a number of cross-investments by members of the family, notably a €2 million investment in Ethical Property Europe by the UK company and a €420,000 commitment by Ethical Property Europe to invest in étic.

We will continue to learn a great deal from these experiences as our operations in each country develop. Over the next one to two years, we have set ourselves the three targets of developing a single international branding for the Ethical Property family; creating an international governance structure that ensures all family members can participate equally in the management and development of the Quintessentials; and considering the creation of a trans-European investment opportunity that can attract investment funds centrally and allow us to deploy them in any European country in a tax efficient manner.

For more information on our activities outside of the UK please refer to the relevant website listing on the inside back cover of this report.

ETHICAL PROPERTY FOUNDATION

HIGHLIGHTS

Supporting more than 375 charities and community groups through the provision of property advice • Training individuals from over 300 organisations on property specific topics • Further development of Ethical Property award

The Ethical Property Foundation is an independent charity set up by Ethical Property in 2005 to help charities and community groups to resolve their property issues.

The Foundation's aim is to ensure that 'no charity suffers reduced effectiveness due to a lack of appropriate property support'. They have saved organisations thousands of pounds by helping them avoid expensive property mistakes and enabling them to take a strategic view of their property assets.

Over the last year their Property Advice Service has supported over 375 organisations to rent, buy, let or manage property. The assistance they have provided ranged from answering quick questions to offering on-going detailed support. They have referred a number of groups to architects, space planners and other property professionals from their Register of Property Professionals, who have worked pro bono or at a reduced rate for the charities referred to them. The Foundation has delivered training designed to build the confidence and skills of people in nearly 300 organisations.

All groups with property questions are encouraged to utilise the free, detailed and practical property advice on their website, **www.ethicalproperty.org.uk**, resulting in over 13,000 hits.

FUTURE PLANS

The Foundation has successfully worked for London and South West charities since 2005. From early 2012, the service is going to be launched across the country so that it can support and advise organisations across England. This one-to-one support will provide charities with the often vital support that they need in the current economic climate. The Foundation is also continuing to lead in the development of an Ethical Property award. Working with a number of partners, the award for acknowledging the good social and environmental performance of property management has been welcomed by many in the industry as a much needed step to recognising and encouraging positive work in the sector.

DIVIDEND WAIVER

HIGHLIGHTS

Ethex established as an ethical investment club – launch expected in 2012 • Work to establish a Nairobi Centre continues • Support for tenants suffering financial hardship continues • Plans to further grow the International Ethical Property family

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

Dividend Waiver expenditure was as follows:

	Actual	Budget
Brought forward	£12,049	£12,049
Contributions for the year	£26,203	£24,500
Total budget for the year	**£38,252**	**£36,549**
Rent hardship fund and supporting start up organisations	£6,598	£15,000
Support to Ethex	£10,000	£10,000
Support to the Ethical Property Foundation	£5,168	£6,000
Setting up a Centre in Nairobi	£2,459	£5,000
Total expenditure	**£24,225**	**£36,000**
Carried forward	**£14,027**	**£549**

SUPPORTING THE PROPERTY ADVICE SERVICE

We have continued to support the Ethical Property Foundation by contributing towards the Foundation's rental costs in order to help them achieve their charitable objectives.

THE RENT HARDSHIP FUND 2011

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 four organisations having short-term funding problems and six organisations with short term discounts. We see this as an area for continued or increased need during the next financial year.

ETHEX – AN ETHICAL INVESTMENT CLUB

Ethex is being established as an online meeting place for ethical investors, an initiative which launched in early 2012. Jamie Hartzell, founder of Ethical Property has been leading on this. More information can be found at **www.ethex.org.uk**.

SETTING UP A CENTRE IN NAIROBI

We have continued to explore opportunities to set up an Ethical Property centre in Nairobi and are currently exploring the possibilities of setting up a Social Justice House in Nairobi, working with the Windle Trust.

PROPOSED BUDGET FOR MAKING WAIVES

Dividend Waiver – next year's priorities

Brought forward	£14,027
Contributions for the year	£20,000
Total budget for the year	**£34,027**
Rent hardship fund and supporting start up organisations	£15,000
Support for the International family	£10,000
Support for the Ethical Property Foundation	£6,000
Total expenditure	**£31,000**
Carried forward	**£3,027**

THE RENT HARDSHIP FUND 2012

Although the increased fund was not fully spent in 2010/2011 we plan to allocate £15,000 in anticipation of continued need from tenants as public spending cuts continue.

SUPPORT FOR THE INTERNATIONAL FAMILY

We want to continue to lead the growth of the Ethical Property family in both Europe and further afield. To enable this to happen we have recruited Jamie Hartzell, our founder, to lead on this, working two days a week. Part of this work is funded by other members of the family, but we have decided to contribute £10,000 to ensure this work has sufficient funds to operate effectively.

ETHICAL PROPERTY IN NUMBERS

232 NUMBER OF ORGANISATIONS WITHIN OUR CENTRES

6 NUMBER OF PROPERTY MANAGEMENT CONTRACTS

21,225 sq m TOTAL SPACE AVAILABLE WITHIN OUR OWNED AND MANAGED CENTRES

4.9:1 RATIO OF HIGHEST TO LOWEST SALARY WITHIN THE COMPANY

49 NUMBER OF ETHICAL PROPERTY UK STAFF AS OF SEPTEMBER 2011

SOCIAL PERFORMANCE

HIGHLIGHTS

80% of tenants find being in an Ethical Property centre has a positive impact on helping them fulfil their strategic objectives • 83% of tenants are satisfied or very satisfied with the overall quality of their office space • **All staff would recommend working for us to a friend** • Ratio of highest to lowest salary in the company less than 5:1

THE QUINTESSENTIALS

Underlying all that we do at Ethical Property is a set of ethical principles about the way we do business, which are enshrined in 'the Quintessentials'. The Quintessentials describe the principles that all members of the Ethical Property family should operate within and set targets against which to monitor our social, environmental and financial performance.

The following two sections describe how we try to put the Quintessentials into practice on a day-to-day basis in our owned properties. We have made some changes to the presentation of these sections from previous years with the intention of making our objectives clearer and linking them more closely to the reported outcomes and to the targets set in the Quintessentials. We have also sharpened the focus on the performance of our portfolio as a whole, by removing some of the detailed information we used to provide on each individual centre. Instead we plan to publish this on our website later in the year.

For next year's Annual Report we plan to extend the report to the properties that we manage for others.

One of our fundamental principles is that our business activities should have a positive social impact. We seek to achieve this by:

- **providing effective support to a wide range of social change organisations through the buildings we own and manage**
- **using part of the capital we raise from shareholders and bank loans to invest in areas of deprivation**
- **being an ethical employer**
- **being honest and transparent to all stakeholders in all areas of the business.**

SUPPORTING SOCIAL CHANGE ORGANISATIONS

We aim to:

1. offer premises to organisations which make a positive contribution to society and primarily to organisations which we consider to be 'social change organisations'
2. provide well-managed office and retail space in convenient locations to support social change organisations and our other tenants in achieving their strategic objectives
3. set charges which are affordable and good value
4. grant leases or licences on terms that are supportive to our tenants
5. encourage collaboration and resource-sharing between our tenants

We monitor performance against some of these aims through our annual tenant survey. The survey has had broadly the same structure over the past eight years to allow for comparisons between years, but some questions have been added or refined in order to clarify them or obtain more useful information. This year we also consulted a sample of tenants on the form of the survey and made some changes in response to their comments.

This year our survey was distributed to all 218 tenants in our buildings as at 7th June 2011, including part-time desk users, and 143 returned full or partial responses – a 66% response rate compared with 70% last year.

SOCIAL PERFORMANCE

1. Our tenants

At the end of September 2011, we had 232 tenants in our 15 centres around the country, up from 211 last year.[1] As our building portfolio has not grown this year, the increase in the number of organisations we accommodate suggests a trend towards smaller organisations and/or a more efficient use of space by our tenants in response to the difficult financial climate. We have continued to try to be as flexible as possible in meeting our tenants' changing needs and during the year 14 existing tenants decreased the amount of space they rented whilst another 12 took additional space within our centres.

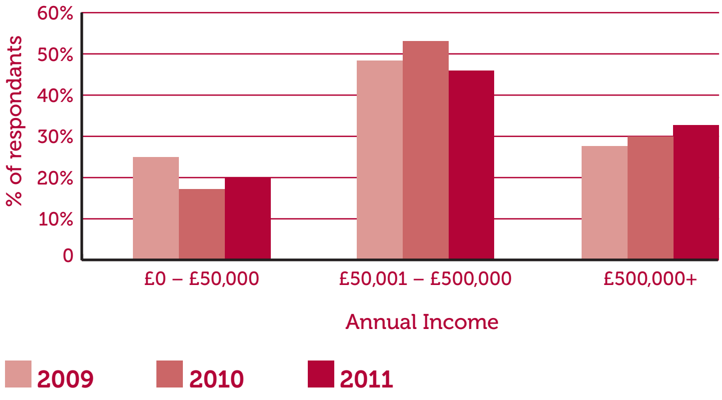
A full list of our current tenants, organised by centre, is always available on our website, **www.ethicalproperty.co.uk**.

Our primary tenant base is social change organisations, defined as those which work to effect a structural change in society to reduce inequality, deprivation or environmental degradation. They also include organisations working directly with marginalised or disadvantaged groups to help them break through social barriers and deprivation.

Whilst we prioritise such organisations when we can, we also see our purpose as being to support other organisations which provide a clear social benefit. Thus this year 67% of our tenants were charities or not-for-profit organisations, working in a wide range of areas including overseas development, sustainable transport and refugee support. We also house one MP's constituency office and the headquarters and a branch office of the Green Party. The remainder of our tenants are a variety of trading organisations ranging from retailers of ethical products to consultancies supporting the social change and voluntary sector. They also included a few more mainstream local independent businesses, mostly long-standing tenants at Green Park Station, which are not within our target tenant group but which contribute to the local economy.

As well as supporting a range of socially beneficial activities, we also try to achieve a good spread of organisations in terms of size and in particular try to avoid allowing our centres to become dominated by large organisations. We measure this by asking them to report on their annual income (turnover) in the tenant survey.

The results over the last three years are shown in the graph below.



Targets:

- **20% of tenants with an income of less than £50,000 a year**
- **75% of tenants with an income of less than £500,000 a year**

This year 20% of respondents had an income under £50,000, meeting our target exactly, whilst 66% had an income under £500,000. This latter figure fell significantly short of our target.

There has been a slight increase since last year in the proportion of tenants with an income over £500K but this may in part be due to a clarification in the survey this year that branch offices should report the turnover of their whole organisation rather than their local turnover.

One way in which we are trying to redress the balance between large and small is to set up 'flexible desk' areas (previously called 'Hives') in two more centres – Durham Road Resource Centre and Development House; these are designed specifically to provide affordable, ready-to-use work spaces for small organisations.

2. Supporting our tenants' strategic objectives

80% of tenants responding to the survey reported that being based in their Ethical Property centre had a positive or very positive impact in terms of fulfilling their strategic objectives. The location of the centres, the ethos of Ethical Property and the presence of like-minded groups all contributed particularly strongly to this impact, though the provision of property management services and communal facilities were also highly valued.

[1] Reported as 222 in last year's annual report, to include 11 'Hive Affiliates' who benefit from some virtual office facilities in our centres but do not actually have a physical presence there. This year there are 15 Affiliates, who are not included in any of the data presented here.

83% were satisfied or very satisfied with the overall quality of their office space and 75% with the communal services and facilities. The local property management teams were rated good or very good by 77% of respondents. The approachability of our property management staff was a feature that attracted many positive comments.

3. Affordability and value

Most of our tenants' charges are broken down into rent and service charge. The main factors we take into account when setting rents in a particular centre are the costs we need to meet, the rent levels in comparable buildings in the same city and the prevailing financial climate for social change organisations. The service charge represents the actual costs of running the communal services of a building and is largely subject to factors beyond our control such as utility prices, though we do put considerable effort into obtaining services that are good value for money.

65% of survey respondents thought our charges were good value or very good value overall. However, we are aware that in the current financial climate it can be difficult for us to demonstrate our competitiveness, especially to prospective tenants who are not familiar with the total package of support that we offer. Commercial rents have dropped significantly in many areas, particularly in the Northwest region, and some landlords are offering short-term leases with generous rent-free periods to charities to avoid empty business rates liabilities. However, we continue to believe that over the long term our charges represent excellent value for money to social change organisations because of the level of support and services that we provide and because of the security of tenure and flexibility that we offer. The fact that 62 new tenants moved in during the year and 12 existing tenants increased their space suggests that this perception is shared.

Of the 55 tenants who moved out or decreased space during the year, many but not all were for financial reasons. Although we do not have a record of all the reasons for moving out, we know that at least four went out of business altogether and that funding for a particular project was ended for at least another eight organisations. Some others found cheaper or smaller premises elsewhere.

4. Supportive lease terms

For the first time this year we asked tenants to consider how beneficial they feel their lease terms are, under five headings: security of tenure, all-inclusive monthly charges, annual review of rent with cap on level of increase, twice-yearly review of the service charge and their right to terminate their lease early.

79% of respondents reported that all these aspects of our standard lease are beneficial to them.

However, a few tenants find the twice-yearly review of the service charge difficult for budgeting purposes. Although we introduced the twice-yearly review with the intention of smoothing out fluctuations in the service charge for tenants, it is not always having the desired effect so we are switching to a once-a-year review on a trial basis.

5. Collaboration and resource-sharing

We call the process of collaboration and resource-sharing amongst tenants 'synergy' – an interaction that results in greater effects than the individual components can achieve independently. Some interactions amongst our tenants occur spontaneously simply through organisations sharing the same building, but others are fostered through centre management group meetings, centre-wide social events and training sessions.

80% of respondents felt that the presence of the other groups in their centre had a positive impact on their ability to fulfil their strategic objectives. Only 42% however, thought that the synergy and social events in their centre were effective for improving synergy between tenants and there was a similar percentage (46%) who found centre management group meetings effective for this. Responses varied greatly between centres, with Development House having the most favourable scores. Many synergy activities there are initiated by the tenants themselves and it may be that that contributes to their success, as well as the fact that Development House is our largest centre, giving it the critical mass needed to make events successful. We do not organise a significant synergy programme in most centres so we will review this over the coming year and consider whether it is worthwhile to invest more of our staff time in this area.

Overall tenant satisfaction scores

Each year we assess and report on the overall satisfaction of our tenants by converting the survey responses relating to satisfaction into a score on a scale of 1 to 5, where 1 is the lowest level of satisfaction and 5 the highest. The table below shows the satisfaction scores this year, with a comparison with last year's scores where applicable. Because some questions are new or have been reworded this year not all have a comparator from 2010 and the overall satisfaction score is not strictly comparable.

Target: Score of 4 or above on each question and overall

Tenant satisfaction scores	2011	2010	Change
Overall impact			
Overall impact on fulfilling strategic objectives	4.0	4.0	0.0
Support for day-to-day operations	4.0	3.9	0.1
Consistency of our practices with our stated values	4.0	4.0	0.0
Quality of office space	4.0	4.0	0.0
Value for money	3.8	3.8	0.0
Lease terms	4.0	–	–
Support services			
Communal services, e.g. meeting rooms, photocopiers	3.8	3.6	0.2
Local management of the Centre	4.1	4.1	0.0
IT services	3.7	–	–
Finance Department	3.4	–	–
Other Head Office Departments	3.7	–	–
Communications and synergy			
Effectiveness of synergy and social events for promoting synergy	3.4	–	–
Effectiveness of Centre Management Group meetings	3.7	–	–
Overall satisfaction score	**3.8**	**–**	**–**
(Overall satisfaction score on same questions as last year)	**4.0**	**3.9**	**0.1**

The only significant change from last year is the small increase in satisfaction with communal services. Although all questions score at least 3.4, which is satisfactory, we have not met our target score of 4 in some aspects of our work this year. In particular, the new and reworded questions have highlighted some areas that need more attention.

INVESTMENT IN AREAS OF DEPRIVATION

We believe that we can help to tackle inequality by locating our centres in deprived areas where their presence can contribute to the local economy as well as providing support services to local people in many cases. We use the Government's Index of Multiple Deprivation as the indicator of the level of social exclusion affecting the locality of each of our centres. This provides a useful indication of where we should seek to grow in the future.

Targets:

- **100% of centres in the poorest 50% of areas**
- **50% of centres in the poorest 25% of areas**

13 of our 14 centres in England are situated in areas in the bottom 50% of the Index and seven are in the bottom 25%. A comparison with the 2004 Index shows that three centres – the Grayston Centre, Brighton Eco Centre and Brighton Junction – are in areas that have become more deprived in relative terms, whilst 11 have improved their position in the ranking. As a result, we no longer meet our target that all our centres should be located in the most deprived 50% of areas, but half our centres are in the most deprived 25% of areas which is consistent with our target.

Thorn House is not included in the table as the Scottish Index of Multiple Deprivation is prepared separately and on a slightly different basis. However, within Scotland its locality is ranked 3,018, just under the 50% rank.

BEING AN ETHICAL EMPLOYER

At the year end we employed 49 staff, of whom 20 were full-time and 29 part-time. Comparable figures for 2010 were 43 staff, with 21 full-time and 22 part-time.

As an ethical employer, we aim to:

1. Have staff who feel engaged with the company and happy to work here
2. Provide our staff with salary and other benefits which are perceived to be fair and appropriate
3. Avoid discrimination in recruitment or promotion on the grounds of age, race, gender or sexuality

For the last three years we have monitored our performance against these aims primarily through our annual staff survey, which allows staff to comment confidentially on the company as an employer. This year we sent the survey to 40 members of staff and had a 95% response rate of full or partial responses, compared with 73% last year.

1. Staff engagement

All staff who responded to the survey this year felt engaged and happy with the company's objectives and values and would recommend working for us to a friend. 97% either enjoy or really enjoy working with us. The company has a low staff turnover of 7.8% compared to the national average of 12.5%.[2] However, nearly three quarters said they sometimes felt under pressure to work long hours and this is something we aim to address over the next year.

2. Salaries and benefits

We aim to offer salaries which are competitive with similar jobs in the social change sector and take particular care to ensure that those at the lowest end of the salary scales are fairly rewarded for their work. Our minimum salaries in London match the 'London Living Wage',[3] which is currently £8.30 per hour. Outside London we pay above the current legal minimum wage.

The company is managed by a Board of six Directors, including one full-time Executive Director. The Executive Director's salary is £63,000. The Chair of the Board receives an annual fee of £6,000 and Non-Executive Directors an annual fee of £4,500.

We try to minimise the difference between the lowest and highest paid members of staff and the current ratio between the highest and lowest salary is 4.9:1, which is slightly higher than last year, but still within our target ratio of 5:1. The national average is 20:1 for public sectors workers and 262:1 for FTSE 100 companies.[4]

Target: Ratio of highest to lowest paid member of staff no greater than 5:1

	2011	2010
Salary of highest paid employee	£63,000	£60,000
Salary of lowest paid employee	£12,956	£12,956
Ratio of highest to lowest salary	4.9 : 1	4.6 : 1

We review salaries in April and any increase in the cost of living is considered during this process as well as any appropriate comparators in the charity and social enterprise sector. We also periodically review salary bands and individuals' salaries to ensure equity within the company. Whilst 75% of staff believe that they are paid a fair salary, there was some dissatisfaction with salary levels which we will review carefully in the coming year.

[2] http://www.cipd.co.uk/hr-resources/survey-reports/resourcing-talent-planning-2011.aspx

[3] http://www.livingwage.org.uk/

[4] http://www.onesociety.org.uk/research/pay-ratios/private-sector/

Staff benefits include 25 to 28 days paid holiday (pro-rata) and enhanced sickness, maternity, paternity and adoption pay. Other benefits available include a company pension to which the company contributes 6% or 7% of their gross salary (depending on the level of employee contribution), a company bicycle and childcare vouchers. Staff with over one year's service and a contract of at least two years are eligible to participate in the employee share ownership scheme. This year shares worth £6,986 were allocated to staff.

3. Equal opportunities

The table below shows the gender distribution of our employees and Board members this year.

Target: 50/50 split between men and women

Gender distribution			2011
Level in Company	**Female**	**Male**	**Totals**
Board members (including non-employees)	2	4	6
Senior managers	1	2	3
Managers and higher skilled employees	20	9	29
Less skilled employees	7	9	16
Totals	**30**	**24**	**54**
	56%	**44%**	**100%**

Because we are still a relatively small organisation we do not report publicly on race or sexuality of employees, for reasons of confidentiality.

Employment law and the principle that we should always appoint the best candidate for the job mean that our recruitment practices cannot be driven by targets for a specific gender mix within the company. However, a large divergence from the target would suggest either a wider problem in society and/or a problem with our recruitment practices. We therefore keep our recruitment processes under review to try to ensure that we are reaching a wide audience through our job advertisements and that our application process is fair and accessible to all potential applicants. This both helps to ensure equality of opportunity and gives us access to the widest possible pool of well-qualified candidates.

HONESTY AND TRANSPARENCY

We see our primary stakeholders as being our tenants, staff and shareholders. Our main medium for presenting a complete picture of our business to them and to others who are interested is this annual report, though we plan to make more use of our website as well in future, in particular to report on more detailed aspects of our performance such as building-specific environmental performance. We recognise that suppliers are also stakeholders in the company and we plan to develop ways of reporting about and to them in the coming year.

ENVIRONMENTAL PERFORMANCE

HIGHLIGHTS

7% fall in energy consumption • Switch to 100% renewable electricity supply at our largest centre • PV solar panels commissioned at two centres

Under the second element of our Triple Bottom Line our aim is to minimise the negative impacts of the company's activities on the environment and encourage positive environmental practices. We do this by:

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

MINIMISING OUR CARBON EMISSIONS

The principal source of carbon emissions from our activities is the energy used to light and heat our centres and to power the electrical equipment in them. At present our energy comes from a combination of electricity and gas, though there may be other sources in future, such as wood pellets.

Measuring our emissions

Having established our energy consumption (see opposite), we calculate our carbon emissions using publicly available conversion factors for kilowatt hours (kWh) of electricity and gas to kilograms (kg) of carbon dioxide (CO_2).

There are two different conversion factors for electricity used. The 'grid mix' conversion factor[5] assumes all electricity is purchased from the grid (and so generated by a variety of methods), while the 'supplier mix' factor takes into account the actual methods of generation used by the suppliers from whom we purchase our electricity (many of whom use renewable energy). (The conversion factor for gas is the same for both as there is currently no choice of 'greener' gas.)

We therefore calculate our annual carbon emissions using these two factors and then measure them against two corresponding targets:

- 'Grid mix target' – a target based on an annual 3.5% reduction in carbon emissions per square metre of floor area, from a baseline year of 2005. This gradual annual reduction in emissions is designed to enable us to achieve an 80% reduction in emissions by 2050, in line with the UK Government's target for the country as a whole. Our ability to meet this target will largely depend on improvements in the grid mix conversion factor, i.e. an increase in the proportion of electricity from renewable sources supplied through the national grid, though we can have some influence ourselves by reducing our overall energy consumption.

  Target: 48.1 kg (CO_2) emissions per sq m of floor area calculated on 'grid mix' basis

- 'Supplier target' – a fixed target of 11.1 kg of CO_2 per square metre of floor area. This target is based on an assumption that all the electricity we use should be generated from renewable sources (thus producing zero CO_2 emissions) and that our gas consumption will be an average of 60kWh per square metre per year.

  Target: 11.1kg (CO_2) emissions per sq m of floor area calculated on 'supplier mix' basis

We monitor against both targets because there is no consensus within the industry as to which measure is more meaningful for carbon emissions from electricity – supplier mix or grid mix. In addition, we consider that the first target helps to keep us on track for reducing overall energy use – particularly important while there is an under-supply of renewable energy in the country as a whole – whilst the second target enables us to reflect the benefits of our choice to purchase electricity from partially or 100% renewable sources.

In absolute terms, our carbon emissions this year were:

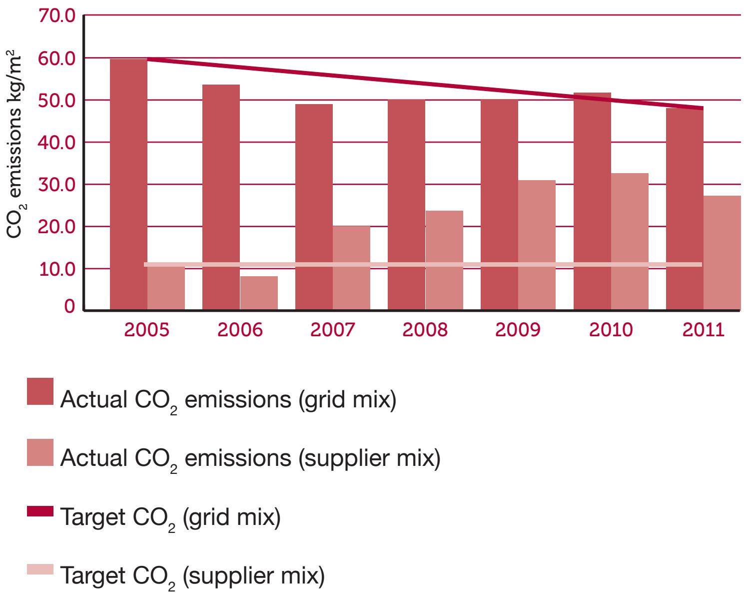
Total CO_2 emissions (kg CO_2) [6]	2011	2010	Change
Grid mix basis	784,614	832,660	-6%
Supplier mix basis	446,343	537,193	-17%

[5] This year we have changed from using a single year conversion factor to using a five year rolling average conversion factor for grid electricity, as recommended by DEFRA and the Carbon Trust.

[6] All energy and carbon emissions figures in this report exclude the Green Park Station shops and market area. Whilst gas heating and some lighting there is provided through us, most shop units have their own electricity supply which we cannot measure or control, making inclusion in the main figures misleading. We have restated last year's figures to take account of this. We have also recalculated last year's figure to include the South Vaults office area at Green Park Station, which was omitted by mistake, and to attribute a notional grid mix carbon factor for Scotia Works and Thorn House where the supplier is unknown.

ENVIRONMENTAL PERFORMANCE

The graph below shows our carbon emissions and targets per square metre on both bases of calculation, since our baseline year of 2005.



In terms of the 'grid mix' target, a 2% reduction in the grid mix conversion factor this year, combined with our overall reduction in energy consumption, has reduced our emissions by 6%, to 49.1 kg of CO_2 per m², enabling us to come very close to meeting our target this year. However, when looking at the supplier mix emissions we are well above our target, at 28 kg of CO_2 per m²; this is because we have not used a 100% renewable energy supplier this year.

Reducing our emissions

There are three main ways in which we can reduce our carbon emissions:

1. Reductions in the carbon emissions of fuel suppliers, either across the grid or amongst the particular suppliers that we choose to use
2. Reductions in energy use through investment in more efficient equipment and building fabric and through changing building users' behaviour
3. Generation of our own renewable energy

(We have considered but rejected the idea of investing in carbon off-setting schemes as we do not believe that the claims made for them are sufficiently robust.)

The balance between these three methods may well change from year to year. Here we explain what we have done under each heading in the past year and what we plan to do next year.

1. Choosing our electricity suppliers

Currently all but four of our buildings are supplied by Green Energy on their 'pale green' tariff. 45% of Green Energy's electricity is generated from renewable sources with the remainder coming from natural gas; none of their energy is derived from nuclear or coal sources.

Brighton Junction is supplied by Good Energy, the UK's only 100% renewable supplier.

Until August 2011 Development House was supplied by Scottish and Southern, whose overall supplier mix was poor although we were on a 100% renewable tariff. The site is now supplied by Good Energy.

While this change will not be reflected fully in this year's carbon emissions it should have a considerable positive impact on next year's figures, especially as Development House represented a third of our total electricity consumption and 28% of our total carbon emissions this year.

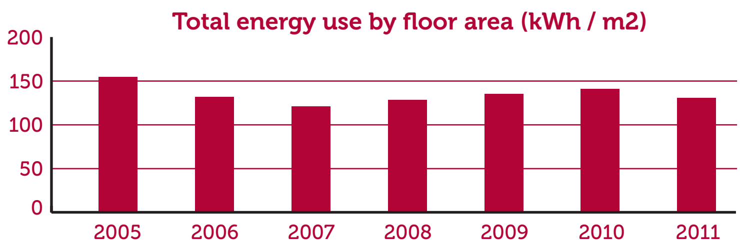
We intend to switch more of our centres to a 100% renewable supply next year, if this is affordable.

2. Reducing energy use

The table below shows our total energy use this year compared with last year:

Total energy consumption (kWh)	2011	2010	% change
Electricity	1,166,000	1,182,000	-1.4%
Gas	946,000	1,092,000	-13.3%
Total from all fuel sources	2,112,000	2,274,000	-7.1%

We also report on our energy use in terms of floor area, to enable us to compare performance between buildings and also to make long-term year to year comparisons even when we set up new centres, as shown in the following graph.



ENVIRONMENTAL PERFORMANCE

Our total energy use this year was 7% lower than last year, despite a particularly cold winter. As well as the energy saving measures we have put in place we believe that some of this was due to the exceptionally warm April which meant that our central heating systems were turned off unusually early. All centres reduced their consumption since last year.

The three best and worst performing centres are shown below:

	2011 Consumption kWh per m²	Consumption % change on year
Three best performing centres		
82 Colston Street	66.2	-8.3%
84-88 Colston Street	74.4	-10.5%
Green Park Station, South Vaults	91.4	-4.2%
Three worst performing centres		
Brighton Junction	152.3	-10.2%
Development House	155.5	-3.3%
Durham Road Resource Centre	161.6	-11.8%

It is particularly disappointing that Brighton Junction, which was constructed to very high environmental standards[7] has performed relatively badly. This is partly due to the central wood pellet boiler on the estate not working so the energy company had to provide gas heating instead; we believe that it may also be due to some technical problems with the heating and cooling systems within the centre which we are working with contractors to resolve.

Development House is efficient on gas use but has high electricity usage because of the building's heating and cooling systems. Some improvement has been achieved since we installed a PowerPerfector two years ago. The high energy use at Durham Road is attributable to gas but we are unsure why it is so high as we had a new boiler installed there only a few years ago, so we will investigate the cause.

Despite the difficult financial climate we continue to invest in improvements to equipment and building fabric in many of our centres. This included upgrades of communal IT equipment in Brighton Eco-Centre, Development House, Durham Road Resource Centre and the Grayston Centre which should result in lower power consumption.

We have also installed a PowerPerfector at Brunswick Court to improve the efficiency of the electricity supply, improved the roof insulation at the Picton Street Centre, upgraded the hand-dryers to more efficient models at the Grayston Centre and improved the lighting controls in three centres.

Next year we plan to improve the lighting controls in parts of Brunswick Court and Colston Street and fit more effective heating or insulation at all three of our Bristol centres and in the open plan office space at Green Park Station.

We also continue to try to improve performance by careful management and by engaging with tenants in a variety of ways to encourage them to reduce energy use.

We are not reporting on the Environmental Performance Certificates for our buildings this year as there is no change from the information presented in last year's report.

3. Generating our own renewable energy

Target: 10% of energy we consume to be generated by the company from renewable sources

We already generate a small amount of electricity at Brunswick Court through solar panels – about 0.15% of our total electricity consumption. We have taken a small but significant step towards achieving our target through the installation of solar panels at the Grayston Centre and the Old Music Hall at the end of 2011. Based on the solar panel supplier's estimates, these installations will take our percentage of energy generated from our own renewable sources to about 1.0%.We may also fit new solar panels at Brunswick Court next year though this is under review as a result of the Government's proposed reduction in the feed-in tariff. If this does go ahead, an additional 0.7% of energy is estimated to be generated.

MINIMISING THE USE OF NUCLEAR POWER

Only the electricity suppliers at Development House (Scottish and Southern Energy) and at Scotia Works and Thorn House[8] have nuclear waste associated with them. Green Energy and Good Energy, which we use at all our other centres, do not supply electricity generated from nuclear power.

[7] The building achieved the maximum Environmental Performance Index score of 10 and an 'excellent' rating under the BREEAM assessment scheme for offices.

[8] Nuclear waste assumed at level for national grid as a whole because supplier unknown for these two centres. The figure for 2010 is also adjusted from last year's report to take this into account.

ENVIRONMENTAL PERFORMANCE

Target: Zero nuclear waste associated with our electricity suppliers

	2011	2010	Change
Total high-level nuclear waste produced (g)	219	198	11%

The increase is primarily due to an increase in the proportion of Scottish and Southern's electricity generated through nuclear power. This figure should reduce significantly next year as Scottish and Southern no longer supply us with any electricity.

REDUCING WATER CONSUMPTION

Targets:

- **8 litres of water per person per day – best practice**
- **15 litres of water per person per day – satisfactory**

We report water consumption as the average number of litres consumed per person per day, based on a count of the number of desks in each centre. On this basis, we have not met either our best practice or satisfactory target this year, although there has been a decrease in usage:

Annual water consumption[9]	2011	2010	Change
Consumption per person per day (litres)	15.7	16.8	-6.6%

The reason for using this basis of reporting is that water usage is particularly closely linked to the number of people in a building, through their use of kitchens, toilets and washing facilities. However, reporting consumption per person is problematic because it is so difficult to obtain accurate numbers of people: it can change frequently and significantly during the year as tenants move in and out; some staff are part-time; and some buildings, such as Brighton Junction and the Old Music Hall, have far more visitors than others because of the nature of their tenants.

This year, therefore, we are also reporting on the total amount of water used across all our centres and the amount of water used per square metre, to provide additional baselines for comparison in future years, though we have not set targets for these measures yet.

The overall reduction in water consumption appears positive, but at least some of the reduction must be attributable to the higher level of vacancies in our centres this year so its significance is limited.

Annual water consumption	2011	2010	Change
Total consumption (cubic metres)	6428	6874	-6.5%
Consumption per m^2 of floor area (cubic metres)	0.40	0.43	-7.0%

We have chosen to highlight which centres have the highest absolute consumption; this can indicate which would benefit most from investments in improved water efficiency:

Highest total consumption (cubic metres)	2011	2010	Change
Development House	1376	1322	4%
Old Music Hall	1003	948	6%
Brunswick Court	817	913	-10%

The main driver for real increases in water efficiency is the installation of water-saving equipment such as low-flush toilets and spray taps but unfortunately financial constraints over the last year have meant that we have not been able to make many physical improvements to reduce water use. However, we have installed dishwashers in the communal kitchens at the Grayston Centre and Development House in order to reduce the water use associated with washing up. We plan to replace all taps and toilets in Brunswick Court over the next two years with more water efficient models.

PROMOTING SUSTAINABLE TRANSPORT

Although we have limited influence on how the users of our centres travel to work, because so many external factors affect their choices, we do have a policy of promoting sustainable transport to our tenants and staff. For this reason we have deliberately chosen locations for our centres that are easily accessible by public transport, cycling or walking and we provide showers and other facilities for cyclists in several of our buildings.

[9] Figures exclude Thorn House, for which water usage figures are unavailable.

ENVIRONMENTAL PERFORMANCE

For our own staff we operate several policies to encourage alternatives to car use for travel to work:

- a relatively casual dress code to make cycling and walking easier
- provision of a company bicycle or participation in the Cycle to Work scheme
- free annual bicycle service for staff travelling to work by bike
- relocation allowance to help people to move closer to their place of work to avoid car use
- interest-free loans to buy season tickets
- flexible working hours to fit in with public transport and car-share arrangements

Our business travel is carefully controlled, with any car use or flights having to be approved by a Director. We pay a small mileage allowance for bicycle use on company business.

Targets:

- **zero business travel expenditure on car or plane travel – best practice**
- **under 5% of business travel expenditure on car or plane travel – satisfactory**

Over the last year, total expenditure on travel for company business was £39,863, broken down as follows.

	2011	2010
Public transport (UK)	96%	70%
Public transport (overseas)	1%	28%
Car, van and courier hire	1%	2%
Plane travel	2%	0%

Although we did not meet our best practice target, we did meet our satisfactory target. Plane travel consisted of one return flight by Jamie Hartzell to Nairobi to research the possibilities for setting up an Ethical Property sister company there.

Travel to work survey

We use surveys of our staff and tenants to assess the extent of car use and to try to identify ways to encourage other modes of transport.

Our tenants

In previous years, we have conducted a short informal face-to-face survey of tenants' staff to find out how they travelled to work on one particular day in September. This year, however, we switched to a more detailed, written survey which building users could complete on-line or on paper. Inevitably we received far fewer responses (298 instead of 949) but they were much more informative about the reasons people made the choices they did and how far they had to travel.

84% of respondents rated the public transport facilities near their centre as 'good'. Across all our centres, only 44 respondents (15%) travelled to work by car or moped regularly and of these 11 were sharing the vehicle with someone else and more than half only used their car for part of the journey, combining it with walking, cycling or public transport. The reasons given for car use were:

Reason for car/ moped use	Total number of respondents
Need car for family/carer responsibilities	6
Mobility problems	3
Need car for work	10
Public transport impractical/too expensive	14
Too far to walk/cycle	4
Other reasons/no reason given	7
	44

These responses suggest that most of the reasons for car use are ones that we cannot influence. However, there was some interest amongst respondents for a database of possible car sharers to be set up in their centre, so this is something we will try to pilot in the coming year in a centre with significant car use if staff time allows.

Our staff

Our staff travel survey this year was answered by 35 members of staff. They reported their modes of travel to work as follows:

Staff travel	Number of staff	%
Car alone	5	14%
Car share	1	3%
Mix of car and other means	3	9%
Total car travel	**9**	**26%**
Public transport	8	23%
Bicycle/foot	12	34%
Mix of bike/foot and public transport	6	17%
Total non-car travel	**26**	**74%**
Total	**35**	**100%**

Nearly three quarters of staff respondents do not use a car for any part of their journey. The number of car users has increased from 6 to 9 this year (one of these being a new member of staff), but in most cases there are valid personal reasons for car use, such as disability or a lack of public transport.

We invited suggestions from staff and tenants for how we could improve facilities in our centres and we will follow these up where practicable and affordable. These included more secure bike parking, showers and drying rooms and lockers.

Improvements during the year

We have removed one parking space at Brunswick Court and installed cycle rack planters there and at Colston Street. At Green Park Station we have worked with the local authority to install a public bike hire scheme outside the station. The presence of Pedal Ready, a cycling cooperative, at Scotia Works has raised interest in cycling there so we are looking at providing different bike racks which would offer more spaces.

REDUCING WASTE

We continue to provide extensive recycling facilities for our tenants and to expand these where possible. Food composting has been introduced in two more buildings during the year (Brunswick Court and Thorn House). We have also introduced glass recycling at Thorn House.

The use of paper hand-towels has now been eliminated from all buildings in London and Brighton following installation of electric hand-dryers or washable fabric hand-towels.

To encourage re-use and recycling our property management teams have organised special recycling collections for larger items in our London buildings and improved signage and collection systems in Roundhay Road, Colston Street and Picton Street. Tenants are also encouraged to offer spare furniture, stationery etc. to each other to avoid waste and to save costs. At Green Park Station Market our ‘Sustainable Trader Scheme’ gives incentives to stall-holders to operate their businesses more sustainably, including minimising waste.

We are still considering the best way to monitor and set targets for waste reduction and recycling. It is problematic because of the different ways waste can be measured (volume or weight) and the variety of collection methods for recycled material. We hope to settle on a workable method for this in the course of the coming year, whilst having to accept that no method is particularly robust.

EXTERNAL SOCIAL AUDIT

SOCIAL AUDITOR'S ASSURANCE STATEMENT – Ethical Property, 2011

SCOPE AND OBJECTIVES

The Ethical Property Company ('Ethical Property') commissioned Henriques & Co. Ltd ('the Auditor') to undertake independent assurance of its 2010/11 Social Report ('the Report'). Henriques & Co. Ltd has no other relationships with Ethical Property that might compromise its independence. This is the second year that the Auditor has reviewed the Ethical Property Social Report. The assurance process was conducted in accordance with AA1000AS (2008) and 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 ETHICAL PROPERTY 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 all Ethical Property stakeholders was adopted. The Auditor was not involved in the preparation of the Report. 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 pages 6-7 and 12-23 of the Annual Report, visited Ethical Property sites, interviewed managers and staff. We provided some feedback to Ethical Property on aspects of stakeholder engagement and on drafts of the Report 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 & OPINION

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

As Ethical Property's business expands and develops to include new types of business, new approaches to the management and reporting of its social and environmental impact will need to be developed to ensure it remains appropriate and consistent with the Quintessentials.

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 again consulted tenants and staff. The tenant survey incorporated some tenant suggestions for the construction of the survey. Staff were also consulted on the development of a new Ethical Property strategy. Tenants and staff were generally very positive about their relationship with Ethical Property, with tenants reporting that their buildings supported their social mission.

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 Report defines the idea of a 'fair lease' clearly and explains the basis for the selection of issues monitored. The principal omission from the Report is coverage of suppliers.

The reporting of waste should be improved, particularly that arising from refurbishment and construction operations.

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

While the performance of the overall portfolio is clear, the performance and targets for individual buildings should be more fully disclosed in some way. Targets for water use in buildings should be developed. It would be helpful for Ethical Property to maintain a list of potential tenants that are turned away, particularly on ethical grounds.

PERFORMANCE DATA

There appeared to be no major inaccuracies in data. However protocols for the various measures used should be documented.

It is welcome that staff and tenant attitudes are very largely positive and that energy use across the portfolio has declined.

Adrian Henriques
Social Auditor
Henriques & Co. Ltd
London; November 2011

AA1000
Licensed Assurance Provider
000-77

OUR TRIPLE BOTTOM LINE IN NUMBERS

PROFIT ON ORDINARY ACTIVITIES INCREASED BY

1.0% ▲ TO £304,246

▲ 1.1% INCREASE IN VALUE OF OUR PROPERTY PORTFOLIO

80% OF TENANTS SAY THAT BEING IN AN ETHICAL PROPERTY CENTRE HELPS THEM ACHIEVE THEIR STRATEGIC OBJECTIVES

▼ 7% REDUCTION IN ENERGY USE

83% OF TENANTS SATISFIED OR VERY SATISFIED WITH THE QUALITY OF THEIR OFFICE SPACE

FINANCIAL PERFORMANCE

HIGHLIGHTS

Lost rent at 6.6% for the year • Net rental income maintained • Value of property portfolio up 1.1% • NAV remained at 77 pence • Profit on ordinary activities increased by 1.0% to £304,246

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 for the year divided by the dividend forecast in the most recent share issue. The dividend disclosed in these accounts is 3 pence per share, this represents the dividend distribution announced in the 2010 accounts and paid in April 2011. The measure is then 84%.

Therefore the dividend was below the forecast in the 2010 share issue prospectus due to concerns over our ability to increase rent in the current economic climate and the increasing level of empty space.

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 2011 this was 6.4%, making a total contribution to the dividend waiver fund of £26,203. This compares with 7.5% and £24,559 in 2010.

SELLING YOUR SHARES

This is a measure of how easily shareholders can sell their shares on the Matched Bargain Market when they need to. 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.

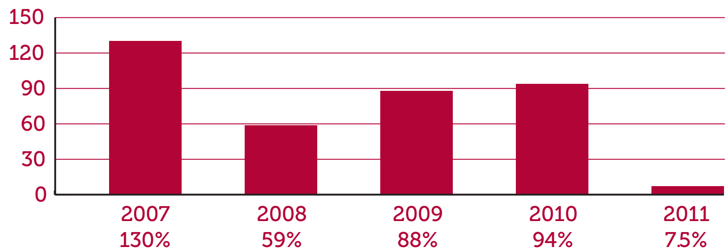
We define liquidity as shareholders being able to sell their shares when they need to. We measure this as the percentage of shares presented for sale in the year that were sold. Thus if all shares were sold by the year end, liquidity would be 100%. If there are sellers on the market at the year end,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

This year a total of 38,710 shares were traded on the market (2010: 686,858), with a surplus of 477,890 shares left untraded at the year end (2010: 42,500.) This figure is so high because 400,000 were placed on the market by one individual shareholder shortly before the end of the year.

The shareholder in question has held shares in the company for a number of years and feels that the company is strong enough to thrive without their investment.

In calculating the liquidity this year, if we exclude the 400,000 shares which went onto the market close to the year end liquidity was 33% (last year 94%). If we did include the additional 400,000 shares on the market the liquidity would drop to 7.5%. The graph below includes the lower figure for liquidity.

A graph of liquidity over the last five years is set out below:



We are working to improve liquidity of our shares through the development of Ethex and improving our communication of the matched bargain market.

REPAIRS AND MAINTENANCE

This is a measure of the percentage of annual rental income spent on repairs, maintenance and insurance of buildings. This year £116,697 was spent in these areas on the property portfolio (2010: £110,124). This represents 6.1% of rental income (2010: 5.9%). Further capital spending of £70,251 (2010: £64,581) 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. For the year, the percentage of empty space in all our buildings was 6.6% compared with 3.7% last year, including full year figures for Brighton Junction. This is obviously disappointing but reflects the challenging economic environment. However it should be noted that net income from property has remained static.

RENTAL LEVELS

We continue to monitor rental levels closely, and in January 2011 completed our annual comparative rent survey, assessing how our rents compare with a basket of properties of a similar nature in the same locality.

FINANCIAL PERFORMANCE

Where there were differences in the services offered we imputed a value for services not provided based on our costs, so that for each building we are comparing like with like. In nearly all cases Ethical Property buildings were offering a more comprehensive service than similar buildings.

As in previous years, we continue to find that Ethical Property buildings are good value and indeed cheaper than most other similar buildings if you compare like for like. 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.

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 includes.

The findings of the comparative rent review were taken into account when we decided on the new rent levels for each centre in April 2011, resulting in increases between 0% and 4%. As part of the rent review process, we also took into account the continuing difficult economic climate within which our tenants are working. Where possible, even if our buildings were significantly cheaper than similar providers, we endeavoured to keep rises as low as possible and in some cases did not increase rents at all, despite increasing costs.

In 2010 we successfully trialled following up the rent rises with tenant meetings to explain the process of calculating the rent rises, and how our rent compares with similar buildings in the area. Tenants valued the chance to discuss and review this information and we repeated the process in 2011.

PROPERTY VALUES

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 for properties as marked with an * are based on valuations undertaken in September 2011 by GVA Grimleys. All other properties have been valued internally by the Directors and are not considered to have changed in value since 2010.

There has been an increase in the value of our portfolio of 1.1%. Within this are significant variances between properties: Development House has increased by 8.4% whilst Thorn House has fallen by 13%. This reflects the general property market where we have seen significant improvements in the London market but little change in much of the country, and some further losses in Edinburgh.

The table below lists the valuations and book costs and gives the Annual Compound Growth Rate, which is the year-on-year rate of change of the value since purchase.

Property	When Purchased	2011 Book Cost	2011 Value	2010 Value	Annual Compound Growth Rate
Archway Resource Centre	Jan-01	£203,650	£365,000	£365,000	5.6%
Brighton Eco-Centre	Nov-03	£349,928	£250,000	£250,000	-4.2%
Brighton Junction	Sep-09	£960,505	£925,000	£925,000	-1.8%
Brunswick Court*	Jan-01	£1,127,794	£1,040,000	£1,140,000	-0.8%
Colston Street Centre	Oct-98	£382,433	£455,000	£455,000	1.3%
Development House*	Mar-04	£6,202,513	£5,670,000	£5,230,000	-1.2%
Durham Road Resource Centre	Jun-01	£419,617	£425,000	£425,000	0.1%
Grayston Centre*	Jul-03	£2,333,416	£2,000,000	£1,950,000	-1.9%
Green Fish Resource Centre	Jan-04	£776,110	£635,000	£635,000	-2.6%
Green Park Station*	Nov-08	£39,512	£1,325,000	£1,400,000	0.0%
Old Music Hall*	Dec-07	£3,833,550	£2,080,000	£2,060,000	-14.7%
Picton Street Centre	Dec-00	£176,588	£160,000	£160,000	-0.9%
Thorn House*	Feb-07	£3,162,555	£1,000,000	£1,150,000	-21.9%
Roundhay Road Resource Centre	Aug-00	£510,698	£365,000	£365,000	-3.0%
Scotia Works	Feb-03	£445,772	£440,000	£440,000	-0.2%
Total		**£20,924,641**	**£17,135,000**	**£16,950,000**	

FINANCIAL PERFORMANCE

The Director's 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 persist for more than five years.

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' in the table below shows the annual rents received, by property, after maintenance and insurance costs as a percentage of the book cost for both 2011 and 2010.

The returns at Archway Resource Centre, Roundhay Road Resource Centre and Scotia Works have declined due to higher levels of empty space in 2011 than in 2010. Colston Street Centre and The Old Music Hall have increased their return; high expenditure on repairs in 2010 depressed the net rental income in that year. Returns at Brighton Junction have increased due to this being the first full year of activity.

Returns for Green Park Station are not included in the table below, as this centre was purchased on a 50 year lease with a small premium and therefore is not comparable. However, the return calculated in the same way for Green Park Station was 450%, compared with 490% in 2010.

Return on Book Cost	2011	2010
Archway Resource Centre	8.8%	10.1%
Brighton Eco-Centre	7.3%	7.1%
Brighton Junction	4.5%	2.7%
Brunswick Court	14.8%	14.9%
Colston Street Centre	13.6%	10.0%
Development House	7.2%	7.4%
Durham Road Resource Centre	8.9%	9.3%
Grayston Centre	8.3%	7.9%
Green Fish Resource Centre	8.2%	8.0%
Old Music Hall	7.0%	5.9%
Picton Street Centre	11.9%	12.3%
Roundhay Road Resource Centre	6.5%	8.0%
Scotia Works	10.1%	11.0%
Thorn House	5.2%	5.6%
Return on Cost	**7.5%**	**7.4%**

FINANCIAL STATEMENTS

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements for the year ended 30 September 2011.

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.

In May 2011 we formed The Social Justice and Human Rights Centre Limited, securing investment from Trust for London, Barrow Cadbury and LankellyChase. We are currently looking for a suitable building in London.

During the year we have significantly increased our income from property management and consultancy, winning a large contract (Resource for London) from the Trust For London, and a smaller one from Hub Commercial Ventures CIC. This trend is set to continue and grow, and will diversify our income streams.

PROPERTY VALUATIONS

The properties have been revalued at 30 September 2011. When reviewing the property valuations we consider whether any losses are likely to recover 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 transferring a cost of nil (2010: £2,539,542) to the Profit and Loss Account.

RESULTS AND DIVIDENDS

The profit on ordinary activities after taxation and before the exceptional item amounted to £304,246 (2010: £301,307).

On 2 February 2011 the directors declared a dividend of 3 pence per share which was paid in April 2011. Total dividends declared were £409,208 of which £26,203 were 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:

Loss of rental income

There is a steady turnover of tenants but the company works actively to maximize its attractiveness to its target markets and to maintain lists of potential new tenants. To date, this has proven to be effective and it has been able to achieve very low levels of voids.

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.

DIRECTORS AND THEIR INTERESTS

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

		Ordinary shares of 50p each
	At 30 September 2011	**At 1 October 2010**
J G Hartzell	123,877	154,481
P N Bellack	25,000	25,000
R Schwartz (Resigned on 6 April 2011)	1,000	1,000
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 2011, 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	323	128,710	24%	1%
501 to 1,000	278	260,169	20%	2%
1,001 to 2,000	186	312,022	14%	2%
2,001 to 5,000	271	1,011,017	20%	8%
5,001 to 10,000	143	1,156,821	11%	9%
10,001 to 50,000	114	2,546,431	8%	19%
50,001 to 100,000	14	994,777	1%	7%
100,001 to 500,000	26	5,645,270	2%	41%
500,001 to 1,000,000	1	571,428	less than 1%	4%
1,000,001 to 5,000,000	1	1,013,610	less than 1%	7%
Total	**1,357**	**13,640,255**	**100%**	**100%**

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 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 AUDITOR

(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 1 February 2012 and signed on its 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 2011 which comprise the profit and loss account, statement of total recognised gains and losses, balance sheet, cashflow statement 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 auditors' 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 31 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 company's state of affairs as at 30 September 2011 and of its results for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- 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.

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; or
- the directors were not entitled to prepare the financial statements and the directors' report in accordance with the small companies regime.

Robert Kirtland
Senior Statutory Auditor
For and on behalf of Critchleys LLP, Statutory Auditors
Greyfriars Court, Paradise Square, Oxford, OX1 1BE

2 February 2012

FINANCIAL STATEMENTS

For the year ended 30 September 2011

PROFIT AND LOSS ACCOUNT

	Note	2011 £	2010 £
Turnover	2	**3,115,273**	3,244,297
Cost of sales		**(1,010,931)**	(1,090,183)
Gross profit		**2,104,342**	2,154,114
Administrative expenses		**(1,497,275)**	(1,440,246)
Other operating income		**64,000**	-
Operating profit	3	**671,067**	713,868
Profit on disposal of investments		**-**	50,000
Interest receivable		**1,143**	931
Interest payable	6	**(367,964)**	(463,492)
Profit on ordinary activities before exceptional items		**304,246**	301,307
Exceptional item:			
Write down in value of investment properties	7	**-**	(2,539,542)
Profit / (loss) on ordinary activities after exceptional item and before taxation		**304,246**	(2,238,235)
Tax on profit on ordinary activities	8	**-**	-
Profit / (loss) for the financial year	21	**304,246**	(2,238,235)
Earnings per share (pence)	10	**2.23**	3.10
Earnings per share including exceptional items (pence)	10	**2.23**	(23.05)

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.

The notes on pages 37 to 43 form part of these financial statements.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2011 Total £	2010 Total £
Profit / (loss) for the financial year	**304,246**	(2,238,235)
Unrealised surplus / (deficit) on revaluation of properties	**91,044**	(46,325)
Total recognised gains and losses in the year	**395,296**	(2,284,560)

The notes on pages 37 to 43 form part of these financial statements.

FINANCIAL STATEMENTS

For the year ended 30 September 2011

BALANCE SHEET

	Note	2011 £	2010 £
Fixed assets			
Intangible fixed assets	11	**73,667**	-
Investment properties	12	**16,728,103**	16,562,171
Other tangible fixed assets	13	**567,832**	601,099
Investments	14	**1,945,292**	1,836,157
		19,314,894	18,999,427
Current assets			
Debtors	15	**487,147**	446,084
Cash at bank and in hand		**386,638**	900,422
		873,785	1,346,506
Creditors: amounts falling due within one year	16	**(682,148)**	(792,935)
Net current assets		**191,637**	553,571
Total assets less current liabilities		**19,506,531**	19,552,998
Creditors: amounts falling due in more than one year	17	**(9,022,070)**	(9,022,070)
Total net assets		**10,484,461**	10,530,928
Capital and reserves			
Called up share capital	19	**6,820,128**	6,820,128
Share premium account	20	**3,741,298**	6,336,272
Revaluation reserve	20	**(1,657,835)**	(1,748,879)
Capital redemption reserve	20	**288,251**	288,251
ESOP reserve	20	**(54,928)**	(51,819)
Dividend waiver reserve	20	**14,027**	12,049
Unrealised profit on sale of subsidiary	20	**80,321**	80,321
Profit and loss account	20	**1,253,199**	(1,205,395)
Total shareholders funds	21	**10,484,461**	10,530,928

Approved by the directors on 1 February 2012
and signed on their behalf by

Susan Ralphs
Company Secretary

The notes on pages 37 to 43 form part of these financial statements.

FINANCIAL STATEMENTS

For the year ended 30 September 2011

CASHFLOW STATEMENT

		2011 £		2010 £
Net cash inflow from operating activities				
Operating profit	**671,067**		713,868	
Depreciation of tangible fixed assets	**144,757**		127,298	
Decrease / (increase) in debtors	**(41,063)**		(136,214)	
Increase / (decrease) in creditors	**(110,787)**		178,072	
		663,974		883,024
Returns on investment and servicing of finance				
Interest received	**1,143**		931	
Interest paid	**(367,964)**		(463,492)	
		(366,821)		(462,561)
Capital expenditure				
Purchase of tangible fixed assets	**(111,490)**		(269,052)	
Purchase of investment properties	**(74,888)**		(944,178)	
Purchase of investments	**(109,134)**		-	
Proceeds from sale of investment properties	**-**		50,000	
		(295,512)		(1,163,230)
Equity dividends paid		**(383,005)**		(303,800)
Net cash outflow before financing		**(373,679)**		(1,046,567)
Financing				
Issue of ordinary share capital	**-**		2,129,290	
Repayment of loans	**-**		(2,225,313)	
New loans	**-**		-	
Investment in employee share ownership plan	**(3,109)**		(23,643)	
		(3,109)		(119,666)
Cash outflow for the year		**(384,473)**		(1,166,233)

The notes on pages 37 to 43 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 certain fixed assets, 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.

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 drop 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 on the face of the profit and loss account.

Investment property revaluations are allocated between properties in use and properties in the course of development according to the balances in these categories at the year end.

f) Intangible fixed assets and amortisation

Goodwill is stated at cost less amortisation. Goodwill is amortised on a straight line basis over five years.

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

Investments are stated at the lower of cost and estimated net realisable value.

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), 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, in accordance with changes to the Companies Act 2006.

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 included in the profit and loss account.

2. TURNOVER

The whole of turnover is attributable to the one principal activity and all arose within the United Kingdom.

3. OPERATING PROFIT

The operating profit is stated after charging:

	2011 £	2010 £
Auditors' remuneration		
audit	**9,000**	7,500
accountancy and tax advice	**2,165**	4,391
Depreciation of owned tangible fixed assets	**144,757**	127,298
Amortisation of goodwill	**(11,333)**	-
Operating lease rentals		
office equipment	**13,773**	-

4. STAFF COSTS

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

	2011 £	2010 £
Salaries	**809,000**	686,070
Social security costs	**83,738**	71,081
Other pension costs	**79,558**	60,426
	972,296	817,577

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

	2011	2010
Administrative staff	**36**	35
Management staff	**5**	5
	41	40

5. DIRECTORS' REMUNERATION

During the year salaries were being paid, and retirement benefits, in respect of a money purchase pension scheme, were accruing to 2 (2010: 3) directors.

	2011 £	2010 £
Emoluments	**100,127**	146,493
Company pension contributions to a money purchase pension scheme	**5,319**	10,032
	105,446	156,525

In addition to the above remuneration, fees of £16,500 (2010: £12,000) were paid to non-executive directors.

6. INTEREST PAYABLE

	2011 £	2010 £
Interest payable on bank borrowing	**367,964**	463,492

7. EXCEPTIONAL ITEM

In 2010 the directors reviewed the property valuations and considered that £2,539,542 in value will not be recovered within 5 years. Therefore this was transferred to the profit and loss account from the revaluation reserve.

8. TAXATION

	2011 £	2010 £
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 28% (2010: 28%). The differences are explained below:

	2011 £	2010 £
Profit on ordinary activities before tax	**304,246**	301,307
Tax at 28% (2010 - 28%)	**85,189**	84,366
Capital allowances for the year	**(76,620)**	(65,006)
Effect of capital gain	-	15,000
Expenses carried forward for tax purposes	**(8,569)**	(34,360)
	-	-

9. DIVIDENDS

	2011 £	2010 £
Total dividends declared	**409,208**	328,359
Dividends waived	**(26,203)**	(24,559)
	383,005	303,800

On 2 February 2011 the directors declared a dividend of 3.0 pence per share payable in April 2011 and included in these financial statements.

10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on earnings of £304,246 (2010: £301,307) and on 13,640,256 (2010: 9,709,258) 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 earnings of £304,246 (2010: £2,238,235 losses) and on 13,640,256 (2010: 9,709,258) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

11. INTANGIBLE FIXED ASSETS

	Goodwill £
Cost	
At 1 October 2010	-
Additions	85,000
At 30 September 2011	85,000
Amortisation	
At 1 October 2010	-
Change for the year	11,333
At 30 September 2011	11,333
Net book value	
At 30 September 2011	73,667
At 30 September 2010	-

This 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 £
Cost and valuation			
At 1 October 2010	175,000	16,387,171	16,562,171
Additions	4,637	70,251	74,888
Revaluation surplus	-	91,044	91,044
At 30 September 2011	**179,637**	**16,548,466**	**16,728,103**

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

	2011 £	2010 £
Development House Extension, London	**179,637**	175,000

GVA Grimleys Chartered Surveyors, independent valuers, revalued the six highest value properties on an open market basis at 30 September 2011. The directors consider that any change in value of the remaining properties is not material.

	2011 £	2010 £
The historical cost of investment properties	**20,924,641**	20,849,753
Value of long leasehold properties included within Investment properties	**3,638,484**	3,717,386
Historical cost of long leasehold properties	**2,659,571**	2,669,097

The company received no grants during the year or the prior year. The value of total grants received as at 30 September 2011 is £824,056 (2010: £824,056).

Finance costs have been capitalised as follows:

	2011 £	2010 £
Finance costs included within additions in the year	**12,694**	25,449
Aggregate amount of finance costs capitalised at the year end	**286,550**	273,856
Rate used for capitalisation of finance costs	**4.3%**	4.3%

The value of investment property shown above differs from the amount shown in the company's annual report.

The difference relates to plant and machinery with a net book value of £412,374 (2010: £388,668), which has been deducted from the value of investment property, and shown under tangible fixed assets in note 13.

13. OTHER TANGIBLE FIXED ASSETS

	Plant and machinery £	Furniture, fittings and equipment £	Total £
Cost			
At 1 October 2010	567,031	585,099	1,152,130
Additions	84,487	27,003	111,490
At 30 September 2011	**651,518**	**612,102**	**1,263,620**
Depreciation			
At 1 October 2010	178,363	372,668	551,031
Charge for the year	60,781	83,976	144,757
At 30 September 2011	**239,144**	**456,644**	**695,788**
Net book value			
At 30 September 2011	**412,374**	**155,458**	**567,832**
At 30 September 2010	388,668	212,431	601,099

14. INVESTMENTS

	At 1 October 2010 £	Additions £	Revaluation £	At 30 September 2011 £
Ethical Property Europe sprl	1,834,906	-	1	**1,834,907**
The Phone Co-Op	1,251	5,848	-	**7,099**
étic	-	8,786	-	**8,786**
Ethical IT LLP	-	45,000	-	**45,000**
Social Justice and Human Rights Centre	-	49,500	-	**49,500**
Total	1,836,157	109,134	1	**1,945,292**

The investment in Ethical Property Europe represents 39% of the total share capital of this company. At 30 September 2011 the latest EPE management accounts show that it had net assets of £4,842,524 (2010: £4,676,796) and its profit for the year was £60,261 (2010: £37,970).

The investment in Social Justice and Human Rights Centre Limited represents 52% of the total share capital of this company. The company was incorporated on 11 May 2011. At 30 September 2011 the latest financial statements of the company show that it had net assets of £65,074 and its loss for the period was £29,426. The Social Justice and Human Rights Centre Limited has not been consolidated into these financial statements on the grounds of immateriality.

Ethical IT LLP is a joint venture between the Ethical Property Company Limited and Joint Application Development Enterprises Limited. Ethical IT LLP was incoporated on 4 November 2010 and started trading on 1 February 2011. At 30 September 2011 the latest management accounts of the LLP showed that for the first eight months of trading it had net assets of £91,748 and its profit for the period was £41,748.

15. DEBTORS

	2011 £	2010 £
Trade debtors	**289,869**	171,515
Amounts owed by Ethical Property Europe sprl	**30,607**	32,460
Other debtors	**1,486**	55,767
Prepayments and accrued income	**165,185**	186,342
	487,147	446,084

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2011 £	2010 £
Trade creditors	**146,353**	340,338
Other tax and social security	**105,233**	86,643
Other creditors	**430,562**	365,954
	682,148	792,935

17. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2011 £	2010 £
Bank loans and overdrafts	**9,022,070**	9,022,070
Over five years:		
Bank loans	**9,022,070**	9,022,070

The bank loans to the company are secured by a charge over certain of the properties of the company, being Brunswick Court, Durham Road, Archway, Colston St, Roundhay Road, Green Fish, Scotia Works, Development House, Grayston Centre, Rose Street and the Old Music Hall.

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

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

Revolving credit agreement	1% above Bank of England base rate
First sterling fixed interest loan	5.84%
Second sterling fixed interest loan	6.71%
Third sterling fixed interest loan	3.00%
Fourth 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.

	2011 £	2010 £
Provided for:		
Unrealised capital gains	**-**	-
Taxable expenses carried forward	**-**	-
	-	-
Unprovided for:		
Liability in respect of unrealised capital gains	**(266,300)**	(283,957)
Asset in respect of unrealised capital losses	**2,317,916**	2,373,989
Asset in respect of taxable expenses carried forward	**99,190**	119,792
Net unprovided asset	**2,150,806**	2,209,824

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

	2011 £	2010 £
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 2010	6,336,272	(1,748,879)	80,321	288,251	(51,819)	12,049	(1,205,395)
Profit for the year on ordinary activities before exceptional item	-	-	-	-	-	-	304,246
Permanent diminution in property valuations	-	-	-	-	-	-	-
Equity dividends	-	-	-	-	-	-	(383,005)
Transfer to dividend waiver	-	-	-	-	-	26,203	(26,203)
Release from dividend waiver	-	-	-	-	-	(24,225)	24,225
Dividend waiver	-	-	-	-	-	-	-
Release from share premium account	(2,539,542)	-	-	-	-	-	2,539,542
Share issue costs	(55,432)	-	-	-	-	-	-
Difference on exchange	-	-	-	-	-	-	(211)
ESOP adjustment	-	-	-	-	(3,109)	-	-
Revaluation surplus (note 12)	-	91,044	-	-	-	-	-
At 30 September 2011	3,741,298	(1,657,835)	80,321	288,251	(54,928)	14,027	1,253,199

At the 2011 AGM shareholders agreed a transfer from the share premium account to the profit and loss account to reflect the permanent diminution in the value of the investment property as at 30 September 2010.

21. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2011 £	2010 £
Shareholders' funds at 1 October 2010	**10,530,928**	6,929,090
Profit / (loss) for the year	**304,246**	(2,238,235)
Equity dividends paid	**(383,005)**	(303,800)
Issue of share capital	**-**	2,129,290
Foreign exchange difference	**(211)**	77,250
Purchase of shares in employee share option plan	**(3,109)**	(23,643)
Share premium account	**(55,432)**	1,467,759
Permanent diminution in value of investment property	**-**	2,539,542
Surplus / (deficit) on revaluation	**91,044**	(46,325)
Shareholders' funds at 30 September 2011	**10,484,461**	10,530,928

22. RECONCILIATION OF NET CASHFLOW TO MOVEMENT IN NET DEBT

	2011 £	2010 £
Decrease in cash in the year	(384,473)	(1,166,233)
Cash (inflow) / outflow from debt	(129,311)	3,770,321
Movement in net debt in the year	(513,784)	2,604,088
Net debt at 1 October	(8,121,648)	(10,725,736)
Net debt at 30 September	(8,635,432)	(8,121,648)

23. ANALYSIS OF CHANGES IN NET DEBT

	At 1 October 2010 £	Cashflow £	At 30 September 2011 £
Cash at bank and in hand	900,422	(513,784)	**386,638**
Loans falling due after more than one year	(9,022,070)	-	**(9,022,070)**
	(8,121,648)	(513,784)	**(8,635,432)**

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 scheme and amounted to £79,558 (2010: £60,426). Contributions totaling £5,340 (2010: £6,583) were payable to the fund at the balance sheet date and are included in other creditors.

25. OBLIGATIONS UNDER OPERATING LEASES

At 30 September 2011 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings £	Other £
Expiring within one year	-	1,020
Expiring after one year	-	13,209

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. Ethical Property has committed to pay for the extension at cost, and estimates that this will be £2,600,000.

Since the year end, an option has been sold to Paul Street Hotels LLP for the freehold of the land adjacent to Development House. The option is for 12 months and during this time the commitment to pay for the extension has been suspended.

27. RELATED PARTY TRANSACTIONS

During the year, the company paid £1,148 (2010: £1,604) 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 (2010: £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 £64,714 plus VAT for IT services. The company raised invoices to Ethical IT LLP during the year amounting to £44,763 plus VAT for management fees and £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 £53,848. The amount owed by Ethical Property Limited to Ethical IT LLP at the end of the year was £1,539. The transactions were carried out in the normal course of business.

During the year IT Service contracts were transferred from Joint Application Development Enterprises Limited to Ethical IT LLP. The company paid £85,000 for the transfer of these contracts, which has been capitalised as Goodwill in these financial statements.

FINANCIAL STATEMENTS

MANAGEMENT INFORMATION

For the year ended 30 September 2011

DETAILED PROFIT AND LOSS ACCOUNT

	2011 £	2011 £	2010 £	2010 £
Property income				
Rental income	**1,897,753**		1,857,598	
Service income	**729,935**		734,650	
Telephone and IT income	**231,429**		266,957	
Office services	**55,654**		63,596	
		2,914,771		2,922,801
Property costs				
Services provided to tenants	**(604,236)**		(657,194)	
Telephone and IT expenses	**(172,732)**		(121,059)	
Office services expenses	**(33,767)**		(28,084)	
Property insurance	**(31,568)**		(28,176)	
Other property expenses	**(135,129)**		(146,784)	
		(977,432)		(981,297)
Net property income		**1,937,339**		1,941,504
Other income				
Property management and consultancy	**142,442**		80,330	
External IT expenses	**(33,499)**		(108,887)	
External IT income	**58,060**		217,472	
Grant Income	**-**		23,695	
		167,003		212,610
Gross profit		**2,104,342**		2,154,114
		67.55%		66.40%
Other operating income				
Share of profit in Ethical IT LLP	**20,000**		-	
Management fees from Ethical IT LLP	**44,000**		-	
		64,000		-
Employment costs				
Staff salaries	**(809,000)**		(686,070)	
National insurance	**(83,738)**		(71,081)	
Pension contributions	**(79,558)**		(60,426)	
		(972,296)		(817,577)
Company costs				
Legal and professional	**(80,810)**		(113,644)	
IT fees	**(45,244)**		(131,800)	
Depreciation	**(144,757)**		(127,298)	
Amortisation	**(11,333)**		-	
Travel and subsistence	**(57,438)**		(54,129)	
Phone and IT	**(48,082)**		(54,563)	
Marketing	**(33,947)**		(39,158)	
Printing and Stationery	**(25,089)**		(19,675)	
Accountancy	**(2,165)**		(4,391)	
Recruitment	**(18,774)**		(20,532)	
Bank charges	**(20,412)**		(4,024)	
Audit	**(9,000)**		(7,500)	
Training	**(9,040)**		(11,335)	
Rent, rates and service charge	**(17,689)**		(2,571)	
Sundry expenditure	**15,402**		(16,463)	
Bad debt	**(101)**		(3,586)	
Director’s fees	**(16,500)**		(12,000)	
		(524,979)		(622,669)
Interest payable		**(367,964)**		(463,492)
Other income				
Interest receivable	**1,143**		931	
		1,143		931
Profit on disposal of investments		**-**		50,000
Profit for the year before exceptional item		**304,246**		301,307

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

Nederlands – www.ethicalproperty.nl

EthicalIT – www.ethicalit.net

The Ethical Property Foundation – www.ethicalproperty.org.uk

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