Task Force on Climate-related Financial Disclosures

Unaudited

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

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

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

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

Governance

Board Oversight

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

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

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

Further information on our risk matrix can be found in the Risk Management section on p. 52 to 55.

Management Role

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

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

Risk management

Identification, Assessment and Management

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

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

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

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

Overall Risk Management

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

Further information on our risk management process can be found in the Risk Management section on p. 49

Strategy

Risks, Opportunities and Impact

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

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

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

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

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

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

Task Force on Climate-related Financial Disclosures continued

Unaudited

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

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

Opportunities

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

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

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

Resilience

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

Metrics and targets

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

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

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