Picton Property Income Limited

Annual Report 2018

In this year's report

Business Overview

Strategic Report

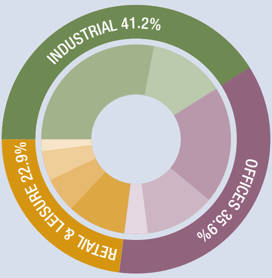
Governance

Financial Statements

Additional Information

Make sure you read this

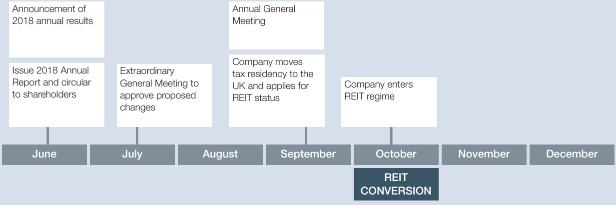
page 04
Picton at a Glance



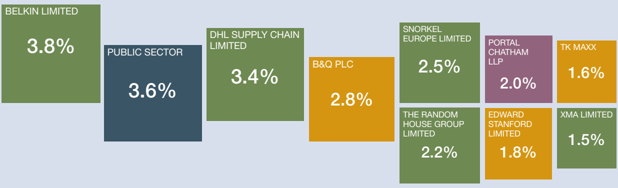
page 06
Chairman's Statement

page 16
Our Investment Strategy in Action

page 28
Q&A - REIT Conversion



page 32
Investment Manager's Report



Welcome to

Who we are

Picton Property Income Limited is an award winning investment company which invests in commercial property throughout the United Kingdom.

Our diversified property portfolio currently consists of 51 assets and is invested in the industrial, office, retail and leisure sectors. These assets generate a rental income stream from over 360 occupiers across a wide range of businesses.

RENTAL INCOME

41.4m

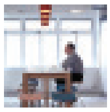
What makes us different

We are internally managed, unlike many traditional investment companies. We have an experienced, aligned and dedicated team who are focused entirely on Picton and its success.

Through growth we are also able to achieve economies of scale, which in turn will enhance returns to our shareholders.

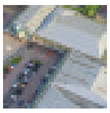
OCCUPIERS

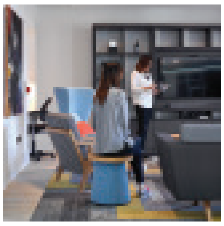
360

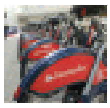


OCCUPANCY

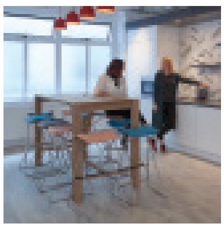
96%







Occupier focused

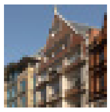


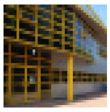
Our 2018 annual report

What we do

We are total return driven with an income bias and aim to generate attractive returns for our shareholders from the proactive management of our portfolio. We invest in assets where we believe there are opportunities to enhance either income or value and this is primarily achieved by providing space that meets occupiers' requirements.

Through our occupier focused, opportunity led approach to asset management we aim to be one of the consistently best performing diversified UK focused property companies listed on the main market of the London Stock Exchange.

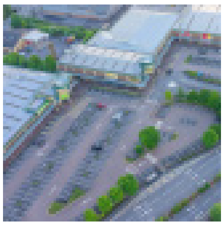


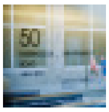


PORTFOLIO VALUE

683.8m

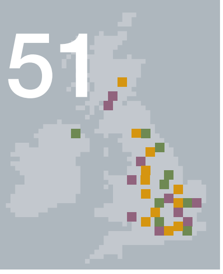
£





NUMBER OF ASSETS

51



Why invest

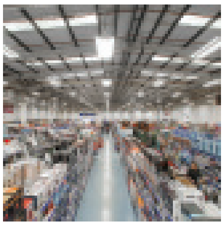
1 We offer diversified exposure to the UK commercial property market.

2 We actively manage our assets with an occupier focused and opportunity led approach.

3 We operate a covered dividend policy, allowing us to invest back into the portfolio.

4 We have established a consistent track record of outperformance.

5 Our management team is aligned with shareholders' interests.



AREA

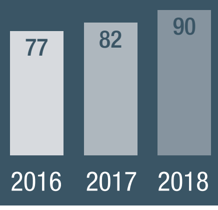
4.5m
square feet

Opportunity led

2018 HIGHLIGHTS

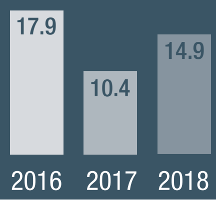
NAV PER SHARE

90p



TOTAL RETURN

14.9%

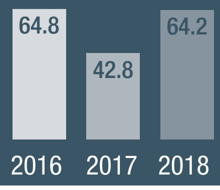


STRONG FINANCIAL RESULTS

- Total profit after tax increased by 50% to £64.2 million
- Net assets increased to £487.4 million, from £441.9 million
- Increase in EPRA NAV per share of 10.5%, to 90 pence per share
- Total return of 14.9%

PROFIT AFTER TAX

£64.2m



LOWER FINANCING COSTS AND GREATER FLEXIBILITY

- Annual financing costs reduced by £1.1 million
- Extended £24 million revolving credit facility until June 2021
- Loan to value ratio reduced to 26.7% from 27.4%

EPRA MEASURES

EPRA PERFORMANCE MEASURES (EPM)

The European Public Real Estate Association's (EPRA) mission is to promote, develop and represent the European public real estate sector. As an EPRA member, Picton fully supports the EPRA Best Practices Recommendations which recognises the key performance measures, as detailed opposite. Further disclosures and supporting calculations, including sustainability measures, can be found on pages 116 to 126. We have also highlighted other specific EPRA metrics throughout the Report.

Alternative performance measures

We use a number of alternative performance measures ('APMs') when reporting on the performance of the business and its financial position. These do not always have a standard meaning and may not be comparable to those used by other entities. However we will use industry standard measures and terminology where possible.

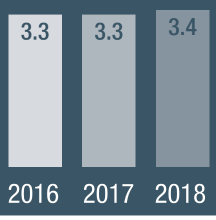
In common with many other listed property companies we report the EPRA performance measures, as stated opposite. We have reported these for a number of years in order to provide a consistent comparison with similar companies. In the Other Information section of this Report we provide more detailed information and reconciliations to IFRS where appropriate.

Our key performance indicators include three of the key EPRA measures but also total return, total property return, property income return, total shareholder return, loan to value ratio and ongoing charges. The definition of these measures, and the rationale for their use, is set out in the Key Performance Indicators section.

Other APMs are set out in the Supplementary Disclosures section.

DIVIDENDS PER SHARE

3.4p

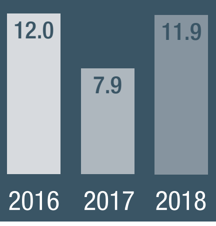


INCREASE IN EARNINGS AND DIVIDENDS

- Increase in earnings per share to 11.9p from 7.9p
- Increase in EPRA earnings per share of 10.1% to 4.2p from 3.8p
- Dividend increase of 3% in February 2018 to 3.5 pence per share per annum
- Dividends paid of £18.5 million with dividend cover of 122%

EARNINGS PER SHARE

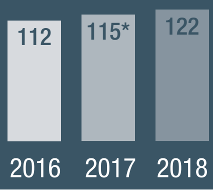
11.9p



*144% including one-off income

DIVIDEND COVER

122%

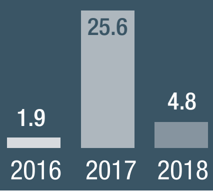


GROWING OCCUPANCY AND PORTFOLIO OUTPERFORMANCE

- Total property return of 13.0%, outperforming MSCI IPD Quarterly Benchmark of 10.1%
- Total property return and income return outperformance ahead of MSCI IPD over 1, 3, 5 and 10 years
- Increased occupancy to 96%, ahead of the MSCI IPD Quarterly Benchmark of 93%

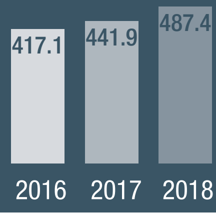
TOTAL SHAREHOLDER RETURN

4.8%



NET ASSETS

£487.4m

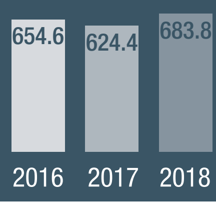


PORTFOLIO ACTIVITY

- Like-for-like valuation increase of 6.5%
- Like-for-like passing rent increased by 3.9%
- Like-for-like ERV growth of 2.4% with total portfolio ERV of £47.9 million
- One property acquisition of £23.2 million and three non-core disposals for £10.4 million
- Invested £3.6 million into refurbishment projects to enhance the portfolio

PROPERTY VALUATION

£683.8m



EPRA NAV PER SHARE

90p

2017 82p
2016 77p

EPRA NNNAV PER SHARE

87p

2017 77p
2016 73p

EPRA EARNINGS PER SHARE

4.2p

2017 3.8p
2016 3.7p

EPRA EARNINGS

£22.6m

2017 £20.6m
2016 £19.9m

EPRA COST RATIO[1]

23.7%

2017 26.1%
2016 22.8%

EPRA COST RATIO[2]

19.2%

2017 21.1%
2016 18.9%

EPRA NET INITIAL YIELD

5.5%

2017 5.9%
2016 5.6%

EPRA ‘TOPPED-UP’ NET INITIAL YIELD

5.9%

2017 6.3%
2016 6.2%

EPRA VACANCY RATE

4.2%

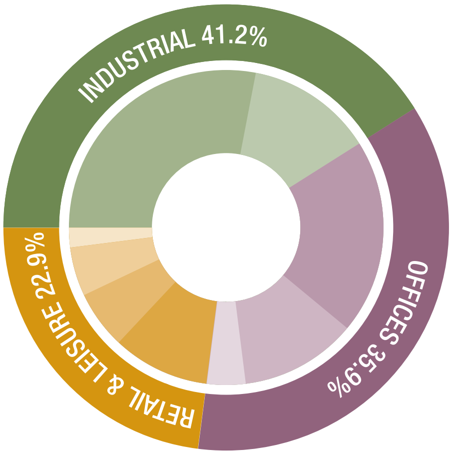
2017 5.8%
2016 3.9%

[1] Including direct vacancy costs
[2] Excluding direct vacancy costs

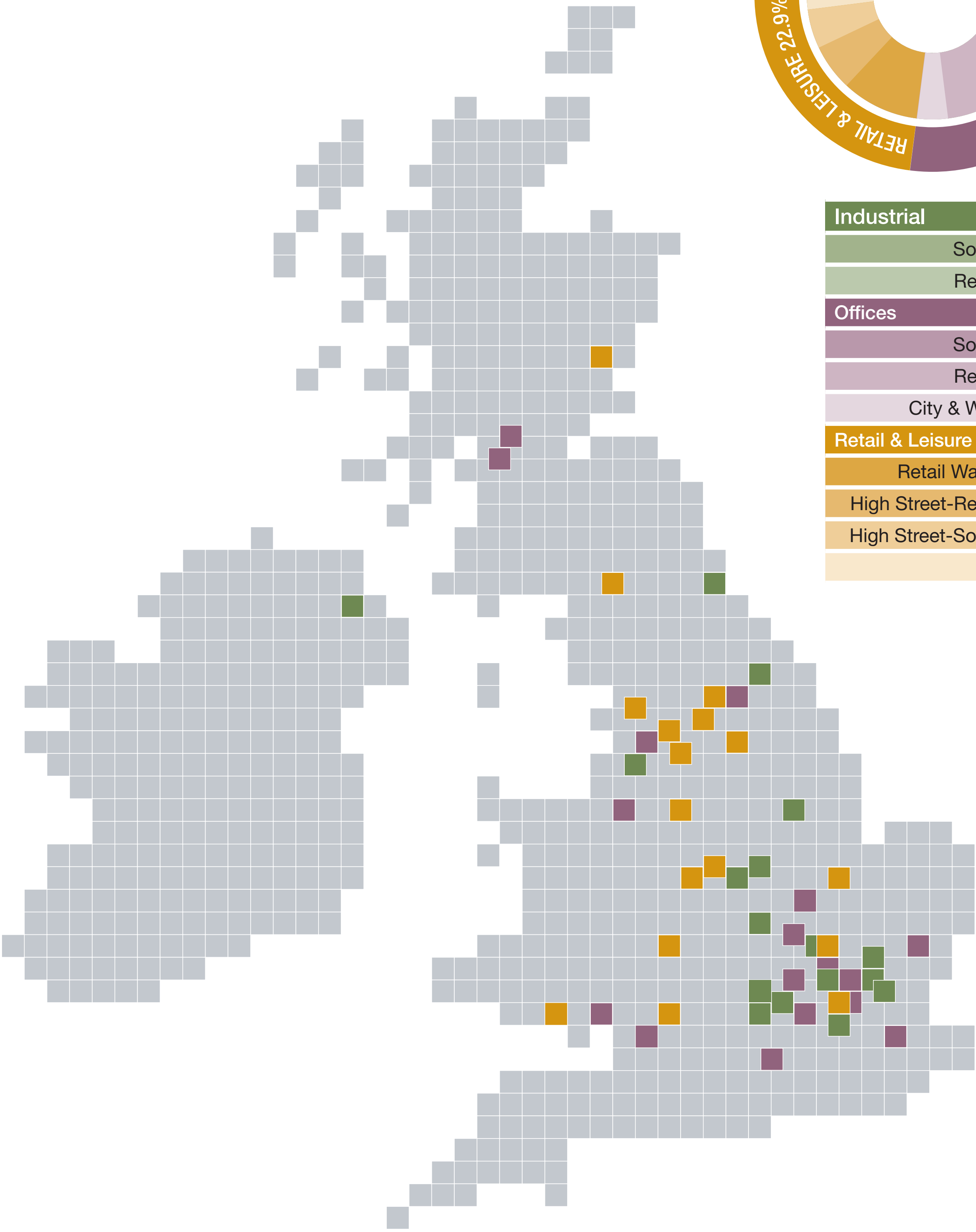
Picton at a glance

Portfolio allocation

We own a geographically diverse portfolio of assets located across the UK, but with a bias towards the South East.



Industrial 41.2%	%
South East	28.6
Rest of UK	12.6
Offices 35.9%	
South East	19.4
Rest of UK	12.4
City & West End	4.1
Retail & Leisure 22.9%	
Retail Warehouse	9.5
High Street-Rest of UK	6.1
High Street-South East	5.3
Leisure	2.0



Corporate statistics

As at 31 March 2018

NET ASSETS	MARKET CAPITALISATION	DIVIDEND YIELD	LOAN TO VALUE	BORROWINGS	ONGOING CHARGES
£487m	£454m	4.2%	27%	£214m	1.1%

Our top ten occupiers

The largest occupiers, based as a percentage of contracted rent, as at 31 March 2018, are as follows:

Occupier	%
BELKIN LIMITED	3.8%
PUBLIC SECTOR	3.6%
DHL SUPPLY CHAIN LIMITED	3.4%
B&Q PLC	2.8%
SNORKEL EUROPE LIMITED	2.5%
THE RANDOM HOUSE GROUP LIMITED	2.2%
PORTAL CHATHAM LLP	2.0%
EDWARD STANFORD LIMITED	1.8%
TK MAXX	1.6%
XMA LIMITED	1.5%

Portfolio statistics

As at 31 March 2018

OCCUPANCY	NUMBER OF ASSETS	AREA	NET INITIAL YIELD	REVERSIONARY YIELD	VALUE
96%	51	4.5m square feet	5.5%	6.6%	683.8m

Chairman's statement
Nicholas Thompson

"We have continued to deliver against our strategy, grow our dividend and performed ahead of the recognised industry benchmark indices."

Our latest financial results to March 2018 show that Picton has had another successful year.

Net assets have grown by over 10% to £487 million and profit after tax compared to the previous year increased 50% to £64 million. The Group's net asset value per share was 90 pence at the year end and earnings per share rose to 12 pence.

These results reflect successes at the portfolio level, combined with the positive impact of gearing. We have continued to deliver against our strategy, grow our dividend and performed ahead of the recognised industry benchmark indices.

Strategy

Income is the key component of the property sector's total return. As an investment company, our investment objective is to deliver an attractive level of income, with the potential for capital growth. Over the last 12 months we have achieved this with a focus on increasing occupancy, growing income and improving our asset base.

We have made progress on the preparatory work ahead of our conversion to a UK Real Estate Investment Trust (REIT) and have provided more detail about this further on. This change of status and the associated efficiencies it brings emphasises our commitment to being one of the consistently best performing diversified UK focused property companies listed on the main market of the London Stock Exchange.

Performance

Over the financial year, the Company delivered a total return of 14.9%, which is considerably higher than the preceding year and reflects improved conditions within the property market.

At a portfolio level, we continue to outperform the MSCI IPD Quarterly Benchmark. Our track record of outperformance now extends over one, three, five and ten years. In April, MSCI IPD introduced an award for Best Listed Fund which Picton won for achieving the best relative ungeared performance against its Benchmark.

Furthermore, in recognition of the Company's track record and performance, we are delighted to have received awards from Citywire, Money Observer, FT Advisor, Investment Week, and Moneywise over the course of the year. Additionally, EPRA (the European Public Real Estate Association) awarded Picton with Gold and Silver Awards for last year's Annual Report within the financial and sustainability reporting categories respectively.

Our total shareholder return was more muted at 4.8%, which was partly a reflection of the strong return of over 25% in the preceding financial year. This is a feature of listed property companies, where it is not uncommon over the short-term for share price and net asset value to be uncorrelated.

Capital Structure

Our current loan to value ratio is 27%, a slightly lower level to last year, despite using some of our revolving credit facility to purchase the new Bristol asset.

We are focused on continuing to strengthen the Balance Sheet and our intention is to reduce gearing further over the next 12 months through selective asset sales.

Property Portfolio

We have seen good valuation growth across the portfolio, primarily in the industrial and office sectors. The portfolio value has increased by 10% to £684 million, more detail on which is provided in the Investment Manager's Report. We have only made a few selective disposals and one acquisition over the year but these have contributed positively to performance.

Equally pleasing is that we were able to increase occupancy in our portfolio to 96%, up from 94% a year ago, and also increase the average lot size which now stands at £13.4 million, up by 14% over the period.

TOTAL PROFIT

£64.2m

NET ASSETS

£487.4m

NAV PER SHARE

90p

EARNINGS PER SHARE

12p

DIVIDEND COVER

122%

DIVIDENDS TO SHAREHOLDERS

£18.5m

REIT Conversion

At the time of our last Half Year Report, I advised that we were awaiting an announcement of new legislation in the UK regarding the taxation of non-resident landlord companies such as Picton. Six months later and there are now two new pieces of legislation being introduced that will impact Picton. The first is that non-resident landlord companies will be brought into the scope of UK corporation tax, from 1 April 2020. The result of this is that we would expect our liability to UK tax to increase significantly from that date. Additionally, from 1 April 2019, capital gains made by a non-resident on the disposal of commercial property will be subject to UK tax.

Therefore, any disposals the Company makes from its portfolio after that date will be taxed, consequently reducing shareholder returns. I have stated previously that we were preparing plans to convert to a UK REIT in the event of tax changes adversely affecting Picton, and these have now been finalised. We will shortly be issuing a circular to shareholders with our detailed proposals, including a number of resolutions to be voted on at a General Meeting in July.

In summary, we wish to enter the REIT regime on 1 October this year, after becoming tax resident in the UK, which is a condition of entry. There will be some changes proposed to the articles of the Company to facilitate the REIT conversion. At the same time we are proposing to transfer our technical listing status from an investment company to a commercial company, which we believe is more appropriate for Picton and is consistent with the vast majority of internally managed UK REITs. As a result there will be changes to the way the Company is managed once we are based in the UK, including having a business strategy rather than an investment objective. We will no longer have an investment management subsidiary but will be managed through a traditional board structure with an executive function. However, our investment approach and portfolio strategy will remain very similar.

We have set out, separately within this report, a 'Question and Answer' section on the proposed changes, and within the Governance section there is also more detail regarding management changes and the role of the Board. We believe that these changes represent an important step in the evolution of the Company and recommend their approval by shareholders.

Dividends

I am pleased to report that in each of the last three financial years we have increased our dividend, most recently by 3% in February 2018. During this year we paid dividends to shareholders of £18.5 million, an increase of 3% compared to last year, with dividend cover of 122%.

We have continued to maintain a covered dividend throughout the year, in line with our strategy and enabling reinvestment back into the portfolio. Once we are in the UK REIT regime, we will review our dividend level in light of prevailing market conditions.

> "I am pleased to report that in each of the last three financial years we have increased our dividend, most recently by 3%."

Governance and Board Composition

The Board takes matters of governance extremely seriously and has provided more detail in the Governance section. We believe investors benefit from the rigour applied to listed companies generally and the governance and reporting structures we have developed at Picton.

This year we will be bringing our Annual General Meeting forward to September. We expect this to be the last one held in Guernsey. As a UK REIT, General Meetings will be held in the UK, strengthening the link between the Company and its shareholders.

During the year Mark Batten was appointed as a non-executive director and will become Chair of the Audit and Risk Committee in July.

Robert Sinclair, the current Chair of this Committee, will, as previously announced, retire in September. On behalf of all his colleagues here at Picton I would like to thank him for his dedicated service to the Company since its launch in 2005.

As part of our transition to a UK REIT, Vic Holmes will also retire from the Board in September this year. Vic, who is currently Chair of the Remuneration Committee, has been with Picton since 2013 and, equally, I would like to thank him for his service and contribution during his tenure. We are currently in the process of selecting a suitable replacement for this role and expect to have made an appointment within the next few months.

Also, as we bring management and control to the UK, Michael Morris, who is currently a non-executive director, will become Chief Executive, with effect from 1 October 2018. At the same time, Andrew Dewhirst will join the Board as Finance Director.

Outlook

We maintain a positive outlook for a number of reasons. From a top-down perspective, the portfolio remains well positioned with its overweight industrial, underweight retail bias. Our ability to invest across geographies and sectors within the UK and reshape the portfolio according to market conditions is beneficial and, as the results have shown, can deliver attractive returns.

Looking at the portfolio in detail, occupancy is at a high level and we have a number of exciting initiatives planned that should further enhance our asset base and grow income, capturing the inherent reversionary potential.

Subject to shareholder approval, we will be converting to a UK REIT alongside which we will be simplifying our corporate structure, with a view to improving efficiency and profitability.

Notwithstanding the risks associated with current economic conditions and the Brexit transition in particular, we believe these are exciting times for the Company. We want to build on our track record and continue to deliver efficiencies for shareholders as we grow. We have a clear business strategy, and we are confident that this will enable Picton to flourish within the UK REIT regime.

Nicholas Thompson
Chairman

4 June 2018





Parkbury Industrial Estate, Radlett

Strategic report

Our marketplace

Economic backdrop

The UK economy grew by 1.8% in 2017. That was considerably better than the consensus forecast, made at the beginning of last year, that economic growth would slow to just 1.2%.

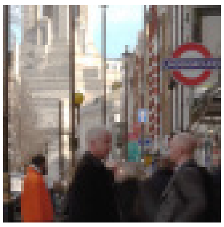
On the face of it, last year's growth performance would seem to suggest that the fears about the adverse economic impact of the uncertainty generated by the Brexit negotiations have been overstated. Nevertheless, provisional estimates show that the recovery may have stalled – economic output only rose by 0.1% during the first quarter of 2018, compared to quarterly growth of 0.4% and 0.5% in the two previous quarters. As a result, fears about the durability of the recovery have resurfaced in recent weeks.

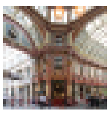
However, there is good reason to believe that March's heavy snowfall exaggerated any underlying softness in activity in the early stages of the year. The recent weakness was concentrated in the construction sector where output fell by more than 3% during the quarter. By contrast, the 0.3% quarter-on-quarter rise in services output was only marginally smaller than in the previous quarter, while at 0.7% quarter-on-quarter, growth in industrial production was stronger than the average 0.5% quarter-on-quarter increase seen last year. Experience suggests that output lost to adverse weather tends to be made up in subsequent months and quarters.

In any case, the news flow has not all been in one direction. Another drag on the economy over the past year has been the squeeze on households' real wages. Yet there is clear evidence that inflation is easing, as the upwards pressure from the jump in import prices, triggered by the fall in the pound following the EU referendum, fades. Headline CPI inflation dropped to 2.5% in March, down from 3% as recently as January. Importantly, that took inflation back below the rate of average earnings growth, which stood at 2.8% on the latest figures. That suggests a recovery in real wages is now on the cards and that the disappointing GDP data for the first quarter has not set the tone for the remainder of the year.

So too do the latest figures from the labour market. The employment rate has climbed to the highest levels on record in the early stages of 2018. With the number of unfilled job vacancies showing few signs of easing, and the unemployment rate at just 4.2% in February, reports of skills shortages are growing. That should ensure that the recent strengthening in average earnings growth is sustained, supporting consumer spending. It should also give companies a further incentive to invest, providing another boost to economic growth.

Admittedly, prior to the release of the weak GDP data for the first quarter, another rate rise in May had seemed almost certain. But in the event, the MPC chose to keep rates on hold, preferring to wait for confirmation that the slowdown was mainly weather-driven before tightening monetary policy further. But it still seems to be a question of when rather than whether interest rates will rise. For now, however, risk-free rates continue to support property valuations – for the past four months 10-year gilt yields have hovered in a narrow range of 1.4% to 1.6% but driven lower by concerns about the political situation in Italy and Spain, they slipped back below 1.3% in the final week of May.





UK PROPERTY MARKET

According to the MSCI IPD Quarterly Index, UK commercial property delivered a total return of 10% in the year to March 2018. That was more than double the 4.6% return seen in the preceding year when the market was still shaking off the drop in values that followed the UK's surprise vote for Brexit in June 2016. The improvement in returns was delivered by stronger capital value growth. After falling by 0.3% in the four quarters to March 2017, the past year has seen values rise by 5%, driven by the combination of a 2% uplift in rental values and a drop in property yields of just under 30 basis points. At 4.9% and 4.8% respectively, there was little change in the income return.

By sector, industrial property was again the star performer. Over the past year, industrial capital values have risen by 14.4%, helping to generate a total return of 19.9%. Hotels, where values rose by 9.2% and total returns were 14.1%, ranked next. Meanwhile, despite a marked slowdown in the key central London markets, office capital values rose by 3.4% and total returns were 7.7%. Offices, therefore, continued to outperform the retail sector, where values rose by just 1% and total returns were 6.2%.

At 2%, rental value growth at the All-Property level was almost identical to the 1.9% growth recorded this time last year. But rental value growth by sector has diverged over the past year. Industrial rental values led the way, rising by 5.3%. That compares to growth of 3.9% year-on-year in March 2017. The pace of rental value growth in the hotel sector also improved to 2.2%, double the rate reported this time last year. Meanwhile, at just 0.9%, rental value growth in the retail sector was unchanged. But it slowed, from 1.9% to 1.1%, in the office sector.

On a quarter-on-quarter basis, both the MSCI IPD Monthly and Quarterly Indices report that the pace of rental and capital value growth has eased over the first three months of 2018. Consistent with that, investment market activity has got off to a weak start. In the first three months of 2018, properties with a combined value of £11.7 billion changed hands, a figure that was 16% lower than the £13.9 billion total reported in the first quarter of 2017. That said, the drop in the number of deals has been even larger than the drop in value terms. There is no evidence that this weakness has been driven disproportionately by overseas investors. Taken together, these factors tend to suggest that a lack of opportunity, rather than a shift in investor sentiment, is behind the transactional slowdown.

Moreover, retail aside, the market is characterised by fairly low levels of vacancy. Both office and industrial development pipelines are also modest. With no realistic prospect of an imminent recession, and interest rate rises set to be slow and moderate, it is no surprise that the IPF consensus predicts that capital values will mark time over the next five years.

MSCI IPD ALL PROPERTY TOTAL RETURN

10.0%

MSCI IPD CAPITAL VALUE GROWTH

5.0%

MSCI IPD RENTAL GROWTH

2.0%

MSCI IPD OCCUPANCY

92.7%

Source: MSCI IPD Quarterly Index

INDUSTRIAL
TOTAL RETURN

19.9%



Industrial market trends

The 19.9% total return delivered by industrial property in the year to March 2018 was heavily reliant on a 14.4% rise in capital values. Of that, more than 9 percentage points was accounted for by falling yields. While that could be seen as a sign of an overheating market, industrial fundamentals appear solid.

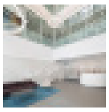
For a start, a healthy global economy and an exchange rate that is more competitive than it has been for some time, have provided a strong platform for export-oriented manufacturing firms. In addition, the ever growing penetration of online activity and the growth of cloud-based computing has generated further demand for logistics space and data centres.

That demand is also coming up against limited supply. According to survey data from the RICS, the industrial sector is the only segment of the market where development starts are rising. Yet the same survey reports that availability continues to deteriorate at a steady pace, implying that developers are struggling to keep up with demand.


The net result is that rental value growth in the industrial sector has reached 5.3%, a 17-year high, and that has given investors the confidence to bid down yields. Of course, no market can deliver 20% annual returns for long – at least not on a sustainable basis. But there are grounds for thinking that the recent strength of the industrial sector is part of a structural repricing, rather than an unsustainable boom.

OFFICES
TOTAL RETURN

7.7%



Office market trends

A reversal of the post-referendum dip in capital values also explains the strengthening in office total returns, which rose from 2.5% in the year to March 2017, to 7.7% in March 2018. Capital value growth was between 3% and 4% in both the City and the West End, as well as in the South East and the remaining regional markets. But the superior income return for Rest of UK offices helped them to deliver the strongest total returns of 9.1%. West End offices were weakest with a return of 6.5%.



Occupier market conditions are mixed. For example, take-up in central London has been patchy but, viewed on a 12-month moving-average basis, was 15% higher than a 15-year average in the first quarter.

With the exception of the South East, where there has been a marked softening, take-up in the main regional city markets has been solid. Agents also report that development pipelines in the nine largest regional city markets are typically equivalent to one year of take-up or less. Meanwhile, vacancy rates in both London and the main South East markets are below the levels that have signalled rental correction in the past.

Even so, the gains already seen mean that rental values in London and the South East are starting to look expensive, which may explain why rental growth in central London has stalled over the past year. By contrast, there are few grounds to believe that regional office rental values are approaching a ceiling.

RETAIL
TOTAL RETURN

6.2%

Retail market trends

At 6.2%, retail total returns in the year to March 2018 were a distinct improvement on the 2.8% return seen in the year to March 2017. That was driven by a stronger performance from capital values. But at just 1% and 0.9% respectively, capital value and rental value growth were both still relatively subdued.

Admittedly the retail market is heavily polarised. That can be seen from the fact that MSCI IPD reported that 11.9% of retail units were vacant in the first quarter, but that only 4.1% of potential rent was lost to vacancy, implying that demand at the top end of the market is comparatively healthy. Similarly, central London shops delivered a return of 12% over the past year, supported by an 8.5% rise in capital values. By contrast, shopping centres, the weakest market segment, suffered a 3.4% fall in values and returned just 1.2%.

There has been little good news for the retail sector since the start of the year and retail sales volumes contracted by 0.4% quarter-on-quarter. Several high profile names have ceased trading, others have announced restructurings or are rumoured to be considering Company Voluntary Agreements (CVAs) to reduce their rent bills. That said, the drop in inflation and the recovery in real incomes that now appears to be underway, should provide some relief for the sector over the remainder of this year and next. But without a strong and sustained rebound in occupier demand, the overhang of surplus space is likely to limit the upside for retail returns.

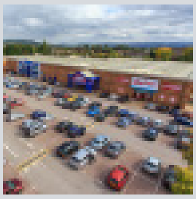
Our business model

We invest in commercial property across the United Kingdom and aim to generate attractive returns for our shareholders from the proactive management of our portfolio. We invest in assets where we believe there are opportunities to enhance income and/or value.

Our property portfolio currently consists of 51 assets and is invested in the industrial, office, retail and leisure sectors. These assets generate a rental income stream from more than 360 occupiers across a wide range of businesses. After deducting operational and financing costs, the majority of this income is then paid out as dividends to our shareholders and the remaining balance is retained and can be invested back into the portfolio.

Depth of Expertise
We have a team that has significant experience across the UK commercial property market.

Creating a Diverse Portfolio
We have established a portfolio that is diversified across sectors and spread throughout the UK. Although income focused, we will consider opportunities where we can increase either income or value over the medium term.



Delivering Long-term Shareholder Value
Our business model gives us the flexibility to adapt to changing market conditions and so deliver value to our shareholders through the property cycle and over the long-term.

Asset Management
We have a dedicated asset management team with an occupier focused, opportunity led approach. We aim to create space that meets our occupiers' needs and so maintain our ongoing high levels of occupancy across the portfolio.

Stable Recurring Income
Our diverse occupier base generates a stable income stream, which we aim to grow through active management and capturing market rental uplifts. We maintain a covered dividend policy, which provides cash flow, allowing us to reinvest funds back into the portfolio.

Our investment strategy

As an investment company our investment objective is to provide shareholders with an attractive level of income, with the potential for capital growth.

Our strategy is to hold a property portfolio with a strong income bias and manage assets in order to maximise the potential for both income and, where appropriate, capital growth. This is achieved through, amongst other things, improving the quality of space, extending the income profile and exploring the potential to create value through refurbishment, change of use or redevelopment.

In addition, we look to recycle capital by investing in opportunities that provide better risk adjusted returns. We are opportunity led and occupier focused in our approach. We invest across sectors and locations within the UK, understanding and meeting the needs of new and existing occupiers.

Our five key strategic priorities

Growth of net income

STRATEGIC PRIORITY	PROGRESS THIS YEAR	CONNECTED KPIs
We aim to grow net income. Our aim is to grow annual income from new lettings, lease renewals, rent reviews and re-gears. We also strive to reduce portfolio voids by attracting new occupiers, and by investing in our assets to make them attractive to occupiers, and help generate rental growth.	Rental income received over the year grew by £0.9 million, and with rising occupancy, property costs reduced by £1.1 million.	Property Income Return Total Property Return Total Return EPRA Earnings per Share

Working with our occupiers

STRATEGIC PRIORITY	PROGRESS THIS YEAR	CONNECTED KPIs
We maintain regular communication with our occupiers. By doing this, we understand their needs and can work to meet their requirements. Our successful occupier focused initiatives include the ‘Picton Promise’ – eight commitments to quality and service that underpin our occupier experience. We believe that these initiatives help to maintain occupancy and improve retention rates.	Our occupancy rate increased from 94% to 96% this year, and remains ahead of the MSCI IPD Quarterly Benchmark. We have significantly improved our retention rate this year, retaining 63% of income at risk due to lease expiries or break options.	EPRA Vacancy Rate Property Income Return Total Property Return

Operational efficiency

STRATEGIC PRIORITY	PROGRESS THIS YEAR	CONNECTED KPIs
Picton is an internally managed investment company. Unlike many investment companies Picton is internally managed with a dedicated team. We believe this is an efficient operating model and allows Picton to benefit from economies of scale as it grows.	Management expenses have remained in line with 2017 at £3.6 million, and therefore our Ongoing Charges ratio has fallen, demonstrating the economies of scale being achieved.	Ongoing Charges Total Return

Portfolio and asset management

STRATEGIC PRIORITY	PROGRESS THIS YEAR	CONNECTED KPIs
Active asset management is core to our approach. We seek to enhance the value of our assets through active management. We will also look to acquire new assets that offer the potential to enhance income and value, while disposing of assets that we believe will contribute less in terms of performance.	The capital value of our portfolio has increased by 6.5% on a like-for-like basis. The acquisition of Tower Wharf in Bristol during the year is an example of where we have been able to enhance both value and income. Three non-income producing assets have been sold during the year.	Total Property Return Total Return EPRA Net Asset Value per Share

Effective use of debt

STRATEGIC PRIORITY	PROGRESS THIS YEAR	CONNECTED KPIs
Over the long-term we believe that effective use of gearing will increase returns to shareholders. The income return from the portfolio will be enhanced by the long-term fixed interest rates in place on our borrowings. We review our level of gearing and cost of debt regularly to adapt to changing market conditions.	Having gearing in place has again enhanced both the income and total returns for the year. We intend to use gearing on a tactical basis, as evidenced by drawing down on our revolving credit facility to partly finance the new acquisition in Bristol.	Loan to Value Ratio Total Return

WORKING WITH OUR OCCUPIERS

TOTAL OCCUPANCY 2012

91%

TOTAL OCCUPANCY 2018

96%

The key to our success in improving occupancy has been our ability to attract new occupiers while working with and retaining existing ones through our occupier focused approach. This personal hands-on approach and attention to detail is vital as we manage our assets and improve their attractiveness to occupiers. We believe this will improve occupier retention and mitigate risk to our income profile.

LONDON E16

Datapoint comprises seven modern warehouse units totalling 54,900 sq ft, located approximately six miles east of central London, within easy reach of the A11, A12 and A13 arterial routes.

NUMBER OF OCCUPIERS

7

INCREASE IN ERV

16%

SIZE

54,900 square feet

INCREASE IN VALUE

26%

We engaged with an occupier who wanted to leave and was willing to pay the equivalent of their full liability under the lease to surrender. The unit was marketed in its existing condition without any works being undertaken.

The unit was let within four months of completion of the surrender on a ten year lease at a rent of £0.20 million per annum, 16% ahead of the March 2017 ERV and 55% ahead of the previous passing rent.

In another transaction, we removed a December 2019 break option in return for a one month rent free period, securing the occupier for a further five years at a passing rent of £0.27 million per annum which is subject to review in 2019.

The property is fully let and the ERV is 16% higher than at 31 March 2017, with the valuation having increased by 26% over the same period.

SOUTH EAST
OFFICE PARK

COLCHESTER

Colchester Business Park is an established business park constructed in the early 1990s. It comprises 150,700 sq ft of office accommodation just to the south of the A12.

NUMBER OF OCCUPIERS

21

SIZE

150,700 square feet

INCREASE IN ERV

19%

INCREASE IN VALUE

25%

We engaged our largest occupier, Essex County Council, in advance of their September 2018 lease expiry, to establish terms for a renewal of their lease. Following negotiations, we completed an early renewal securing a further ten years, subject to break, at an annual rent of £0.53 million, 34% ahead of ERV and 26% ahead of the previous passing rent.

During the year we completed four further transactions at a total annual rent of £0.1 million, 8% ahead of ERV and 19% ahead of the previous passing rent.

The property is currently 98% let with the ERV 19% higher than at 31 March 2017, and the valuation having increased by 25% over the same period.

Investing in our properties

CAPITAL INVESTMENT 2012	CAPITAL INVESTMENT 2018
£7m	£28m

We invest back into our properties, ensuring they remain modern and provide space businesses want to occupy. This will enable us to grow income, improve occupier retention, mitigate void periods and enhance value. Our strategy reflects value creation over the short, medium and long-term.

Gloucester

Gloucester Retail Park comprises five units of a combined 113,900 sq ft. The property is located on the established retailing area of Eastern Avenue, approximately two miles from the city centre.

SIZE

113,900 square feet

NUMBER OF OCCUPIERS

5

INCREASE IN RENT ROLL

15%

INCREASE IN VALUE

10%

During the year, we completed the development of a new drive-through unit which was pre-let to Starbucks on a ten year lease. The addition of an established national operator to the park has increased footfall and completed our plans at the time of purchase to modernise the property and to improve the aesthetics and end user experience.

At the same time, we resurfaced the car park and improved the visibility of the retail park with the installation of new occupier signage.

The property is now fully let and we have increased the valuation by 10% over the year.

WOKINGHAM

The Business Centre on Molly Millar's Lane comprises of twelve multi-let warehouse units totalling 100,800 sq ft. The property is located within easy reach of the M3 and M4 motorways in an area with limited supply and good demographics.

BEFORE

AFTER

SOUTH EAST MULTI-LET INDUSTRIAL ESTATE

NUMBER OF OCCUPIERS

12

SIZE

100,800 square feet

INCREASE IN VALUE

15%

We have repositioned this estate, enhancing the external appearance to give it a more contemporary feel.

Our primary objective was to compete with newer units elsewhere, increase income and add value by attracting new occupiers to the estate. The comprehensive external refurbishment enabled us to let the final vacant unit at a rent 62% ahead of the previous passing rent.

The property is fully let and the estimated rental value (ERV) is 7% higher than at 31 March 2017 with the valuation having increased by 15% over the same period.

INCREASE IN ERV

7%

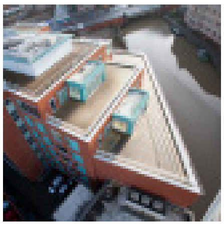
Repositioning the portfolio

PROPERTY ASSETS 2012	PROPERTY ASSETS 2018
£414m	£684m

We repositioned and enhanced the portfolio through strategic acquisitions and disposals improving the income and risk profile. We sold three non-core and non-income producing assets and acquired a multi-let regional office building.

Bristol

Tower Wharf is a 70,800 sq ft Grade A office building with a BREEAM "Excellent" rating located in central Bristol within easy reach of both Temple Meads station and the main shopping district.



PURCHASE PRICE

£23.2m

INCREASE IN OCCUPANCY

28%

INCREASE IN VALUE

15%

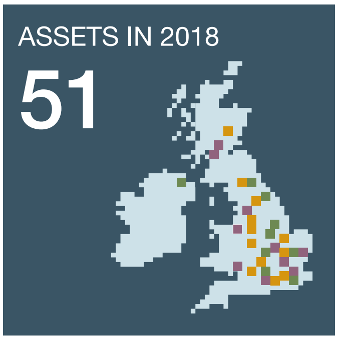
Having identified the continuing strength of Bristol's occupational market, a lack of available Grade A office space and a constrained development pipeline, we acquired the property off market in August 2017 for £23.2 million.

On purchase the property was let to four occupiers at an average passing rent of only £19.65 per sq ft. There was a further 25,400 sq ft of vacant space, providing the opportunity to add value through letting and thereby establishing higher rents within the building.

As anticipated, we quickly completed new leases for a combined 19,100 sq ft, with the fourth floor let to Integreon, a business support company, and the fifth floor let to the advertising agency, McCann.

The lettings were for a combined annual rent of £0.54 million, equivalent to £28.50 per sq ft, 4% ahead of the ERV on purchase. Only one small suite now remains available.

As at March 2018 the property has seen a 15% uplift in valuation since acquisition.



BRACKNELL

L'Avenir was a 41,300 sq ft office building located to the south of Bracknell town centre with 184 car parking spaces on a site of 1.87 acres.

SIZE

41,300 square feet

SALE PRICE

£8.1m

PREMIUM TO VALUATION

48%

In contrast to Bristol, the office market in Bracknell remains difficult, with limited occupier demand coupled with an over supply of available and competing space. It was considered that this would be further exacerbated going forward by changes in planning legislation relating to permitted development, bringing an end to the conversion of offices to residential in many parts of the town.

As the property was providing a high level of income from a strong covenant, we waited until lease expiry before selling the property to a residential developer, maximising proceeds and mitigating future capital expenditure.

We disposed of this property in July 2017 for £8.05 million reflecting a 48% premium to the March 2017 valuation.

Chief executive's review
Michael Morris

"We have delivered growth in both net asset value and at a portfolio level, which has again generated returns ahead of the MSCI IPD Quarterly Benchmark."

Our focus over the last 12 months has been to ensure we achieve our strategic priorities and prepare for the changes required as Picton becomes a UK REIT.

By way of background, while the UK commercial property market has delivered positive capital growth every month over the financial year, there has been a very obvious variation in returns between sectors. This was particularly evident in the divergence between the strong industrial markets, where we are overweight, and the weaker retail market, where we have an underweight position.

We have delivered growth in both net asset value and at a portfolio level, which has again generated returns ahead of the MSCI IPD Quarterly Benchmark. The Investment Manager's Report provides more detail on the various property transactions completed during the year.

In terms of strategic priorities, I have set out our progress here.

Growing net income
In total, net property income moved from £42.4 million in 2017 to £38.4 million in 2018. However, in 2017 we received £5.3 million of exceptional income in respect of our Luton hotel asset. Excluding this, net property income grew by 3% in 2018.

Working with our occupiers

This is at the heart of our occupier focused, opportunity led approach. We have included several case studies that demonstrate this approach in action and again there is more detail within the Investment Manager's Report.

Working closely with our occupiers to help to expand or contract as their businesses evolve is very much part of what we do and a reflection of this is the increase in occupancy that we have achieved during the year.

We have started to roll out occupier satisfaction surveys to occupiers at our multi-let assets.

We have introduced tougher key performance indicators with our principal service providers, including our managing agents, to continue to improve service delivery. We will make further progress with this initiative in the coming year.

We also encourage the use of our meeting rooms for our occupiers based in the regions who occasionally need meeting room space in London.

Operational efficiency

Over the year our ongoing charges ratio reduced by 5%, from 1.2% to 1.1%.

This reflects our focus on operational efficiency and more importantly the benefits of our internalised management model, meaning that our cost base is not directly linked to the value of the assets.

A significant proportion of the management cost is performance based and aligned with shareholders' interests through both deferred bonus awards and our Long-term Incentive Plan. The management costs this year include a proportion of expected future awards, arising from outperformance to date.

Portfolio and asset management

We continue to have success within the portfolio, in particular with our industrial and office assets, which have shown double digit returns.

Our retail portfolio has not been without its challenges, and seen modest declines reflecting the difficulties faced by a number of high street retailers. As a diversified investment company this element reflects the smallest part of our portfolio and our exposure is significantly lower than the wider market, further contributing to our outperformance against the MSCI IPD Quarterly Benchmark.

Effective use of debt

We have been focused in recent years on the gradual reduction of debt within the Group. Clearly there is a risk/return trade off in this strategy, but we feel it is appropriate as we move through the property cycle.

Tactically, we used one of our revolving credit facilities to partly finance the acquisition in Bristol and we will continue to approach the use of debt on this basis as and when compelling investment opportunities arise.

Notwithstanding the drawdown under our revolving credit facility, our loan to value ratio has reduced slightly to 26.7% at the year end, which is well within the operational headroom afforded by our lending criteria.

TOTAL PROPERTY RETURN

13%

PROPERTY INCOME RETURN

6%

EARNINGS PER SHARE

12p

"Our focus is very much at an asset and indeed occupier level."

Outlook

While we have to be cognisant of macro issues, at Picton our focus is very much at an asset and indeed occupier level. Enhancing space and improving our income profile can have a positive impact and this is where the property market differs from other asset classes; the ability to manage our assets.

Our business model has embedded longevity throughout the various property cycles as we continually reposition the portfolio towards better growth assets. While single digit forecast consensus returns are more pessimistic, more than ever the devil is in the detail. The industrial sector, where we have greatest exposure still looks to be the outperformer and retail where we have very low relative exposure would appear to be the reverse. We are continually having to make value judgements around reward and risk, and to this end we intend to be more cautious in our use of debt in the short-term. We are fortunate to now have in place undrawn debt facilities that we can use tactically if we can secure attractively priced opportunities.

Entering the REIT regime later this year will provide a further operational boost and represents a positive evolution of the Picton business. Recognising our track record, approach and the team's abilities, I believe we are well placed to continue to achieve our aim of being one of the consistently best performing diversified UK focused property companies listed on the main market of the London Stock Exchange.

Michael Morris
Chief Executive,
Picton Capital Limited

4 June 2018

Changes to our business model

> Picton aims to be one of the consistently best performing diversified UK focused property companies listed on the London Stock Exchange.

Our business strategy

As we have been preparing for UK REIT conversion we have been updating our business objectives, strategic aims and business model. This is to provide clarity on who we are and what we aim to achieve for shareholders, staff, service providers and occupiers. We have therefore clarified our future business model and strategy as a UK REIT as set out below.

Our vision

Picton aims to be one of the consistently best performing diversified UK focused property companies listed on the London Stock Exchange.

Our strategy to achieve this vision

We will own and manage a portfolio of properties that outperforms the MSCI IPD Quarterly Benchmark and provides a stable income stream. We will adapt our capital structure as necessary to achieve enhanced returns including the effective use of debt.

Our strategic aims

Our strategic aims, which are designed to meet our strategy and vision, are as follows:

Be occupier focused and opportunity led in the way we approach the proactive management of our portfolio

Buy, manage and sell effectively to enhance value and income over the short, medium and long-term

Focus on both income and total return and look at ways to reduce and manage risk

Work with our occupiers to create space that they need, provide a service they value and so deliver high occupancy

Have a flexible and efficient capital structure and manage our debt profile through the property cycle

Ensure we run an effective and efficient operational model

Have the right culture that enables Picton to achieve its strategic aims

Align all staff with shareholders' interests through an appropriately structured remuneration policy

Q&A
REIT conversion

> "By becoming a REIT Picton will benefit from an established tax exempt regime and will be able to maintain or enhance shareholder returns."

Why are we planning to convert to a REIT?
In November 2017 the UK government announced changes to the taxation of non-resident companies, bringing them into the scope of UK corporation tax with effect from 1 April 2020, and also taxing gains made by non-residents on the disposal of UK commercial properties (both directly and indirectly) from 1 April 2019. Both changes are likely to have an adverse impact on the tax liability of Picton, and on shareholder returns.

The UK REIT regime was introduced in 2006, and is a tax efficient structure for UK tax resident listed companies investing in real estate. A company within the REIT regime is exempt from UK tax on income or gains arising from its property rental business, subject to meeting certain conditions.

By becoming a REIT, Picton will benefit from an established tax exempt regime which should enhance shareholder returns.

What other benefits are there in being a REIT?
REITs are a recognised 'brand' internationally which helps to attract a wider investor base. By becoming a REIT, Picton expects to benefit from increased liquidity in its shares.

Currently, Picton does have some UK tax on its activities and, as a REIT, this tax is expected to reduce to a minimal amount.

What changes will there be to dividends?
We will continue to pay dividends on a quarterly basis, on the same dates: at the end of February, May, August and November each year.

As a REIT, each dividend will potentially comprise two parts – a normal dividend and a Property Income Distribution (PID). The PID, which is expected to comprise the majority of each dividend, is paid from the net income profits of the REIT's tax exempt rental business and there is a requirement to distribute at least 90% of this income on an annual basis. Subject to some exceptions (including ISAs), PIDs are subject to withholding tax at the basic rate of income tax, currently 20%. The balance of any dividend will be paid as normal, and there is no withholding tax on this element.

What are the conditions of being a REIT?
There are a number of conditions which a REIT must meet in order to be eligible for and to remain in the regime.

A key condition is that a REIT must be solely tax resident in the UK. To meet this we intend to hold all of our Board meetings and AGMs in the UK, from October this year, bringing management and control to the UK.

There are other conditions that must be met, such as the distribution to shareholders of at least 90% of the net income profits from the tax exempt property business each year (the PID). These will be set out in more detail in the forthcoming circular but we believe that we will be able to satisfy them all, once tax resident in the UK.

Our history

2005
The Company was successfully launched as ING UK Real Estate Income Trust Limited on the London Stock Exchange

2006
Increase in the Company's property assets, including a £125 million portfolio purchase

Disposal of a portfolio of public houses, to a pub operating company, at a significant profit

2009
Restructuring of the Company's securitised debt successfully completed

2010
Acquisition of Rugby Estates Investment Trust plc by the Company

Decision taken to internalise the Company's management

2011
Name changed to Picton Property Income Limited

2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011

What is the Listing Category and why is it significant?
The listing category of a company is how a company is classified on the London Stock Exchange. There are different rules and obligations according to which listing category a company falls under. For a company with a Premium listing (the highest regulatory standard) there are three categories – commercial companies, closed ended investment funds and open ended investment companies.

An investment company must have a defined investment policy and must manage its assets in accordance with that policy and any restrictions in place. A commercial company does not have any such policy, giving more flexibility, but shareholders have the protection of Class Tests.

Why does the Board want to change Picton's listing category?
When Picton was first established in 2005 it was classified as a closed ended investment fund, and still is. Since then we have become internally managed, which is unusual for an investment company, and now we believe it is in the best interests of the Company to move onshore and become a UK REIT with management and control in the UK. The overwhelming majority of internally managed UK REITs are classified as commercial companies, and Picton will fall within this group, making peer group comparison easier for investors.

What will change if Picton becomes a commercial company?
Our business strategy will remain broadly the same. We will continue to own and manage a diversified commercial property portfolio across the UK, and maintain our occupier focused and opportunity led approach. Internally, we will operate slightly differently. We will no longer have an investment management subsidiary. Instead the day-to-day running of the business will be carried out by the executive team, headed by the Chief Executive, under authority delegated by the Board. This will improve transparency and accountability of the executive function for shareholders.

Countdown to REIT conversion 2018

June
- Announcement of 2018 annual results
- Issue 2018 Annual Report and circular to shareholders

July
- Extraordinary General Meeting to approve proposed changes

August

September
- Annual General Meeting
- Company moves tax residency to the UK and applies for REIT status

October
- Company enters REIT regime
- REIT CONVERSION

November

December

2012
2012
Became self-managed investment company
Re-financed loan facilities with two new lenders

2013
2013
New equity raised to fund property acquisitions

2014

2015
2015
Increase in dividend
Highest reported profit and total return since 2006
New website launched and branding refreshed

2016
2016
Won Investment Company of the Year Award (Property)
Reduced exposure to central London offices
Repaid zero dividend preference shares

2017
2017
Won Money Observer Awards – Best Property Trust UK
Outperformed MSCI IPD Quarterly Benchmark over 1, 3, 5 and 10 years
Increase in dividend

2018
2018
REIT Conversion

Key Performance Indicators

The following key performance indicators are considered to be the most appropriate for measuring how successful the Company has been in meeting its strategic objectives.

The key performance indicators are also used in setting the variable element of remuneration for the Picton Capital Limited team. The Remuneration Committee considers the key performance indicators for the year in determining annual bonus awards, as is set out in the Remuneration Report. The performance metrics used in the Long-term Incentive Plan are EPRA earnings per share, total property return and total shareholder return. These were selected as those key performance indicators most appropriate to setting long-term targets and to aligning with shareholders' interests.

LTIP condition

Our Five Strategic Priorities

- Growth of net income
- Working with our occupiers
- Operational efficiency
- Portfolio and asset management
- Effective use of debt

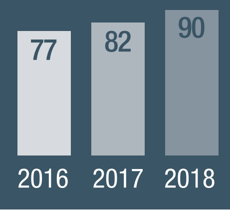
EPRA

LINKING OUR PERFORMANCE TO EPRA BEST PRACTICES RECOMMENDATIONS

We have a range of key performance indicators that we use to measure the performance and success of the business. We consider that industry standard measures, such as those calculated by MSCI IPD, are appropriate to use alongside certain EPRA measures and others that are relevant to our Company.

In this regard, we consider that the EPRA net asset value per share, earnings per share and vacancy rate are the most appropriate measures to use in assessing our performance.

EPRA NET ASSET VALUE PER SHARE (PENCE)

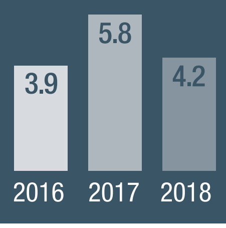


Why we use this indicator
The net asset value per share, calculated in accordance with EPRA, measures the value of shareholders' equity in the business.

Our Performance in 2018
The EPRA NAV per share has grown by 10% over the year.

Strategic link

EPRA VACANCY RATE (%)

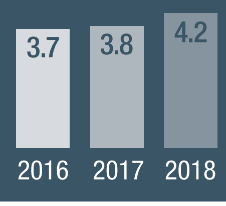


Why we use this indicator
The vacancy rate measures the amount of vacant space in the portfolio at the end of each financial period.

Our Performance in 2018
The EPRA vacancy rate has fallen over the year, as a result of significant letting activity taking place at a number of properties. The vacancy rate is below the MSCI IPD Quarterly Benchmark vacancy rate of 7.1%.

Strategic link

EPRA EARNINGS PER SHARE (PENCE)



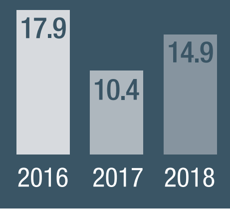
Why we use this indicator
The earnings per share, calculated in accordance with EPRA, represents the earnings from core operational activities and excludes investment property revaluations, gains/losses on asset disposals and any exceptional items. It measures the operational profit generated by the business that is attributable to our shareholders.

The growth in EPRA earnings per share is one of the metrics used for the Long-term Incentive Plan.

Our Performance in 2018
EPRA earnings per share has increased this year due to the growth in rental income through the lettings achieved and the reduction in finance costs.

Strategic link
LTIP condition

TOTAL RETURN (%)



Why we use this indicator

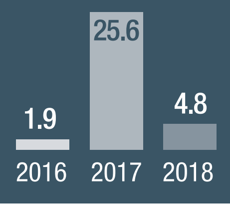
The total return measures the performance of the Group based on its published results. It is the change in the Group's net asset value, calculated in accordance with IFRS, over the year, plus dividends paid.

Our Performance in 2018

Stronger valuation gains this year, together with a growth in income, have contributed to the improved return for the year.

Strategic link

TOTAL SHAREHOLDER RETURN (%)



Why we use this indicator

The Total Shareholder Return measures the change in our share price over the year plus dividends paid. This is the return seen by investors on their shareholdings.

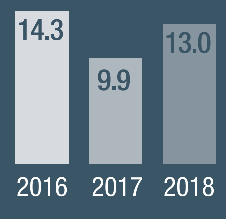
Our Total Shareholder Return relative to a bespoke comparator group is the final performance metric used in the Long-term Incentive Plan.

Our Performance in 2018

Compared to 2017, the movement in our share price over the year has been relatively flat but an overall positive return has been achieved. However, since the year end we have seen the share price discount narrow with shares now trading close to the net asset value per share.

Strategic link
LTIP condition

TOTAL PROPERTY RETURN (%)



Why we use this indicator

The Total Property Return is the combined ungeared income and capital return from our property portfolio for the year, as calculated by MSCI IPD.

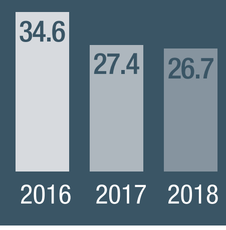
Our Total Property Return relative to the MSCI IPD Quarterly Benchmark is a Long-term Incentive Plan metric.

Our Performance in 2018

For the fifth year running we have outperformed the MSCI IPD Quarterly Benchmark, delivering a return of 13.0% compared to the MSCI IPD Quarterly Benchmark return of 10.1% for the year, and we have also outperformed on a three, five and ten year basis.

Strategic link
LTIP condition

LOAN TO VALUE RATIO (%)



Why we use this indicator

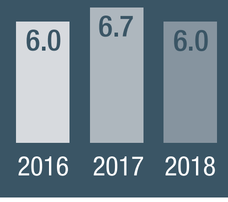
The loan to value ratio is total Group borrowings, net of cash, as a percentage of the total portfolio value. This is a recognised measure of the Company's level of borrowings. See the Supplementary Disclosures section for further details.

Our Performance in 2018

The loan to value ratio has continued to reduce this year, as the portfolio values have risen.

Strategic link

PROPERTY INCOME RETURN (%)



Why we use this indicator

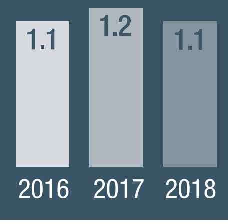
The Property Income Return, as calculated by MSCI IPD, is the ungeared income return of the portfolio.

Our Performance in 2018

With our portfolio biased towards income generation, this is an important indicator. The income return for the year of 6.0% was ahead of the MSCI IPD Quarterly Benchmark of 4.6%, and we have also outperformed on a three, five and ten year basis.

Strategic link

ONGOING CHARGES (%)



Why we use this indicator

The Ongoing Charges ratio represents the annual running costs of the Group. It is the proportion of recurring operating costs (management and other operating expenses) to the average net asset value. The above figures exclude property operating costs, as the Board considers that these are not recurring in nature, nor are they a measure of how efficiently the business is run.

The Supplementary Disclosures section provides further analysis of the Ongoing Charges ratio.

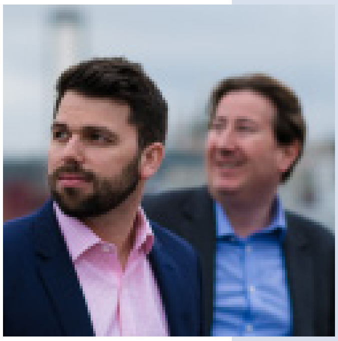
Our Performance in 2018

The Ongoing Charges ratio has fallen back to 1.1% this year. Operating costs are largely unchanged from 2017, compared to an increasing net asset value.

Strategic link

Investment manager's report

We have completed 24 lettings securing over £2.1 million of income, 3.7% ahead of the March 2017 ERV.



We have had another successful year with our occupier focused and opportunity led approach.

Our asset allocation and proactive management of the portfolio, including value accretive investment activity, have enabled us to again outperform the MSCI IPD Quarterly Benchmark on a total return basis over one, three, five and ten years. For the third year running, we have won the MSCI IPD data quality award for our submissions as part of this benchmarking process.

Our portfolio now comprises 51 assets, with over 360 occupiers and is valued at £683.8 million. As a result of leasing activity and active management, the passing rent is now £41.4 million, increasing by 3.9% on a like-for-like basis and the estimated rental value (ERV) of the portfolio is £47.9 million, growing by 2.4% on a like-for-like basis.

We have completed 24 lettings securing over £2.1 million of income, 3.7% ahead of the March 2017 ERV. We have grown occupancy by 2% over the year to 96%, which is particularly pleasing and in line with our desire to maintain higher than benchmark occupancy. We completed 20 lease renewals and re-gears retaining over £1.9 million of income, 14.3% ahead of the March 2017 ERV.

One acquisition was made during the year for £23.2 million and three non-core assets were sold for proceeds of £10.4 million, 37% ahead of the March 2017 valuation. The net effect of these transactions is that the average lot size has increased by 14% to £13.4 million.

We have set out the principal activity in each of the sectors in which we are invested and believe our strategy and proactive occupier engagement will continue to unlock further value.

The occupier markets have remained resilient, especially in the industrial and regional office sectors, where we have seen good demand further improving our occupancy figures. Central London has seen a slight weakening of demand which has resulted in incentives increasing.

There has been well publicised disruption in the retail and leisure sector, which is primarily a result of changing shopping habits, increased occupational costs, due to business rates, and the impact of the living wage. We expect this situation to continue, especially in the mid-range sector, which will increase supply, noting that the budget sector is still expanding. We have a low weighting to the sector with high occupancy, well located units and mostly rebased rents. We see opportunity to create value in the medium-term through active management while maintaining a high income return.

In terms of wider trends affecting the markets we are operating in, the Minimum Energy Efficiency Standards (MEES) regulations became effective on 1 April 2018 in England and Wales. From this date it will be illegal to renew or grant new tenancies at properties that have F or G EPC ratings and from 2023 the scope of the regulations increases to include existing leases. We identified this risk a number of years ago and now have 99% of EPCs that are compliant, with remaining assets having action plans in place. We were also pleased to be on the steering group for the IPF Research document: Costing Energy Efficiency Improvements in Existing Commercial Buildings 2017, which was published in November and is a key industry publication looking at the value of a broad range of energy efficiency measures to upgrade the energy performance of buildings and strategies to reflect current market standards.

The changes to how businesses use space with a focus on flexibility, staff amenities and connectivity continue to have an impact on the office market. Our occupier focus means we work with our occupiers to ‘right size’ their space, as shown in some of the examples in the sector updates. Over the year we have continued to proactively engage with our occupiers and have recently introduced occupier surveys, in addition to our quarterly occupier newsletter. We have had a good response to date and will be rolling out this initiative across the portfolio over the coming year.

Examples of how we are increasing occupier amenities include at 50 Farringdon Road, EC1 where we are looking to install a roof terrace for the use of the occupiers, and at Longcross Court, Cardiff, where the planned refurbishment includes occupier amenity areas. We are also planning to increase bicycle storage and shower facilities across the portfolio, trial an initiative which encourages occupiers to use stairs and, with sustainability in mind, we are installing bee hives on the roof of Queens House in Glasgow – this was an initiative that got strong support following one recent occupier survey.

We realise connectivity is of crucial importance to all business and our aim is to continue to improve the connectivity across the portfolio. Over the year we have been working with WiredScore, an international connectivity rating system, to improve connectivity in ten of our office buildings. We were pleased to have the first building in Scotland to be Wired Certified at 180 West George Street in Glasgow which secured a gold certification. This means the building is recognised for leading its class in internet infrastructure and superior internet connectivity.

ESTIMATED RENTAL VALUE

£47.9m

OCCUPANCY

96%

AVERAGE LOT SIZE

£13.4m

Portfolio Performance

The portfolio's total return for the year to 31 March 2018 was 13.0%, outperforming the MSCI IPD Quarterly Benchmark, which delivered 10.1%. Our continued overweight position to the industrial sector and regional offices, together with the active management carried out, has contributed to this outperformance.

As at 31 March 2018, the portfolio generated a net initial yield of 5.5% after void costs with a reversion to 6.6%. The portfolio's valuation for the year grew by 6.5% on a like-for-like basis. We saw positive valuation growth in the industrial sector of 12.6% and in the office sector of 6.1%. The retail and leisure holdings, despite remaining 97% let, declined in value by 2.3% reflecting the subdued outlook in the retail sector.

Overall, like-for-like growth in the portfolio's estimated rental values was 2.4% during the year to March 2018. Estimated rental values in the industrial sector grew by 3.7% and by 3.6% in the office sector. The retail and leisure estimated rental values declined by 1.5%, with the retail warehouse element remaining flat.

The estimated rental value of the void space is £2.0 million per annum, with four properties accounting for over half the void. Our largest letting opportunity is at 180 West George Street in Glasgow, a market which is seeing improving activity levels. The building presents exceptionally well and we expect to secure occupiers and enhance our income position.

Outlook for the coming year

Our outlook has not fundamentally changed since last year, with strong occupational demand in the industrial and regional office markets set to continue with rents rising. Continuing issues around Brexit have resulted in ongoing uncertainty for central London offices with rents remaining static or decreasing slightly, and incentives moving out.

The retail and leisure sector has had some well publicised failures recently and we see this set to continue in the mid-market sector on the back of increased costs and changing shopping habits. We do not see the retail and leisure sector rebounding in the short-term, hence our underweight position, however there are opportunities on an asset-by-asset basis.

Our portfolio strategy remains unchanged, the de-risking of income through active management and capturing rental growth is our key focus. We believe we remain well placed to grow income and add further value to the portfolio.

Jay Cable
Head of Asset Management,
Picton Capital Limited

Fraser D'Arcy
Investment Director,
Picton Capital Limited

4 June 2018

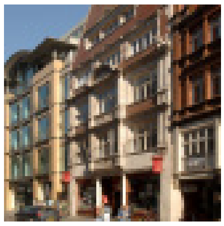
TOP TEN ASSETS

The largest assets as at 31 March 2018, ranked by capital value, represent 49% of the total portfolio valuation.

PARKBURY INDUSTRIAL ESTATE
Radlett, Herts.

Acquisition date	03/2014
Property type	Industrial
Tenure	Freehold
Approx area (sq. ft)	336,700
No of occupiers	23
Occupancy rate (%)	100

1



RIVER WAY INDUSTRIAL ESTATE
Harlow, Essex

Acquisition date	12/2006
Property type	Industrial
Tenure	Freehold
Approx area (sq. ft)	454,800
No of occupiers	11
Occupancy rate (%)	100

2

ANGEL GATE
City Road, London EC1

Acquisition date	10/2005
Property type	Office
Tenure	Freehold
Approx area (sq. ft)	64,500
No of occupiers	26
Occupancy rate (%)	91

3

STANFORD HOUSE
Long Acre, London WC2

Acquisition date	05/2010
Property type	Retail
Tenure	Freehold
Approx area (sq. ft)	19,700
No of occupiers	3
Occupancy rate (%)	98

4

50 FARRINGDON ROAD
London EC1

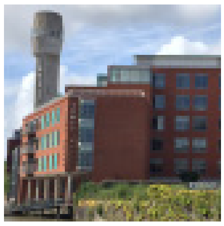
Acquisition date	10/2005
Property type	Office
Tenure	Leasehold
Approx area (sq. ft)	31,000
No of occupiers	5
Occupancy rate (%)	87

5

TOWER WHARF
Cheese Lane, Bristol

Acquisition date	08/2017
Property type	Office
Tenure	Freehold
Approx area (sq. ft)	70,800
No of occupiers	6
Occupancy rate (%)	91

6



BELKIN UNIT
Shipton Way Rushden, Northants.

Acquisition date	07/2014
Property type	Industrial
Tenure	Leasehold
Approx area (sq. ft)	312,900
No of occupiers	1
Occupancy rate (%)	100

7

30 & 50 PEMBROKE COURT
Chatham, Kent

Acquisition date	06/2015
Property type	Office
Tenure	Leasehold
Approx area (sq. ft)	86,300
No of occupiers	3
Occupancy rate (%)	100

8

COLCHESTER BUSINESS PARK
Colchester

Acquisition date	10/2005
Property type	Office
Tenure	Leasehold
Approx area (sq. ft)	150,700
No of occupiers	21
Occupancy rate (%)	98

9

METRO
Salford Quays, Manchester

Acquisition date	02/2016
Property type	Office
Tenure	Freehold
Approx area (sq. ft)	71,000
No of occupiers	4
Occupancy rate (%)	100

10

Our top ten occupiers

The largest occupiers, based as a percentage of contracted rent, as at 31 March 2018, are as follows:

BELKIN LIMITED
£1.7m
3.8%

PUBLIC SECTOR
£1.6m
3.6%

DHL SUPPLY CHAIN LIMITED
£1.5m
3.4%

B&Q PLC
£1.2m
2.8%

SNORKEL EUROPE LIMITED
£1.1m
2.5%

PORTAL CHATHAM LLP
£0.9m
2.0%

TK MAXX
£0.7m
1.6%

THE RANDOM HOUSE GROUP LIMITED
£1.0m
2.2%

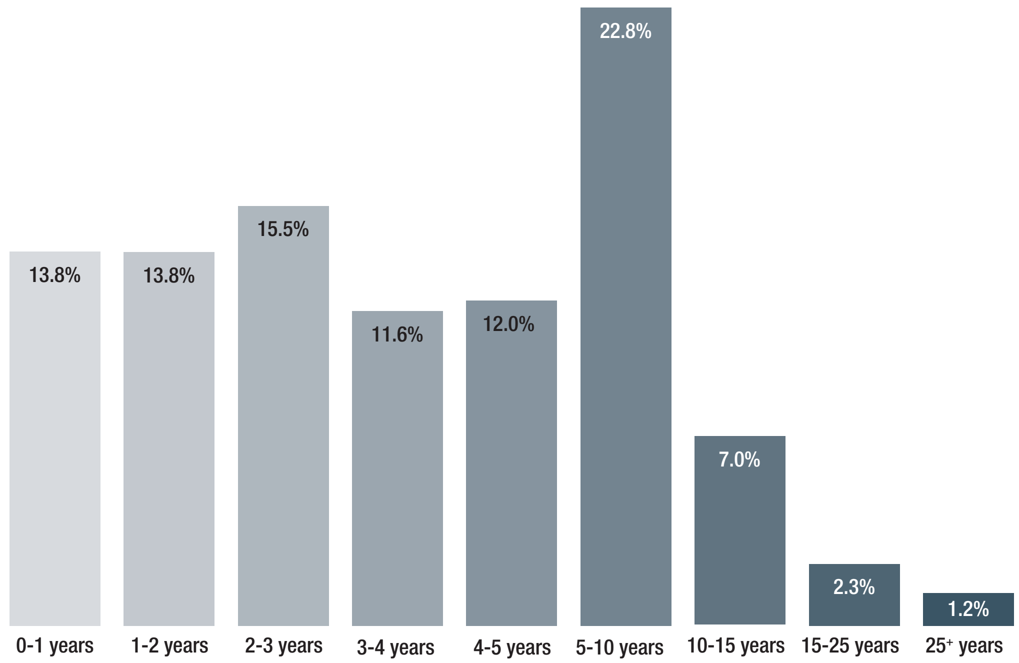
EDWARD STANFORD LIMITED
£0.8m
1.8%

XMA LIMITED
£0.7m
1.5%

£11.2m
25% of total contracted rent

Longevity of income

As at 31 March 2018, based as a percentage of contracted rent, the average length of the leases to the first termination was 5.2 years.



THE AVERAGE LENGTH OF THE LEASES TO LEASE EXPIRY
6.6 years

RETENTION RATES

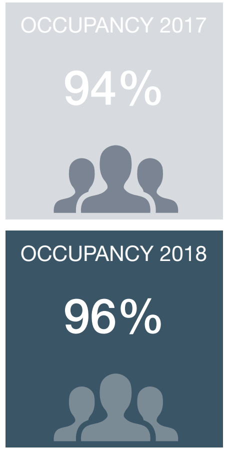
Over the year total income at risk due to lease expiries or break options totalled £3.2 million, compared to £4.3 million for the year to March 2017, a 26% decrease.

Excluding asset disposals, we retained 63% of total income at risk in the year to March 2018. This comprised 55% on lease expiries and 79% on break options. Occupancy increased during the year, from 94% to 96% which is ahead of the MSCI IPD Quarterly Benchmark.

Picton has always had a shorter than benchmark income profile, which we have seen as positive as it allowed us to actively manage the portfolio to enhance income and value. Over the past four years we have consistently maintained occupancy around 95%, and where occupiers have vacated we have been able to lease space quickly.

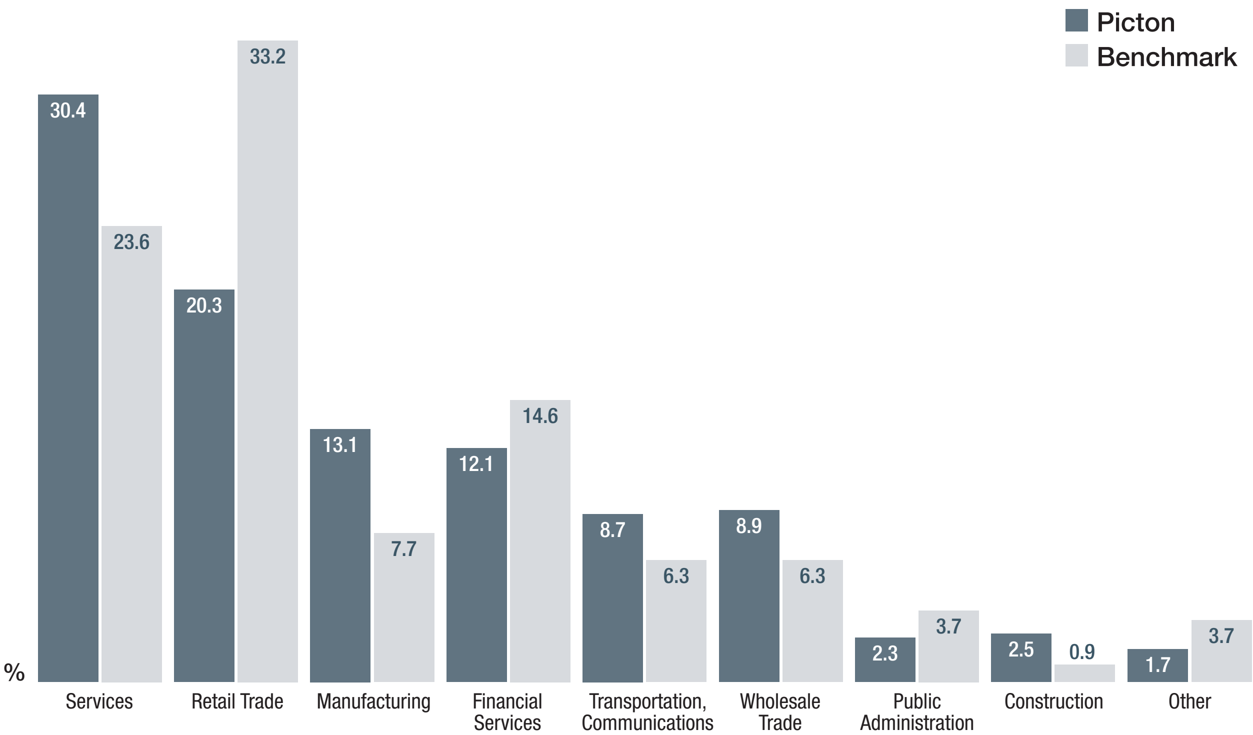
In the next three years we have £19.2 million of income at risk due to lease expiries or break options, with a 7.6% reversion to ERV. 38% of the expiries are in the industrial sector, 41% in the office sector and 21% in the retail sector. Over 50% of the lease events are in the South East and London.

Our occupier focus means we know what our occupiers' requirements are and through this knowledge, we can work with them to extend income early and look to 'right size' businesses as demonstrated in the portfolio sector review.



INCOME CONCENTRATION

There is a wide diversity of occupiers within the portfolio, as set out below, which are compared to the MSCI IPD Quarterly Benchmark by contracted rent, as at 31 March 2018.



Source: MSCI IPD IRIS Report March 2018

Industrial portfolio review

The industrial portfolio again delivered the strongest sector performance for the year. This was a result of active management capturing rental growth, the 'right sizing' of occupiers, extending leases and continued strength within the investment market.

	2018	2017
VALUE	281.9m £	£250.4m
AREA	2,731,000 square feet	2,730,000 sq ft
ANNUAL RENTAL INCOME	15.6m £	£15.3m
ESTIMATED RENTAL VALUE	18.0m £	£17.3m
OCCUPANCY	99.3%	98.6%
NUMBER OF ASSETS	17	17

Our industrial portfolio value increased by £31.5 million or 12.6%, and the annual rental income increased by £0.3 million or 2.2%. The portfolio has an average weighted lease length of 4.8 years and £2.4 million of reversionary potential.

Occupational demand remains strong, especially in London and the South East. We have seen rental growth of 3.7% across the portfolio and are experiencing demand across all of our estates. Occupancy is 99.3%, with only four vacant units out of 133, three of which are under offer.

Portfolio activity

In York, and working with our occupiers, we surrendered a 137,000 sq ft unit for a premium of £0.29 million and in a back-to-back transaction re-let the unit, increasing the longevity of income by eight years, at a stepped rent to £0.55 million per annum 10% ahead of ERV.

At River Way in Harlow, and following completion of the refurbishment and receipt of planning consent for a change of use, a unit was let securing a minimum ten year term certain at a rent of £0.2 million per annum, in line with ERV, with uplifts collared and capped at 2% and 4% respectively, compounded annually. We renewed a further lease on the estate, with the occupier committing to a new five year lease, subject to break, at an initial rent of £0.18 million per annum. Three months rent free was granted after the break option and the rent was 10% ahead of ERV.

At Datapoint, London E16, again working with our occupiers, we accepted a lease surrender of a unit, with the occupier paying a premium equivalent to the full remaining liability under the lease. The unit was marketed in its existing condition and a new occupier secured within four months on a ten year lease at a rent of £0.20 million per annum, 16% ahead of ERV and 55% ahead of the previous passing rent. In another transaction, we removed a 2019 break option in return for one month's rent free, securing a further five years at a passing rent of £0.27 million per annum which is subject to review in 2019.

At Dencora Way in Luton we renewed a lease for a further five years, subject to break, at a stepped rent to £0.11 million per annum, 18% ahead of the previous passing rent and 6% above ERV. Two rent reviews were settled increasing the annual rent roll by £0.02 million per annum, 3% ahead of ERV. We have been able to capture rental growth arising from the improved location and close proximity to the new junction 11a on the M1.

At Lyon Business Park in Barking, we achieved a 33% uplift in rent following completion of a rent review. The uplift was £0.1 million per annum. We currently have one vacant unit, which is under offer.

In Warrington, at Easter Court, we surrendered two leases, facilitating two new lettings for a combined £0.09 million per annum, 7% ahead of ERV. At the same time we removed an October 2017 occupier break option securing income until 2022 and increased the passing rent, 7% ahead of ERV.

Activity across the industrial portfolio included the letting of eight units at a combined rent of £0.5 million per annum and the surrender of five leases to facilitate active management. Five leases were renewed or regeared securing £0.9 million per annum and 13 rent reviews agreed, securing an additional £0.26 million per annum of income.

We continually have lease events across our portfolio and there are 24 in the coming year. This provides potential to grow income further with the ERV some 19% higher than the current passing rent.

Investment activity

During the year, there were no acquisitions or disposals in the industrial portfolio.

Sector outlook

Occupational demand remains robust across the country and we see no sign of that reducing in the short-term primarily due to a lack of supply, meaning we are seeing good rental growth especially on the multi-let estates.

Looking forward, we believe we can maintain a high occupancy level with active management, growing rents and facilitating our occupiers' business growth.

For us, the short-term opportunities are the letting of the 101,800 sq ft unit in Rugby, which comes back in December. The unit is in a strong location close to the M1 and M6 motorways and is one of only a few cross docked buildings in the locality. We expect to achieve a 15% uplift on the current passing rent to £0.6 million per annum.

LARGEST OCCUPIERS

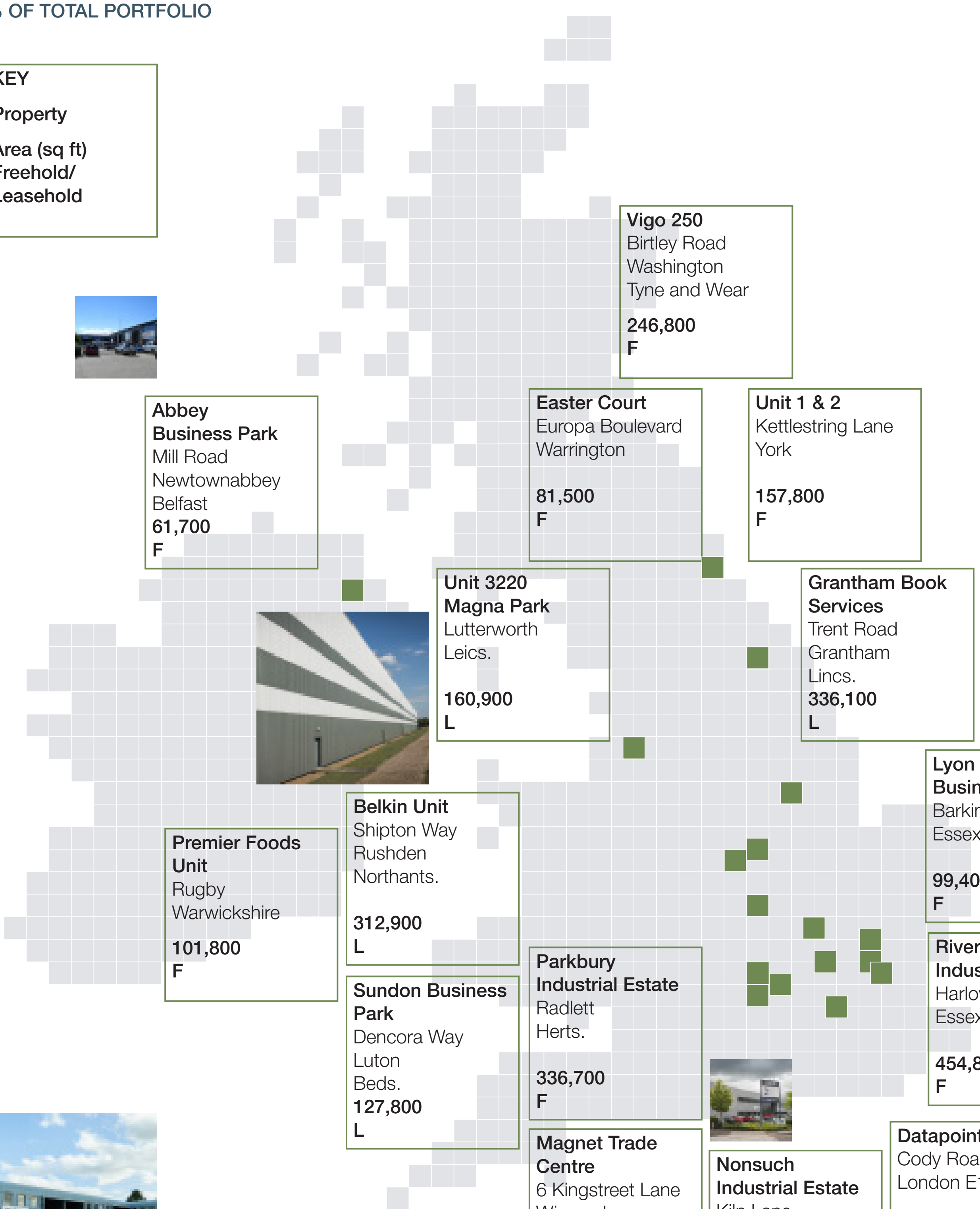
1	2	3	4	5
BELKIN LIMITED	DHL SUPPLY CHAIN LIMITED	SNORKEL EUROPE LIMITED	THE RANDOM HOUSE GROUP LIMITED	XMA LIMITED
3.8%	3.4%	2.5%	2.2%	1.5%

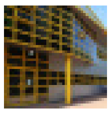
% OF TOTAL PORTFOLIO

KEY

Property

Area (sq ft)
Freehold/ Leasehold





Vigo 250
Birtley Road
Washington
Tyne and Wear
246,800
F

Abbey Business Park
Mill Road
Newtownabbey
Belfast
61,700
F

Easter Court
Europa Boulevard
Warrington
81,500
F

Unit 1 & 2
Kettlestring Lane
York
157,800
F

Unit 3220 Magna Park
Lutterworth
Leics.
160,900
L

Grantham Book Services
Trent Road
Grantham
Lincs.
336,100
L

Lyon Business Park
Barking
Essex
99,400
F

Belkin Unit
Shipton Way
Rushden
Northants.
312,900
L

Premier Foods Unit
Rugby
Warwickshire
101,800
F

River Way Industrial Estate
Harlow
Essex
454,800
F

Parkbury Industrial Estate
Radlett
Herts.
336,700
F

Sundon Business Park
Dencora Way
Luton
Beds.
127,800
L

Magnet Trade Centre
6 Kingstreet Lane
Winnersh
Reading
13,700
F

Nonsuch Industrial Estate
Kiln Lane
Epsom
Surrey
41,700
L

Datapoint
Cody Road
London E16
54,900
L

The Business Centre
Molly Millars Lane
Wokingham
Berks.
100,800
F

Unit 1 & 2 Western Industrial Estate
Downmill Road
Bracknell
Berks.
41,200
F

Strategic Report

Office portfolio review

The office portfolio delivered the second strongest sector performance of the year. This reflected specific transactional activity across the portfolio as detailed below, as well as strong investment demand supporting pricing, particularly in the regional markets.

	2018	2017
VALUE	245.5m £	£213.9m
AREA	928,000 square feet	925,000 sq ft
ANNUAL RENTAL INCOME	15.0m £	£13.8m
ESTIMATED RENTAL VALUE	19.1m £	£17.6m
OCCUPANCY	91.9%	87.5%
NUMBER OF ASSETS	17	19

Values increased by £12.5 million or 6.1% and we were able to increase the rent roll, on a like-for-like basis, by £1.4 million or 11%. The portfolio has an average weighted lease length of four years and £4.1 million of reversionary potential.

Occupational demand remains strong in the regions, but within our own portfolio a slight weakening of demand in London has resulted in incentives increasing, reinforcing our decision to reduce central London office exposure in 2016. We have seen rental growth of 3.6% across the portfolio and occupancy is 91.9%.

Portfolio activity

Notable lettings occurred at 50 Farringdon Road in London, where we secured three new occupiers at a combined rent of £0.8 million per annum, 2% ahead of ERV. The final first floor suite of 3,900 sq ft is under offer. A rent review was settled on a further suite, increasing the passing rent by 70% to £0.19 million per annum, 26% ahead of ERV. We are planning to install a roof terrace at the property in the coming year, providing further occupier amenity.

At 180 West George Street in Glasgow, the refurbishment of two floors, together with the common areas, was completed with the building providing some of the best quality space available in Glasgow's central business district. The building was the first in Scotland to be awarded a gold WiredScore connectivity rating, confirming the building's digital infrastructure and connectivity is of a very good standard. This property accounts for 21% of the total portfolio void and provides further opportunity to increase the rent roll.

At Building 200, Colchester Business Park, we renewed the lease for a further ten years, subject to break, at a rent of £0.53 million per annum with three months rent free. The rent is 34% ahead of ERV. The property is currently 98% let and we have seen strong rental growth over the period of 19%.

In Fleet, we removed occupier break options which were due in 2021, improving the longevity of income to 2025 at a headline rent of £0.4 million per annum subject to review in 2020.

During the year we let 11 suites at a combined rent of £1.5 million per annum, 3% ahead of ERV, renewed 12 leases with a combined rent of £1 million per annum, 20% ahead of ERV and surrendered two leases to facilitate active management. Two rent reviews were agreed, increasing the passing rent by £0.1 million per annum, 4% ahead of ERV.

Investment activity

We acquired a Grade A office building in Bristol for £23.2 million, reflecting a net initial yield of 3.6% due to 36% (by floor area) being vacant. It is situated in a prominent position on the waterfront, and equidistant to both Temple Meads station and the Cabot Circus shopping district. Constructed in 2005 to a BREEAM "Excellent" rating, the building provides 70,800 square feet of office accommodation arranged over ground and five upper floors, with car parking in the basement.

As anticipated, within just over four months of the purchase we completed two new leases for a combined 19,100 sq ft, taking the overall occupancy of the building to 91%. The fourth floor has been let to Integreon, a business support company, and the fifth floor has been let to the advertising agency, McCann. The lettings were for a combined annual rent of £0.54 million, equivalent to £28.50 per sq ft and 4% ahead of the September ERV. As at March 2018 the property's valuation reflected a 15% uplift relative to the acquisition price.

In Belfast and Bracknell, in three separate transactions, we sold buildings with vacant possession for a combined consideration of £10.4 million, 37% ahead of valuation. On all three assets we had taken income to lease expiry and due to the risk associated with refurbishment and re-letting compared to the premium achievable for vacant possession, we sold the properties for either owner occupation or residential development.

Sector outlook

Sentiment towards London has weakened slightly and the impact of Brexit, particularly its effect on the financial services sector, remains uncertain.

Conversely, the regional office market has seen good demand with low supply in many markets resulting in rental growth, as demonstrated at Tower Wharf in Bristol and Colchester Business Park.

Within our portfolio, the short-term opportunities include the letting of 180 West George Street, which is being marketed, and the repositioning and letting of Longcross Court in Cardiff.

In line with preceding years, we have 30 lease events primarily in the regions in the coming year. These provide us with the opportunity to grow income further with the ERV some 12% higher than the current passing rent.

LARGEST OCCUPIERS

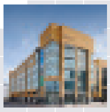
1	2	3	4	5
PUBLIC SECTOR	PORTAL CHATHAM LLP	RICOH UK LIMITED	CANTERBURY CHRIST CHURCH UNIVERSITY	BPP HOLDINGS LIMITED
2.5%	2.0%	1.4%	1.4%	1.2%

% OF TOTAL PORTFOLIO

KEY
Property
Area (sq ft)
Freehold/ Leasehold

180 West George Street
Glasgow
52,100
F

Queens House
St Vincent Place
Glasgow
49,400
F



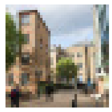
Waterside House
Kirkstall Road
Leeds
25,200
F

Northampton Business Park 800 Pavilion Drive
Northampton
49,400
F

Metro
Salford Quays
Manchester
71,000
F

Merchants House
Crook Street
Chester
21,900
F

Trident House
Victoria Street
St Albans
Herts.
19,000
F



50 Farringdon Road
London EC1
31,000
L

Atlas House
Third Avenue
Marlow
Bucks.
25,400
F

Angel Gate
City Road
London EC1
64,500
F

401 Grafton Gate East
Milton Keynes
Bucks.
57,100
F

Longcross Court
Newport Road
Cardiff
72,100
F

Colchester Business Park
The Crescent
Colchester
Essex
150,700
L

Tower Wharf
Cheese Lane
Bristol
70,800
F

Citylink
Addiscombe Road
Croydon
48,200
F

30 & 50 Pembroke Court
Chatham
Kent
86,300
L

Sentinel House
Harvest Crescent
Fleet
Hants.
33,500
F

Retail and leisure portfolio review

The retail and leisure portfolio delivered our weakest sector performance over the year, which was primarily a result of limited rental growth and the negative impact of the tough trading conditions which have been well publicised recently.

2018		2017	
VALUE	156.4m	VALUE	£160.1m
INTERNAL AREA	829,000 square feet	AREA	824,000 sq ft
ANNUAL RENTAL INCOME	10.7m	ANNUAL RENTAL INCOME	£11.0m
ESTIMATED RENTAL VALUE	10.8m	EST RENTAL VALUE	£11.0m
OCCUPANCY	97.0%	OCCUPANCY	98.8%
NUMBER OF ASSETS	17	NO. OF ASSETS	17

This is the smallest component of the portfolio, reflecting our underweight position and more cautious outlook for the sector.

Values decreased by 2.3%, the rent roll decreased by £0.3 million per annum or 2.1%, and the portfolio has an average weighted lease length of 7.5 years with passing rent at market level.

Despite the headwinds in the sector, occupancy in the retail and leisure portfolio remained high at 97%, with 2% intentionally vacant due to ongoing active management at Stanford House, London WC2 and Angouleme Retail Park, Bury. We have seen negative rental growth of 1.5% across the portfolio, primarily from our high street assets.

Portfolio activity

During the year occupancy remained high, limiting the scope to enhance income through re-leasing. However we undertook a number of transactions which had a positive impact, thereby offsetting some of the wider negative movements.

The development of a new drive-through unit at Gloucester Retail Park, trading as Starbucks, was completed resulting in a letting on a ten year lease at £60,000 per annum. The unit is trading well and has attracted further footfall to the park.

The Crown & Mitre complex in Carlisle is now fully let, having expanded an occupier into an adjoining unit and securing a new ten year lease at a rent of £66,000 per annum, 1% ahead of ERV.

We renewed two leases at Scots Corner in Kings Heath, Birmingham for a combined rent of £53,450 per annum, 16% ahead of ERV. At the same property two rent reviews were settled increasing the annual rent roll by 19% to £66,800 per annum, 7% ahead of ERV. This is a good example of where we are seeing rental growth off rebased rental levels set five years ago.

The 152 bedroom hotel in Luton reopened during the year following a comprehensive refurbishment undertaken by the incoming occupier and we understand it is trading well.

We have 14 lease events in the coming year. These provide us with the opportunity to grow income further with the ERV some 7% higher than the current passing rent.

Investment activity

There were no acquisitions or disposals in the retail and leisure portfolio during the year.

Sector outlook

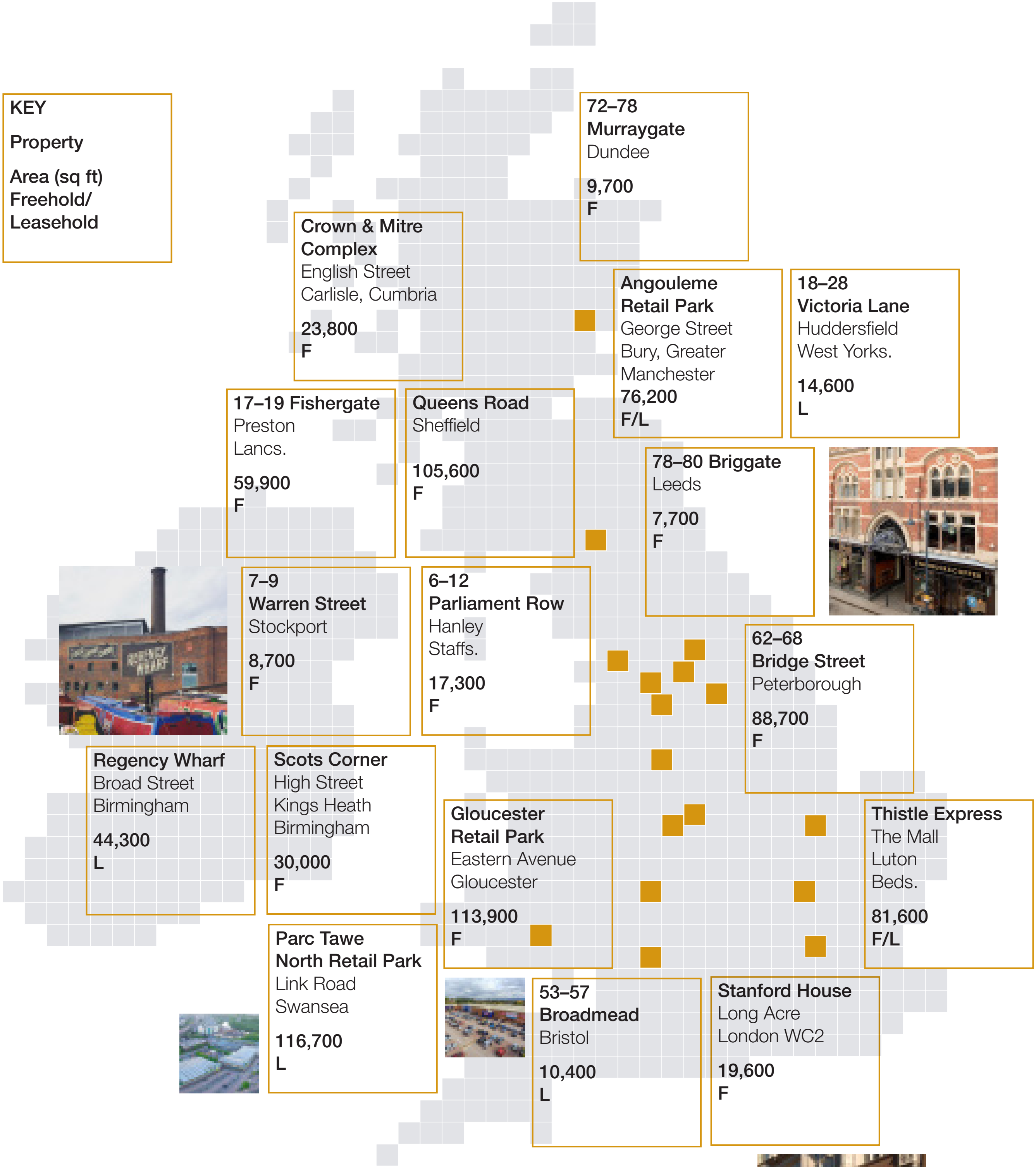
Retail and leisure represents 23% of the portfolio by value, significantly less than the MSCI IPD Quarterly Benchmark, and the portfolio generates a high income yield of 6.3%. With 65% of the retail and leisure portfolio in the more resilient central London and retail warehousing sectors, and a high street portfolio off rebased values and rents we see a good opportunity to be able to create value through active management in the medium-term although this will, as expected, result in a short-term dip in the occupancy rate.

Looking forward, the short-term opportunities include the repositioning of Stanford House in Covent Garden where we expect to secure vacant possession later in the year, the letting of our Peterborough unit which was effected by the Company Voluntary Arrangement of New Look who vacate later this year, and the letting of our unit in Preston which comes back in early 2019. There is also the modernisation and repositioning of Angouleme Retail Park in Bury where a number of leases are due to expire and we are looking to move occupiers to facilitate the amalgamation of units to satisfy demand.

LARGEST OCCUPIERS

1	2	3	4	5
B&Q PLC	EDWARD STANFORD LIMITED	TK MAXX	ASDA STORES LIMITED	GLH HOTELS LIMITED
2.8%	1.8%	1.6%	1.3%	1.2%

% OF TOTAL PORTFOLIO



Financial review

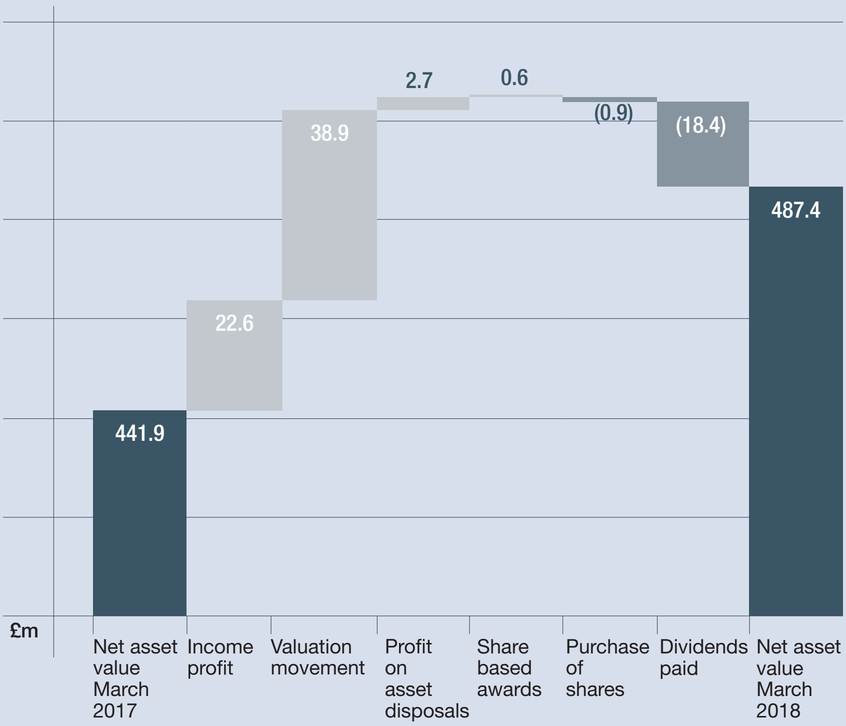
Andrew Dewhirst

“Our results for the year are again very strong. The total profit recorded was £64.2 million, a 50% increase compared to 2017.”

Our results for the year are again very strong. The total profit recorded was £64.2 million, a 50% increase compared to 2017. Our EPRA earnings increased by £2 million to £22.6 million, and we again increased our dividend during the year, having maintained a high dividend cover. Earnings per share increased to 11.9 pence overall (4.2 pence on an EPRA basis), and the total return based on these results was 14.9% for the year.

Net asset value

The net assets of the Group increased to £487.4 million, which was a rise of 10.3% over the year. The chart below shows the components of this increase over the year. The EPRA net asset value rose from 82 pence to 90 pence.



The following table reconciles the net asset value calculated in accordance with International Financial Reporting Standards (IFRS) with that of the European Public Real Estate Association (EPRA).

	2018 £m	2017 £m	2016 £m
Net asset value – EPRA and IFRS	487.4	441.9	417.1
Fair value of debt	(21.1)	(24.5)	(21.8)
EPRA Triple Net Asset Value	466.3	417.4	395.3
Net Asset Value per share (pence)	90	82	77
EPRA Net Asset Value per share (pence)	90	82	77
EPRA Triple Net Asset Value per share (pence)	87	77	73

EPRA best practices recommendations

The EPRA key performance measures for the year are set out on page 3 of the Report, with more detail provided in the EPRA Disclosures section which starts on page 116.

Income statement

Total revenue from the property portfolio for the year was £48.8 million. Although less than the 2017 result of £54.4 million, the previous year included some exceptional income relating to our hotel in Luton.

On a like-for-like basis, rental income increased by 5% compared to the previous year, on an EPRA basis. This is set out in the EPRA Disclosures section.

Operating expenses for the year were £5.6 million, compared to £5.2 million in 2017. This is mainly due to advisory and legal fees incurred to date for the potential conversion to a UK REIT, and other one-off corporate level costs.

Financing costs have again fallen this year, to £9.8 million. The zero dividend preference shares were repaid in full in October 2016 and this is the first full year without any finance charge from those shares.

Capital gains on the portfolio were £41.5 million for the year, as detailed further under the Investment Properties section.

The Company's plans to convert to a UK REIT, and the potential benefits, are set out in the Report. The Group currently pays UK income tax on its net rental income, after deductions. Its estimated UK tax liability for this year is £0.5 million, in line with 2017. Following REIT conversion we expect this tax liability to be reduced to zero, as the bulk of the Group's activities will fall within the REIT exemption. Conversely, if the Company did not join the REIT regime, we would expect the Group's tax liability to increase significantly from 1 April 2020, when it falls within the new UK corporation tax rules.

The income profit for the year was £22.6 million, less than the £25.8 million in 2017, but as noted above that included the exceptional income received.

Dividends

We increased our annual dividend rate from 3.4 pence to 3.5 pence, with effect from our February 2018 quarterly dividend, bringing the total dividend paid in this financial year to 3.425 pence. Dividend cover for the full year was 122%.

Investment properties

The appraised value of our investment property portfolio was £683.8 million at 31 March 2018, up from £624.4 million a year previously. This year we have made one significant acquisition, Tower Wharf in Bristol, and have disposed of three small non-core assets. A further £3.6 million of capital expenditure was invested back into the existing portfolio. The overall revaluation gain was £38.9 million, representing a 6.5% like-for-like increase in the valuation of the portfolio, double the gain of last year. At 31 March 2018 the portfolio comprised 51 assets, with an average lot size of £13.4 million.

A further analysis of capital expenditure, in accordance with EPRA Best Practice Recommendations, is set out in the EPRA Disclosures section.

Borrowings

Total borrowings increased to £214.0 million at 31 March 2018, as a result of the drawdown made under our revolving credit facility to partly fund the purchase of Tower Wharf. Despite this, the loan to value ratio has reduced over the year, to 26.7%, due to the valuation increases noted above. The weighted average interest rate on our borrowings has reduced slightly to 4.1%, while the average loan duration is now 10.3 years.

Our senior loan facilities with Canada Life and Aviva remained in place, reduced only by the amortisation of the Aviva facility (£1.1 million in the year). Both facilities have fixed rates of interest, so we have no exposure to future interest rate volatility. The Group remained fully compliant with the loan covenants throughout the year.

During the year we extended the first of our two revolving credit facilities, which was due to expire in March 2018, for three further years until June 2021, which is now coterminous with the second facility. As a result, some of the covenant tests were amended, and the overall facility amount amended to £24 million. Taking into account the £10.5 million we currently have drawn, we have £40.5 million of undrawn facilities.

Loan arrangement costs are capitalised and are amortised over the terms of the respective loans. At 31 March 2018, the unamortised balance of these costs across all facilities were £3.4 million.

The fair value of our borrowings at 31 March 2018 was £235.1 million, higher than the book amount. Gilt rates, although still low, have increased compared to a year ago, while lending margins have moved in slightly.

A summary of our borrowings is set out below:

	2018	2017	2016
Fixed rate loans (£m)	**203.5**	204.6	249.5
Drawn revolving facilities (£m)	**10.5**	–	–
Total borrowings (£m)	**214.0**	204.6	249.5
Borrowings net of cash (£m)	**182.5**	170.8	226.8
Undrawn facilities (£m)	**40.5**	53.0	10.2
Loan to value ratio (%)	**26.7**	27.4	34.6
Weighted average interest rate (%)	**4.1**	4.2	4.4
Average duration (years)	**10.3**	11.7	10.7

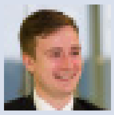
Cash flow and liquidity

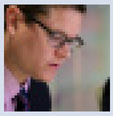
The cash flow from our operating activities was £25.6 million this year, slightly down from 2017 but that year included some £5.3 million of exceptional income. After dividend payments of £18.5 million, the surplus funds from operations were invested back into the portfolio and used to reduce borrowings. Our cash balance at the year end stood at £31.5 million.

Share capital

There were no changes in share capital during the year.

The Company's Employee Benefit Trust acquired 1,070,000 shares, at a cost of £0.9 million, during the year to satisfy the future vesting of awards made under the Long-term Incentive Plan. As the Trust is consolidated into the Group's results these shares are effectively held in treasury and therefore have been excluded from the net asset value and earnings per share calculations, from the date of purchase.





Andrew Dewhirst
Finance Director,
Picton Capital Limited

4 June 2018

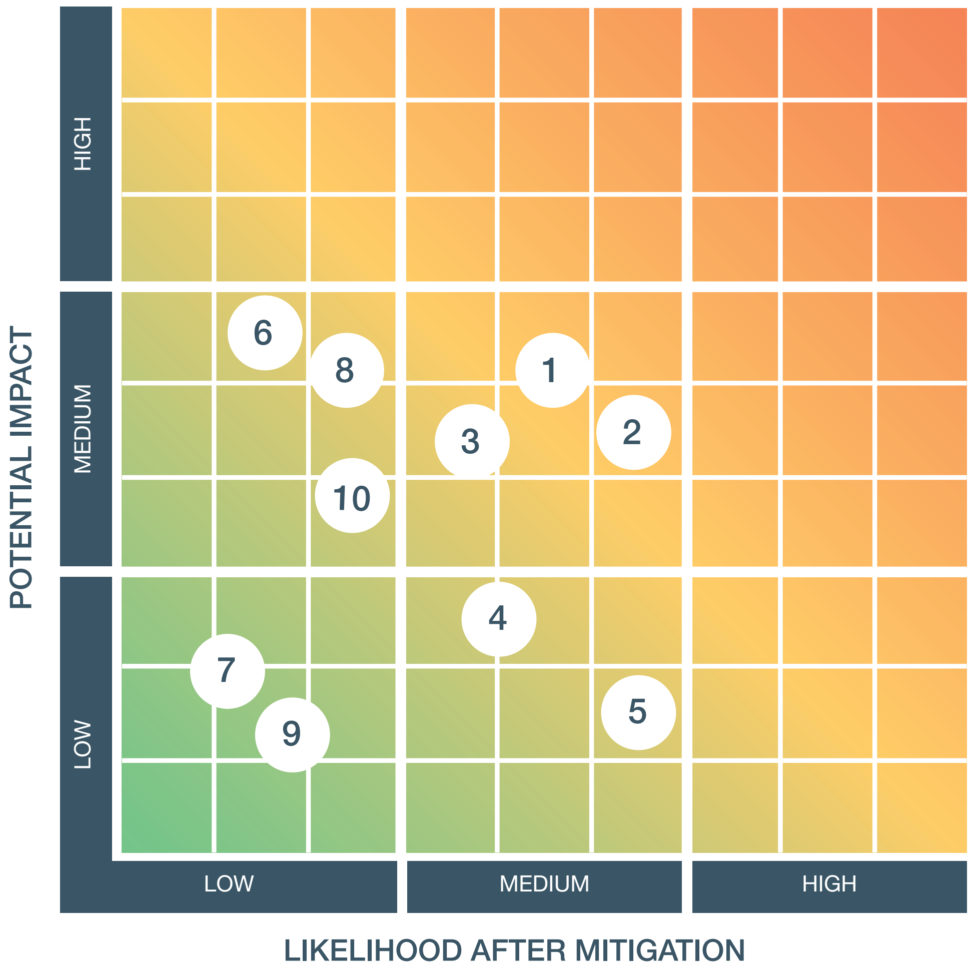
Managing risk

The Board recognises that there are risks and uncertainties that could have a material impact on our results.

Risk management provides a structured approach to the decision making process such that the identified risks can be mitigated and the uncertainty surrounding expected outcomes can be reduced. The Board has developed a risk management policy which it reviews on a regular basis. The Audit and Risk Committee carries out a detailed assessment of all risks, whether investment or operational, and considers the effectiveness of the risk management and internal control processes. The Group's risk appetite will vary over time and during the course of the property cycle. The principal risks – those with potential to have a material impact on performance and results – are set out on the following pages, together with mitigating controls. The matrix below illustrates the assessment of the impact and likelihood of each of the principal risks.

The UK Corporate Governance Code requires the Board to make a 'viability statement' which considers the Company's current position and principal risks and uncertainties combined with an assessment of the future prospects for the Company, in order that the Board can state that the Company will be able to continue its operations over the period of their assessment. This statement is set out in the Directors' Report.

	Principal risk	Trend
1	Macroeconomic	→
2	Property market	→
3	Portfolio strategy	→
4	Property investment	→
5	Asset management	→
6	Operational failure	→
7	Regulatory and legal changes	→
8	Loan covenants	→
9	Interest rates	↑
10	Gearing	→



Corporate strategy

No.	Risk and impact	Mitigation	Trend	Connected KPIs
1	Economic uncertainty, arising from political events or otherwise, brings risks to the property market generally and to occupiers' business.	The Board considers economic conditions and market uncertainty when setting strategy and in making investment decisions.	→	Total Return EPRA Net Asset Value
2	The property market is cyclical and returns can be volatile. There is an ongoing risk that the Company fails to react appropriately to changing market conditions, resulting in an adverse impact on returns.	The Board reviews the Group's strategy and business objectives on a regular basis and considers whether any change is needed, in the light of current and forecast market conditions.	→	Total Property Return Property Income Return EPRA Vacancy Rate

Property

No.	Risk and impact	Mitigation	Trend	Connected KPIs
3	The Group has an inappropriate portfolio strategy, as a result of poor sector or geographical allocations, or holding obsolete assets.	The Group maintains a diversified portfolio in order to minimise exposure to any one geographical area or market sector. The Board considers longer term market trends when reviewing strategy.	→	Total Property Return Property Income Return EPRA Vacancy Rate
4	Investment decisions may be flawed as a result of incorrect assumptions, poor research or incomplete due diligence.	All investment decisions are made by the Board following a formal appraisal and due diligence process.	→	Total Property Return Property Income Return
5	Failure to properly execute asset business plans or poor asset management could lead to longer void periods, higher occupier defaults, higher arrears and low occupier retention, all having an adverse impact on earnings and cash flow.	The Group has business plans for each asset which are reviewed regularly. The Investment Manager has oversight of the Property Manager and maintains close contact with occupiers.	→	Total Property Return Property Income Return EPRA Earnings per Share

OPERATIONAL

No.	RISK AND IMPACT	MITIGATION	Trend	CONNECTED KPIs
6	The Group could suffer damage to its reputation as a result of potential operational failures, such as a breach of regulations, losing key personnel, incorrect financial reports or health and safety breaches.	The Board has a remuneration policy in place which incentivises performance and is aligned with shareholders. The Group's Property Manager is required to ensure compliance with current health and safety legislation, with oversight by the Investment Manager. All financial reports are subject to internal and Board review prior to release.	→	Total Return EPRA Earnings per Share
7	The Group could fail to properly anticipate legal, fiscal or regulatory changes which could lead to financial loss.	The Board and senior management receive regular updates in relevant laws and regulations. The Group is a member of the BPF, EPRA and the AIC, and management attend industry briefings. The Group has external professional advisers who monitor compliance with relevant laws and regulations.	→	EPRA Earnings per Share Ongoing Charges

FINANCIAL

No.	RISK AND IMPACT	MITIGATION	Trend	CONNECTED KPIs
8	A significant fall in the Group's property valuations or rental income could lead to a breach of financial covenants, leaving the Group with insufficient long-term funding.	The Board reviews financial forecasts for the Group on a regular basis, including sensitivity against financial covenants. The Audit and Risk Committee consider the Going Concern status of the Group bi-annually.	→	Loan to Value Ratio
9	An adverse movement in interest rates could lead to increased Group costs and a greater likelihood of occupier default.	The Group has fixed rates of interest on the majority of its long-term borrowings. The credit quality of new and existing occupiers is continually reviewed.	↑	EPRA Earnings per Share
10	The Group operates a geared capital structure, which magnifies returns from the portfolio. An inappropriate level of gearing relative to the property cycle could lead to poor investment returns.	The Board regularly reviews its gearing strategy, at least annually, in the light of changing market conditions.	→	Total Return EPRA Earnings per Share

Being responsible

The Board is responsible for setting the values and standards of the Group, including leadership on environmental and social issues.

Why this is important to us

We have in place a framework for conducting business in a way that makes a positive contribution to society, whilst minimising any negative impacts on people and the environment.

One of our key priorities is to work with our occupiers, so that we can understand their needs and aim to meet their current and future requirements. We use our expertise in asset management to provide modern flexible space that is safe, clean and energy efficient. We believe that it is important for all of the stakeholders in the business that sustainability be integral to all of our activities. In this way we can constantly strive to reduce our environmental impact.

Our people

Diversity

We recognise the benefits of diversity and the value this brings to the Group. We aim to maintain the right blend of skills, experience and knowledge within the Board and investment management team. The number of men and women employed by the Group at 31 March 2018 were:

BOARD

6 men

INVESTMENT MANAGEMENT TEAM

7 men 2 women

TOTAL

13 men 2 women

Fairness and equality

We value the contributions made by all of our employees and believe that a diverse workforce is key to maximising business effectiveness. We aim to select, recruit, develop and promote the very best people and are committed to creating a workplace where everyone is treated with dignity and respect, and where individual difference is valued.

This is accomplished by:

- Ensuring equal opportunities in the recruitment process
- Having fair and competitive salaries and benefits
- Having appropriate family and well-being policies
- Being opposed to any form of less favourable treatment, whether through direct or indirect discrimination, harassment or victimisation, accorded to employees and applicants for employment on the grounds of sex, sexual orientation, marital or parental status, disability, race, religious beliefs, age, ethnic or national origin, or any other protected characteristic.

Performance and development

We aim to provide a business environment that inspires our employees and encourages them to realise their full potential by giving them access to development and training opportunities.

This is attained through the following key principles:

- Development should be continuous; employees should always be actively seeking to improve performance
- Regular investment of time in learning is seen as an essential part of working life
- Development needs are met by a mix of activities, which include internal and external training courses, structured 'on the job' work experience and through interaction with professional colleagues.

All of the Group's employees have a formal performance appraisal on an annual basis, together with a mid-year review of their progress against objectives set at the start of the year.

Health and well-being

Health and well-being is critical to the business, both within the property portfolio and also within the office environment.

Our commitment to providing a safe and healthy working environment for all employees is achieved by:

- Adhering to the appropriate health and safety standards
- Providing a working environment that enables employees to work effectively and free from unnecessary anxiety, stress and fear
- Offering private health benefits to all employees
- Ensuring employees can report inappropriate behaviour or concerns through the whistleblowing policy
- Having appropriate family friendly policies

Charity and local communities

We continue to support a variety of charities, principally through The Funding Network, whose aim is to achieve long-term social change. The Funding Network enables individuals to join together to support social change projects. They are the UK's first public open giving forum and have been described as the 'Dragons' Den' for charities. They have raised over £10 million for over 1,500 diverse local, national and international projects.

For the year ended 31 March 2018 the Group made charitable donations totalling £6,000.

Our employees are encouraged to play a positive role in community activities and individual charitable fundraising is supported through the process of 'matched giving'.

The environment

It is recognised that commercial buildings in the UK are a key source of emissions and that as a responsible landlord we have a duty to control and reduce the environmental impact of our assets. We continue to assess the environmental performance of our portfolio through our consultants at CBRE who engage with property managers and occupiers to implement sustainability improvements at each asset.

Our sustainability reporting is for the year ended 31 December 2017, with comparatives for the year ended 31 December 2016.

This year we have continued to improve the coverage and accuracy of our carbon footprint. Our Scope 1 and 2 GHG emissions for 2017 were 4,555.93 tCO_2e. We have increased the coverage of our Scope 3 emissions by obtaining more occupier data, covering 47% of occupier controlled space. There have been five disposals during 2017 with one new acquisition, of Tower Wharf, Bristol. This new site is the fifth largest office in the portfolio and is BREEAM "Excellent" rated.

Energy & GHG Emissions

We have had a very successful year in reducing our like for-like-utility consumption with a 19% (electricity) and 27% (fuel) reduction. Due to the continuing shift to low carbon electricity generation nationally, there have been greater savings seen in terms of GHG emissions. Like-for-like emissions have fallen 45% (electricity) and 37% (natural gas). Electricity data was collected at all 34 sites (28 out of 34 for like-for-like data) where we have operational control, with six sites being excluded from like-for-like data due to acquisitions or disposals. Natural gas data was collated at all 21 sites (16 out of 21 for like-for-like data) where we have operational control and there is a natural gas supply, with five sites excluded from like-for-like data due to acquisitions or disposals.

We have installed Asset IQ at 50 Farringdon Road. Asset IQ is a tool which analyses each meter's usage to identify inefficiencies in plant and equipment run hours. At Farringdon Road we have seen a 45% reduction in electricity and natural gas usage following its implementation.

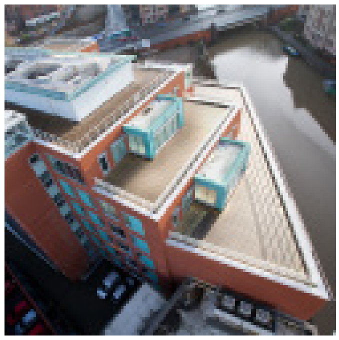
Due to this success, we have also recently implemented it at 180 West George Street and have further roll outs planned. Waterside House, Leeds, Colchester Business Park and Citylink, Croydon have all undergone LED upgrades, helping to deliver more than a 10% reduction in energy use during 2017. We continue to work hard on the accuracy of our energy data, with less than 5% of our consumption estimated in 2017. In addition to the installation of Automatic Meter Readings (AMRs), 94% (electricity) and 96% (natural gas) of our consumption is renewably sourced through our main energy suppliers.

Environmental initiatives

Our 50kWp solar panel array at 401 Grafton Gate has completed its second year, increasing production by 2.8% by generating 44,028 kWh. This energy production is fed back to the occupiers to provide them with lower electricity costs. The panels have produced a total of 86,882 kWh, which has saved 30.54 tCO_2e; the equivalent of 1,022 incandescent lamps switched to LEDs.

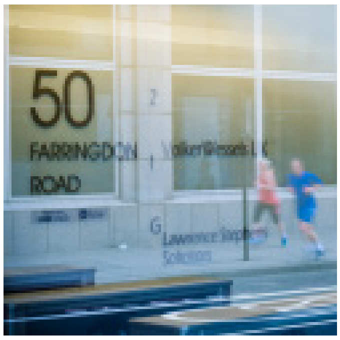
Our EPC risk project has mitigated the risk posed under the Minimum Energy Efficiency Standards (MEES) that came into force from April 2018. We now have 99% of EPCs that are compliant, with action plans in place for the remaining assets. We have worked on several energy efficiency projects across the portfolio during 2017 and are currently looking to update our existing EPCs which expire in 2018.

Picton recognises the importance of being transparent on Environmental, Social and Governance (ESG) issues with our stakeholders, so they can make informed decisions. We continue to report in line with EPRA, expanding the scope of our reporting and improving our score year-on-year. To increase our transparency efforts, we have started reporting to GRESB (The Global ESG Benchmark) with 2018 being our second response year. We used our first year to benchmark where we are in the market and where we must improve. Over the last year, we have put several initiatives in place to improve our score including: improving data collection, implementing policies and enhancing the accuracy of data.



TOWER WHARF

BREEAM 'EXCELLENT' RATED



FARRINGDON ROAD REDUCED GAS AND ELECTRICITY BY

45%

GRAFTON GATE SOLAR PANELS PRODUCTION INCREASE BY

2.8%

We are always looking for ways to do more for the community and our occupiers. We have recently approved the installation of bee hives at one of our sites as we understand the important role pollinators play within the ecosystems upon which we all rely. They will also provide an opportunity to educate our occupiers and the local community about the importance of bee species, while honey produced can be sold to raise money for charities.

Working with the CBRE Energy & Sustainability team, we are developing a programme to provide a greater level of data collection, engagement with occupiers and protection for Picton against future market risks.

In the workplace it is our policy to:

- Constantly strive to reduce the amount of paper used
- Encourage employees to use public transport where possible to reduce CO_2 emissions
- Pick products wisely such as using recycled paper and avoiding disposable or non-biodegradable items
- Recycle by offering accessible recycling bins in the office
- Use energy-efficient products and appliances and reduce consumption where possible.

Reporting against EPRA sustainability best practice

We report our overall energy, greenhouse gas, water and waste usage by sector. In the EPRA Disclosures section we have disclosed the absolute and intensity performance measures as set out by the EPRA Sustainability Best Practice Recommendations, and we have also provided further commentary in that section around the measures and the results for the year.

The following measures are set out in the EPRA Disclosures section towards the end of the Report:

ENERGY

Sustainability Performance Measure

Total electricity consumption

Like-for-like total electricity consumption

Total fuel consumption

Like-for-like total fuel consumption

Building energy intensity

GREENHOUSE GAS EMISSIONS

Sustainability Performance Measure

Total direct GHG emissions

Total indirect GHG emissions

Like-for-like total direct GHG emissions

Like-for-like total indirect GHG emissions

GHG intensity from building energy

WATER

Sustainability Performance Measure

Total water consumption

Like-for-like total water consumption

Building water intensity

WASTE

Sustainability Performance Measure

Total weight of waste by disposal route

Like-for-like total weight of waste by disposal route

BUSINESS TRAVEL

Sustainability Performance Measure

Total business travel emissions

GREENHOUSE GAS EMISSIONS

The table below provides our GHG emissions covering the last three years. Where it states "N/A", this is because data was not previously collected, calculated or available. We believe it provides a clear demonstration of how the Group's reporting has evolved since 2013.

		2017		2016		2015	
Emission source	GHG Scope	Absolute GHG emissions (tCO_2e)	GHG Intensity (tCO_2e/m^2)	Absolute GHG emissions (tCO_2e)	GHG Intensity (tCO_2e/m^2)	Absolute GHG emissions (tCO_2e)	GHG Intensity (tCO_2e/m^2)
Combustion of fuel and operation of facilities	1	1,251	0.006	1,503	0.015	994	0.005
Electricity, heat, steam and cooling purchased for own use	2	3,305	0.015	4,655	0.022	4,342	0.022
Business travel	3	7	N/A	8	N/A	8	N/A
Occupier data	3	9,566	0.005	9,536	N/A	N/A	N/A
Office premises	3	13	N/A	12	N/A	N/A	N/A
Landlord water and treatment	3	53	0.001	61	0.000	10	0.000
Landlord waste	3	21	0.000	35	0.001	N/A	N/A
Total		**14,216**	**0.032**	15,799	0.040	5,354	0.012

We continue to work hard on improving the coverage and accuracy of our carbon footprint. For 2017, our GHG emissions were 14,216 tCO_2e. This is a 10% reduction on our 2016 figure with significant improvements in our Scope 1 and 2 emission reductions.

Scope 1

Scope 1 emissions account for 1,251 tCO_2e of our total emissions, which is a decrease of 17% from 2016. This is due to the implementation of energy efficiency measures, an increase in data quality and the disposal of sites in 2017. Excluding the impact of acquisitions and disposals, like-for-like scope 1 emissions have decreased by 27%. This is largely due to Stanford House where new gas fired chillers provided the first year of comparable like-for-like data.

Scope 2

Scope 2 emissions account for 3,305 tCO_2e, which is a decrease of 29% from 2016. Scope 2 emissions make up a bulk of our emissions which we can directly control, so it is positive to see like-for-like emissions decreasing by 19% compared to 2016.

50 Farringdon Road has seen a 45% drop in utilities following the installation of Asset IQ, with further sites planned for roll out. There has been an AMR roll out across the portfolio which is providing a greater accuracy of data, allowing for a 94% accuracy of Scope 2 emissions. Our performance on Scope 2 emissions demonstrates that our portfolio continues to become more sustainable and run more efficiently.

Scope 3

Scope 3 emissions account for 9,653 tCO_2e, which is consistent with the 2016 reporting figure. We have expanded our scope slightly on occupier data collection, covering 47% of the floor area while also including waste data collection for the first time. Business travel, water and waste disposal have all seen reductions through several targeted efforts but our focus still lies with reducing our Scope 1 and 2 emissions as a priority.

Methodology

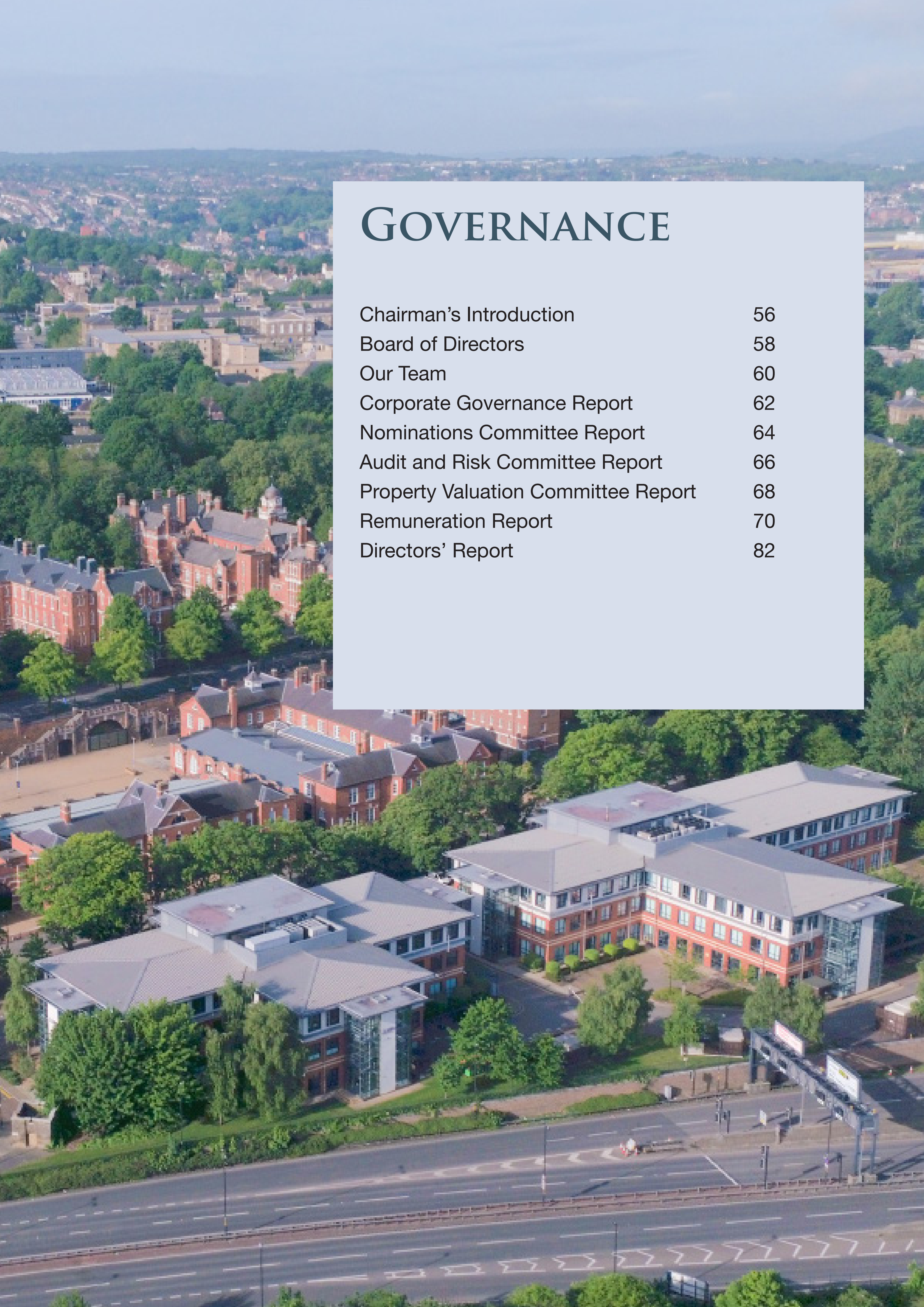
We have reported on all the emission sources required under the core requirements of EPRA's 'Best Practices Recommendations on Sustainability Reporting' 2017, and have voluntarily disclosed business travel, occupier and own premises consumption (Scope 3) emissions. An operational control approach has been adopted and all of our properties are included. Figures presented are absolute for utility and waste consumption and relate only to landlord-obtained utilities and waste removal. Occupier-obtained consumption is included where possible.

We have calculated and reported our emissions in line with the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and used emission factors from UK Government's GHG Conversion Factors for Company Reporting 2017. Where data was unavailable in kg or tonnes for waste, we used average volumes to convert to tonnes.

Intensity measurements are based on the individual property's Gross Internal Area (GIA), regardless of the specific area served by the supply. This is an accurate way of covering 95% of our consumption but will be less useful for our industrial vacant units; due to the comparatively low consumption and large floor areas typically associated with vacant industrial units. We are continually improving the reporting process so that we can continue producing increasingly useful normalisation and intensity metrics.

Picton has continued to voluntarily report on Scope 3 vehicle emissions. Vehicle emissions were calculated using Picton's vehicle expenses reports and the vehicle emission factors from the UK Government GHG Conversion Factors for Company Reporting 2017. We have included occupier and own premises consumption within the Scope 3 emissions, using emission factors from UK Government's GHG Conversion Factors for Company Reporting 2017.


Pembroke Court, Chatham



Governance

Chairman's introduction

Nicholas Thompson

"The proposals to enter the UK REIT regime and the change in the listing status of the Company, and the rationale for these, are set out both within this Report and the shareholder circular issued separately."

Dear Shareholder

I am pleased to introduce our 2018 Corporate Governance Report.

As I have discussed earlier, 2018 marks an important year in the evolution of this business, and there are some significant implications for the governance of the Company which are set out in this section of the Annual Report.

The proposals to enter the UK REIT regime and the change in the listing status of the Company, and the rationale for these, are set out both within this Report and the shareholder circular issued separately. If the changes are approved and we are no longer an investment company then the internal governance of the Company will be amended to reflect the new status.

The Board will remain fully responsible for the strategy and direction of the Company. Its aim is to create and deliver long-term value for shareholders, and, as a commercial company, this will be through the business strategy set by the Board rather than the current investment policy. The Chief Executive will have authority delegated to him to run the business on a day-to-day basis, with a clear division of responsibilities between him and the Board. This will replace the existing investment management arrangements with Picton Capital Limited. The composition of the Board has been considered by the Nominations Committee, and some more detail around this is included in their report for the year.

Our Board Committee structure will be unchanged, with clear terms of reference. However, we intend to establish an Executive Committee, to support the Chief Executive in the running of the business. This Committee will comprise the Chief Executive and other members of senior management and will be accountable to the Board in delivering the business strategy.

I am pleased to welcome Mark Batten to the Board. Mark will take over as Chairman of the Audit and Risk Committee this year, as Robert Sinclair will be stepping down from the Board. I would like to record our appreciation for the outstanding contribution that Robert has made to the business during his long tenure on the Board.

Vic Holmes has notified us that he intends to step down from the Board prior to the Company moving its management to the UK, and again I would like to record our appreciation for all that he has done for the Company over the last five years.

In addition, I am pleased to announce that Andrew Dewhirst, currently the Finance Director of Picton Capital Limited, has agreed to join the Board from 1 October and together with Michael Morris will be the Executive Directors.

The work of the Remuneration Committee this year has included the review of a new remuneration policy, to include executive directors. We intend to operate this new policy for 2018/19, and it will be put to shareholders at this year's Annual General Meeting.

As a Board we remain committed to the principles of good corporate governance and aim to be clear and transparent in our dealings with shareholders. Should our proposals to become a UK REIT be approved, we intend to hold future Annual General Meetings in the UK, and I look forward to further engagement with shareholders then.

Nicholas Thompson
Chairman

4 June 2018

Board of directors

With a breadth and depth of experience across property and fund management, our Board leads with integrity and transparency.

Nicholas Thompson
Chairman

Age 69, was formerly Director and Head of Fund and Investment Management at Prudential Property Investment Management and has served on the Board as Chairman since 2005. He is currently Chairman of MSCI IPD's UK & Ireland Consultative Group, a director of the Lend Lease Retail Partnership and an independent director of the Association of Real Estate Funds. He is a Fellow of the Royal Institution of Chartered Surveyors and a member of the Property and Infrastructure Forum of the Association of Investment Companies.

Robert Sinclair
Chairman of the Audit and Risk Committee

Age 68, is Managing Director of the Guernsey based Artemis Group and a director of a number of investment fund management companies and investment funds associated with clients of that Group. He has served on the Board since 2005. Robert is Chairman of Schroder Oriental Income Fund Limited, a director of Chariot Oil & Gas Limited, a director of EF Realisation Limited and a director of Rainbow Rare Earths Limited. He is a Fellow of the Institute of Chartered Accountants in England and Wales, and a member of the Institute of Chartered Accountants of Scotland.

Roger Lewis
Chairman of the Property Valuation Committee

Age 70, has extensive experience in the property sector, most recently as a director of Berkeley Group Holdings Plc for over 15 years, the last eight of which were as Chairman, a position from which he retired at the end of July 2007. He subsequently acted as a consultant to the Berkeley Group and is currently a non-executive director of three Jersey based subsidiaries of the Berkeley Group. Prior to this, he was UK Group Chief Executive Officer of Crest Nicholson Group PLC from 1983 to 1991. He is also currently a director of Grand Harbour Marina Plc (Malta), of Camper and Nicholsons Marina Investments Limited and of Cambian Global Timberland Limited. He was appointed to the Board in 2010.

Vic Holmes
Chairman of the Remuneration Committee

Age 61, was Chief Executive of Northern Trust's businesses in the Channel Islands until he retired from full-time employment in November 2011. He joined the Board on 1 January 2013. He serves as a director for a number of companies involved in the funds sector, for groups such as Permira, Ashmore, DBAG, and GAM. He is also Chairman of Generali Worldwide Insurance Company Limited, a director of Next Energy Solar Fund Limited and Chairman of Highbridge Multi-Strategy Fund Limited (both London listed companies), and was Chairman of the Guernsey Investment Funds Association from April 2013 until April 2015. He is a Fellow of the Association of Chartered Certified Accountants.

Mark Batten

Age 61, was a partner in PricewaterhouseCoopers LLP for over 25 years, specialising in structuring and restructuring transactions predominantly in financial services and real estate. He is currently on the board of, amongst others, the Brompton and Harefield Hospital Foundation Trust and a senior adviser to UK Government Investments, an arm of HM Treasury. He is an Associate of the Institute of Chartered Accountants in England and Wales and was appointed to the Board on 1 October 2017.

Michael Morris

Age 45, was appointed to the Board on 1 October 2015 and has over 24 years' experience in the UK commercial property sector. He has worked with the Group since launch in 2005 and is also Chief Executive of its UK investment management subsidiary, Picton Capital Limited. Within this role he is responsible for the Group's Investment Management operation, overseeing the implementation of all aspects of the Company's investment strategy. Prior to this, he worked in private practice, becoming a Senior Director and Fund Manager at ING Real Estate Investment Management (UK) Limited. He is a member of the Investment Property Forum and sits on the AIC's Property and Infrastructure Forum. He has also obtained the Investment Management Certificate and the IPF Diploma in Property Investment.

OUR TEAM

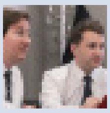
The investment management team at Picton Capital Limited comprises 10 permanent employees, and includes five real estate professionals, three qualified accountants and two further support employees.

Michael Morris
Chief Executive

Michael, age 45, is Chief Executive and is also a non-executive Director of Picton Property Income Limited. He is responsible for devising and overseeing the implementation of all aspects of the Company's investment strategy.

Andrew Dewhirst
Finance Director

Andrew, age 58, joined as Finance Director in March 2011. Previously he was Director of Client Accounting at ING Real Estate Investment Management (UK) Limited, a role he had held since January 2006. At ING he was responsible for the accounting and administration of all the UK real estate vehicles and separate client accounts. He has over 25 years' experience in the real estate and financial services sector. Andrew is an associate member of the Institute of Chartered Accountants in England and Wales and a member of the Investment Property Forum.

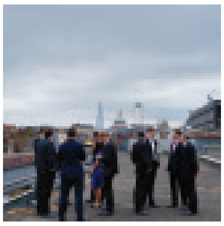


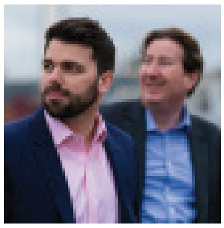
Jay Cable
Director

Jay, age 40, is Head of Asset Management. In this role he is responsible for overseeing all asset management activities in respect of the Group's property portfolio. Formerly he was Director at ING Real Estate Investment Management (UK) Limited, and has worked with the Group since it launched in 2005. He has over 18 years of real estate experience and is a member of the Royal Institution of Chartered Surveyors and of the Investment Property Forum.

Fraser D'Arcy
Investment Director

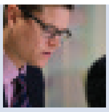
Fraser, age 42, joined as Investment Director in January 2013 and is primarily responsible for transactional activity within the portfolio to manage effective recycling of capital. Previously he was an Investment Surveyor at Threadneedle Property Investments Limited from 2006. He has 18 years of investment experience in UK real estate, is a Member of the Royal Institution of Chartered Surveyors, has obtained the Investment Management Certificate and is a member of the Investment Property Forum.





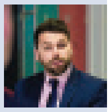
Tim Hamlin
Senior Asset Manager

Tim is a Senior Asset Manager and a member of the Royal Institution of Chartered Surveyors and has obtained the Investment Management Certificate. He is responsible for the formulation and implementation of asset level business plans in line with the overall portfolio strategy. He has ten years of real estate experience and eight years working with the Group's portfolio.



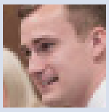
James Forman
Financial Controller

James is the Financial Controller. In this role he is responsible for all the accounting and financial reporting for the Group. He has worked with the Group since 2005 and has 18 years' experience in the real estate sector. James is a Fellow of the Association of Chartered Certified Accountants.



Matthew Barker
Asset Manager

Matthew joined as an Asset Manager in August 2014 from JLL. He is a member of the Royal Institution of Chartered Surveyors and is responsible for the asset management and performance of the property portfolio.

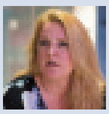


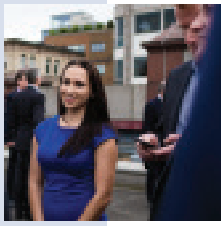
Adam Green
Senior Accountant

Adam is a Senior Accountant joining from Invista Real Estate in January 2012. He is a member of the Association of Chartered Certified Accountants and assists with accounting and financial reporting for the Group.

Sarah Barnes
Office Manager

Sarah is responsible for the day-to-day management of the office and oversees all aspects of administration within the Company. She joined in June 2014 and has completed the IPF Introduction to Property Investment module.





Melissa Ricardo
Team Secretary

Melissa joined in January 2017 and provides administration support to the team.

Corporate governance report

As a member of the Association of Investment Companies ("AIC"), the Company has been reporting against the principles and recommendations of the AIC Code of Corporate Governance (the "AIC Code") and the accompanying AIC Corporate Governance Guide for Investment Companies (the "AIC Guide"). In these financial statements, the Company is reporting against the July 2016 AIC Code and AIC Guide which take into account updates made to the UK Corporate Governance Code in April 2016.

The Board retains full responsibility for the direction and control of the Company, including investment policy and strategy, dividend policy and gearing.

The Board has considered the principles and recommendations of the AIC Code by reference to the AIC Guide. The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code (the "UK Code"), as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company. The Financial Reporting Council has confirmed that, by following the AIC Guide, investment company boards should fully meet their obligations in relation to the UK Code.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Code), will provide better information to shareholders.

Except as disclosed below, the Company has complied throughout the year with the recommendations of the AIC Code and the relevant provisions of the UK Code.

By complying with the AIC Code and the UK Code, the Board considers that it is in compliance with the provisions of the Code of Corporate Governance published by the Guernsey Financial Services Commission.

The Board

The Board retains full responsibility for the direction and control of the Company, including investment policy and strategy, dividend policy and gearing. The Board meets regularly, normally quarterly, and more frequently if necessary.

The Board has delegated responsibility for operational matters under an Investment Management Agreement to its Investment Manager, Picton Capital Limited.

Composition

The Company is led and controlled by a Board composed of non-executive Directors, all of whom have wide experience. With the exception of Michael Morris, who is the Chief Executive of the Group's Investment Manager, all Directors are also considered to be independent. Although two members of the Board have now served for more than a term of nine years, they are considered to be independent in character and judgement.

The Articles of Association stipulate that all new Directors shall retire at their first Annual General Meeting and offer themselves for reappointment. One-third, or the number nearest to but not exceeding one-third, of the Directors shall retire and offer themselves for reappointment at each subsequent Annual General Meeting.

The Board considers that the length of time each Director, including the Chairman, serves on the Board should not be limited and therefore has not set a finite tenure policy. However, the Board has determined that any Director who has served for more than nine years will offer themselves for reappointment on an annual basis. The Board believes that it is in the shareholders' best interests for the Chairman to be the point of contact for all matters relating to the governance of the Company and as such has not appointed a senior independent non-executive Director.

Committees

The Board has established four Committees: Audit and Risk, Remuneration, Property Valuation and Nominations. The terms of reference for these Committees are available on the Company's website. Given Michael Morris's position as Chief Executive of the Company's Investment Manager, the Board has agreed that he will not serve on any of the Board Committees.

Attendance at Board and Committee meetings

	Board (4 meetings)	Audit and Risk (2 meetings)	Remuneration (3 meetings)	Property Valuation (4 meetings)	Nominations (4 meetings)
Nicholas Thompson	4	2	3	4	4
Robert Sinclair	4	2	3	4	4
Roger Lewis	3	2	2	4	3
Vic Holmes	4	2	3	3	4
Michael Morris	4	–	–	–	–
Mark Batten	2	1	2	1	2

The above meetings were the scheduled Board and Committee meetings. Additional meetings were held to deal with other matters as required and are not included above. Mark Batten joined the Board on 1 October 2017 and has attended both Board meetings since then.

Evaluation

The performance of the Board and its Committees is evaluated on an annual basis. This is carried out by external consultants every three years and internally by the Directors for intervening years. The next external evaluation will be carried out later this year, by Trust Associates, who have carried out previous external evaluations. The previous internal evaluation was carried out in February 2017, using questionnaires prepared by the Company's Administrator.

Internal control and risk management

The Directors acknowledge that they are responsible for establishing and maintaining the Group's system of internal controls and reviewing its effectiveness. Internal control systems are designed to manage rather than eliminate the failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss. They have therefore established an ongoing process designed to meet the particular needs of the Group in managing the risks to which it is exposed, consistent with the guidance provided by the Turnbull Committee. Such review procedures have been in place throughout the full financial year, and up to the date of the approval of the financial statements, and the Board is satisfied with their effectiveness.

This process involves a review by the Board of the control environment within the Group's service providers to ensure that the Group's requirements are met.

The Group does not have an internal audit function. Following the change to internalised management, and given the scale of the Group's operations, the Board has determined that a separate internal audit function is unnecessary and that additional procedures carried out by the external auditor in conjunction with the audit of the Group's accounts will provide the Board with sufficient assurance regarding the internal control systems in place. The Board continues to place reliance on the Administrator's internal control systems.

These systems are designed to ensure effective and efficient operations, internal control and compliance with laws and regulations. In establishing the systems of internal control, regard is paid to the materiality of relevant risks, the likelihood of costs being incurred and costs of control. It follows, therefore, that the systems of internal control can only provide reasonable, but not absolute, assurance against the risk of material misstatement or loss.

The effectiveness of the internal control systems is reviewed annually by the Board and the Audit and Risk Committee. The Audit and Risk Committee has a discussion annually with the auditor to ensure that there are no issues of concern in relation to the audit opinion on the financial statements and, if necessary, representatives of the Investment Manager would be excluded from that discussion.

Relations with shareholders

In conjunction with the Board, the Administrator keeps under review the register of members of the Company. All shareholders are encouraged to participate in the Company's Annual General Meeting.

All Directors normally attend the Annual General Meeting, at which shareholders have the opportunity to ask questions and discuss matters with the Directors and senior management. Investors are able to direct any questions for the Board via the Secretary.

The Chairman regularly attends analyst meetings and is available to meet investors if requested. The outcome of these meetings is communicated to the rest of the Board.

Nominations committee report

Nicholas Thompson

The Nominations Committee is chaired by Nicholas Thompson. The other members of the Committee are Vic Holmes, Robert Sinclair, Roger Lewis and Mark Batten.

The role of the Committee is to consider the size, structure and composition of the Board to ensure that it has the right balance of skills, knowledge, experience and diversity to carry out its duties and provide effective leadership. In making any new appointment the Board will consider a number of factors, but principally the skills and experience that will be relevant to the specific role and that will complement the existing Board members.

The Committee ensures that the appointment process is formal, rigorous and transparent.

As has been explained earlier in this Report, we will be bringing forward to shareholders proposals to enter the UK REIT regime from 1 October 2018. Linked with this, we are also proposing to change the listing status of the Company from that of an investment company to a commercial company, which is in keeping with most internally managed UK REITs and will be consistent with executive management being exercised by the Board in the UK. Assuming these changes are approved, we will move to a more traditional Board structure comprising executive and non-executive directors.

The role of the Committee is to consider the size, structure and composition of the Board to ensure that it has the right balance of skills, knowledge, experience and diversity to carry out its duties.

Terms of reference

The Committee's terms of reference include consideration of the following issues:

- Review and make recommendations regarding the size and composition of the Board;
- Consider and make recommendations regarding succession planning for the Board and senior management;
- Identify and nominate candidates to fill Board vacancies as they arise;
- Review the results of the Board evaluation relating to composition;
- Review the time requirements for Directors; and
- Recommend the membership of Board Committees.

Activity

The Committee met four times during the year ended 31 March 2018 and considered the following matters:

- The selection process for the appointment of a new director to replace Robert Sinclair;
- The appointment of external consultants to compile a list of candidates;
- The formation of a working group of the Committee to manage the recruitment process and work with the consultants;
- Consideration of the final shortlist of candidates and a final recommendation:
- Future composition of the Board; and
- Succession planning.

> We believe that the Board should comprise both executive and non-executive directors. We consider that this will improve the accountability of the executives to shareholders.

Appointment of new non-executive director

During the year the Committee focused on the selection and appointment of a new director to replace Robert Sinclair, who intends to retire from the Board during 2018. We appointed independent executive search consultants Heidrick & Struggles and provided them with a detailed description of the role and the capabilities required for it. The consultants prepared a list of potential candidates, both male and female, which was assessed by the Committee for suitability to the role. This long list of five candidates met initially with the Chairman of the Committee and following this a final shortlist of three candidates were interviewed initially by the Chairman, and subsequently by a panel comprising two Directors and a member of senior management. The whole Committee then considered the feedback from both stages before recommending to the Board that Mark Batten be appointed.

Board composition

As stated above, with management and control of the Company in the UK, we believe that the Board should comprise both executive and non-executive directors. We consider that this will improve the accountability of the executives to shareholders. In the Corporate Governance report we have set out how the Board and its Committees will operate under the proposed changes. Michael Morris, already on the Board as a non-executive, will become an executive director and the Group's Chief Executive. Furthermore, we propose to appoint Andrew Dewhirst, currently the Finance Director of Picton Capital Limited, to the Board as an executive director.

Robert Sinclair will retire from the Board this year and will not put himself forward for re-election at the forthcoming Annual General Meeting. Mark Batten will take over as Chairman of the Audit and Risk Committee once this year's annual audit has been completed.

Vic Holmes has notified the Board that he intends to step down as a Director prior to the Company moving its management to the UK. The Committee has prepared a specification of the role, which will include Chairman of the Remuneration Committee, and has appointed Heidrick & Struggles to assist with the selection process. The Committee intends to make a recommendation to the Board regarding a new appointment before the end of September 2018.

Tenure

The Board considers that the length of time each Director, including the Chairman, serves on the Board should not be limited and therefore has not set a finite tenure policy. However, the Board has determined that any Director who has served for more than nine years will offer themselves for reappointment on an annual basis.

Diversity policy

The Company is committed to treating all employees equally and considers all aspects of diversity, including gender, when considering recruitment at any level of the business. We aim to maintain the right blend of skills, experience and knowledge in the Board and investment management team. The Company recognises the benefits of diversity but the Board does not consider that diversity quotas are appropriate in determining its composition. All candidates are considered on merit.

Nicholas Thompson
Chairman of the Nominations Committee
4 June 2018

Audit and Risk Committee Report

Robert Sinclair

The Audit and Risk Committee is chaired by Robert Sinclair. The other members of the Committee are Nicholas Thompson, Roger Lewis, Vic Holmes and Mark Batten.

Robert Sinclair has confirmed that he will be retiring from the Board this year. Mark Batten will take over as chairman of the Audit and Risk Committee from then. Meetings of the Audit and Risk Committee are attended by the Finance Director of Picton Capital Limited and another member of the finance team, and the external auditor. The external auditor is given the opportunity to discuss matters without management presence.

Terms of reference

The Committee's terms of reference include consideration of the following issues:

- Financial reporting, including significant accounting judgements and accounting policies;
- Adoption of the Group's Risk Management Policy;
- Monitoring and evaluating the risks relating to the Group;
- Evaluation of the Group's risk profile and risk appetite, and whether these are aligned with its investment objectives;
- Internal controls and risk management systems;
- Ensuring that key risks are being effectively measured, managed and mitigated;
- The Group's relationship with the external auditor, including effectiveness and independence;
- Internal audit and the programme of controls testing; and
- Reporting responsibilities.

Activity

The Audit and Risk Committee met twice during the year ended 31 March 2018 and considered the following matters:

- External audit strategy and plan;
- Audit and accounting issues of significance;
- The Annual and Interim Reports of the Group;
- Reports from the external auditor;
- The Group's Risk Management Policy;
- The effectiveness of the audit process and the independence of KPMG Channel Islands Limited;
- Review of the Risk Matrix and mitigating controls; and
- Stock Exchange announcements.

Financial reporting and significant reporting matters

The Committee considers all financial information published in the annual and half-year financial statements and considers accounting policies adopted by the Group, presentation and disclosure of the financial information and the key judgements made by management in preparing the financial statements.

The Directors are responsible for preparing the Annual Report. At the request of the Board, the Committee considered whether the 2018 Annual Report was fair, balanced and understandable and whether it provided the necessary information for shareholders to assess the Group's performance, business model and strategy.

The key area of judgement that the Committee considered in reviewing the financial statements was the valuation of the Group's investment properties.

The valuation is conducted on a quarterly basis by independent valuers, and is subject to oversight by the Property Valuation Committee. It is a key component of the annual and half year financial statements and is inherently subjective, requiring significant judgement. Members of the Property Valuation Committee, together with the Investment Manager, meet with the independent valuer on a quarterly basis to review the valuations and underlying assumptions, including the year end valuation process. The Chairman of the Property Valuation Committee reported to the Audit and Risk Committee at its meeting in May 2018 and confirmed that the following matters had been considered in discussions with the independent valuers:

- Property market conditions;
- Yields on properties within the portfolio;
- Letting activity and vacant properties;
- Covenant strength and lease lengths;
- Estimated rental values; and
- Comparable market evidence.

The Audit and Risk Committee reviewed the report from the Chairman of the Property Valuation Committee including the assumptions applied to the valuation and considered their appropriateness, as well as considering current market trends and conditions, and valuation movements compared to previous quarters. The Committee considered the valuation and agreed that this was appropriate for the financial statements. The Committee was satisfied that the 2018 Annual Report is fair, balanced and understandable and included the necessary information as set out above, and it has confirmed this to the Board.

Risk management policy
The Committee has considered and adopted a Risk Management Policy for the Group.

The purpose of the Risk Management Policy is to strengthen the proper management of risks through proactive risk identification, risk management, and risk acceptance pertaining to all activities undertaken by the Group. The Risk Management Policy is intended to:

- Ensure that major risks are reported to the Board for review and acceptance;
- Result in the management of those risks that may significantly affect the pursuit of the stated strategic goals and objectives;
- Embed a culture of evaluation and identifying risks at multiple levels within the Group; and
- Meet legal and regulatory requirements.

Internal controls
The Board is responsible for the Company's internal control system and for reviewing its effectiveness. It has therefore established a process designed to meet the particular needs of the Company in managing the risks to which it is exposed.

As part of this process, a risk matrix has been prepared that identifies the Company's key functions and the individual activities undertaken within those functions. From this, the Board has identified the Company's principal risks and the controls employed to manage those risks. These are reviewed at each Audit and Risk Committee meeting. Also, the Committee has agreed a programme of additional controls testing which is carried out by the external auditor, in order to provide the Board with comfort that the controls are operating as intended and have been in place throughout the year. The Board also monitors the investment performance of the Company against its objectives and receives reports from the Investment Manager and Administrator each quarter on their activities. The Committee has received and reviewed a copy of CBRE Limited's Real Estate Accounting Services – Service Organisation Control Report as at 31 December 2017, prepared in accordance with International Standard on Assurance Engagements 3402, in respect of property management accounting services provided to Picton Capital Limited.

Given the scale of the Group's operations, the Board has determined that a separate internal audit function is unnecessary and that additional procedures carried out by the external auditor in conjunction with the audit of the Group's accounts will provide the Board with sufficient assurance regarding the internal control systems in place.

Independence of auditor
It is the policy of the Group that non-audit work will not be awarded to the external auditor if there is a risk their independence may be conflicted. The Committee monitors the level of fees incurred for non-audit services to ensure that this is not material, and obtains confirmation, where appropriate, that separate personnel are involved in any non-audit services provided to the Group. The Committee must approve in advance all non-audit assignments to be carried out by the external auditor.

The fees payable to the Group's auditor and its member firms are as follows:

	2018 £000	2017 £000
Audit fees	108	108
Interim review fees	14	14
Non-audit fees	27	23
	149	145

The non-audit fees include £14,000 for additional controls testing and £7,000 for liquidation fees, carried out by KPMG Channel Islands Limited, and £6,000 in respect of the Picton Capital Limited FCA CASS review, carried out by KPMG LLP.

Annual auditor assessment
On an annual basis, the Committee assesses the qualifications, expertise and independence of the Group's external auditor, as well as the effectiveness of the audit process. It does this through discussion and enquiry with senior management, review of a detailed assessment questionnaire and confirmation from the external auditor. The Committee also considers the external audit plan, setting out the auditor's assessment of the key audit risk areas and reporting received from the external auditor in respect of both the half year and year end reports and accounts.

As part of the review of auditor independence and effectiveness, KPMG Channel Islands Limited has confirmed that:

- They have internal procedures in place to identify any aspects of non-audit work which could compromise their role as auditor and to ensure the objectivity of the audit report;
- The total fees paid by the Group during the year do not represent a material part of their total fee income; and
- They consider that they have maintained their independence throughout the year.

In evaluating KPMG Channel Islands Limited the Committee completed its assessment of the external auditor for the financial period under review. It has satisfied itself as to their qualifications and expertise and remains confident that their objectivity and independence are not in any way impaired by reason of the non-audit services which they provide to the Group.

KPMG Channel Islands Limited have been auditor to the Group since the year ended 31 December 2009 following a tender process in July 2009. The current audit engagement partner, Deborah Smith, took over this role for this year's audit from Neale Jehan, who had previously served five years as audit partner.

The Committee recommends that KPMG Channel Islands Limited are recommended for reappointment at the next Annual General Meeting.

Robert Sinclair
Chairman of the Audit and Risk Committee
4 June 2018

PROPERTY VALUATION COMMITTEE REPORT

ROGER LEWIS

The Property Valuation Committee is chaired by Roger Lewis. The other members of the Committee are Nicholas Thompson, Robert Sinclair, Vic Holmes and Mark Batten.

Terms of reference

The Committee shall review the quarterly valuation reports produced by the independent valuers before their submission to the Board, looking in particular at:

- Significant adjustments from previous quarters;
- Individual property valuations;
- Commentary from the Investment Manager;
- Significant issues that should be raised with the Investment Manager;
- Material and unexplained movements in the Company's net asset value;
- Compliance with applicable standards and guidelines;
- Reviewing findings or recommendations of the valuers; and
- The appointment, remuneration and removal of the Company's valuers, making such recommendations to the Board as appropriate.

CBRE Limited was appointed as the external valuer to the Group, effective from 31 March 2013, and carries out a valuation of the Group's property assets each quarter.

Activity

The Committee met four times during the year ended 31 March 2018. Members of the Property Valuation Committee, together with the Investment Manager, met with the independent valuer each quarter to review the valuations and considered the following matters:

- Property market conditions and trends;
- Movements compared to previous quarters;
- Yields on properties within the portfolio;
- Letting activity and vacant properties;
- Covenant strength and lease lengths;
- Estimated rental values; and
- Comparable market evidence.

The Committee was satisfied with the valuation process throughout the year.

External valuer

CBRE Limited was appointed as the external valuer to the Group, effective from 31 March 2013, and carries out a valuation of the Group's property assets each quarter, the results of which are incorporated into the Group's half year and annual financial statements, and the quarterly net asset statements.

Roger Lewis
Chairman of Property Valuation Committee
4 June 2018

CBRE

The Directors
Picton Property Income Limited
PO Box 255
Trafalgar Court
Les Banques
St Peter Port
Guernsey
GY1 3QL

23 April 2018

Dear Sirs

Picton property portfolio — valuation as at 31 March 2018

In accordance with the terms of our appointment as External Valuers to Picton Property Income Limited, we have valued the freehold and leasehold properties in which the Fund has an interest as at 31 March 2018, for accounting purposes. Our valuations have been prepared on the basis of 'Fair Value' in accordance with the RICS Valuation – Global Standards 2017 which incorporate the International Valuation Standards and RICS valuation - Professional Standards UK January 2014 (Revised April 2015). We confirm that the 'Fair Value' reported above, for the purpose of financial reporting under International Financial Reporting Standards (IFRS) and UK Generally Accepted Accounting Practice (UK GAAP), is effectively the same as 'Market Value'.

On the basis, assumptions, terms and conditions as set out within our Valuation Report dated 16 April 2018, we are of the opinion that the aggregate values of the properties we value in the Picton investment property portfolio, as at 31 March 2018, is £683,800,000 (SIX HUNDRED AND EIGHTY THREE MILLION EIGHT HUNDRED THOUSAND POUNDS), exclusive of VAT.

Our opinion of Market Value was derived using comparable recent market transactions on arm's length terms.

The total fees, including the fee for this assignment, earned by CBRE Limited (or other companies forming part of the same group of companies within the UK) from the Addressee (or other companies forming part of the same group of companies) is less than 5.0% of their total UK revenues.

This letter is for the use only of the party to whom it is addressed for the specific purpose set out herein and no responsibility is accepted to any third party for the whole or any part of its contents.

Yours faithfully

Nick Knight MRICS

Executive Director
RICS Registered Valuer
For and on behalf of CBRE Limited

Remuneration report

Vic Holmes

The Remuneration Committee is chaired by Vic Holmes. The other members of the Committee are Nicholas Thompson, Mark Batten, Roger Lewis and Robert Sinclair.

Terms of reference

The Committee shall consider the following matters:

- Appointment of, and setting the terms of reference for, any remuneration consultants;
- Recommending remuneration levels for the non-executive Directors to the Board;
- Recommending remuneration policies to the Board for Directors and senior management of Picton Capital Limited; and
- Reviewing remuneration trends across the sector.

If shareholders approve proposals for the Company to enter the UK REIT regime, these terms of reference will be reviewed to ensure they are appropriate for a Board structure comprising both executive and non-executive directors.

Advisers

During the year, Deloitte LLP has provided independent advice in relation to non-executive director fee levels, share valuations, share plan administration and remuneration implications of UK REIT conversion. Total fees for the year were £16,968. Deloitte LLP is a founding member of the Remuneration Consultants Group and, as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. In addition Deloitte also provided taxation services and advice to the Company during the year. The Committee has reviewed the nature of this additional advice and is satisfied that it does not compromise the independence of the advice that it has received.

Dear Shareholders

On behalf of the Board, I am pleased to introduce the Remuneration Committee report for the year ended 31 March 2018. This report represents a transition period in the evolution of the Company. As has been explained earlier in the Annual Report, we will be bringing forward to shareholders proposals to enter the UK REIT regime from 1 October 2018, and, linked with this, to change the listing status of the Company from that of an investment company to a commercial company, which is in keeping with most internally managed UK REITs. Subject to these changes being approved, we will move to a more traditional Board structure comprising executive and non-executive directors. With this in mind, the Committee has prepared and the Board has approved a new directors' remuneration policy which will be put to shareholders at the Annual General Meeting. As a Guernsey registered company we intend to comply voluntarily with the relevant UK regulations regarding executive remuneration in order to provide transparency to our shareholders.

This report therefore comprises three sections:

- This introductory letter;
- The proposed new Directors' Remuneration policy; and
- The Annual Report on Remuneration for the year ended 31 March 2018.

The Committee met three times during the year and set out here is a summary of its activity.

Picton Capital Limited salary review and bonus awards

The financial results for the year were very strong. The overall profit for the year was £64 million, giving a total return of nearly 15%, an improvement on last year's figures of £43 million and 10% respectively. The property portfolio outperformed the IPD Quarterly Benchmark for the year and also over longer time periods. Our EPRA earnings per share grew by 10% compared to last year, to 4.2 pence per share.

The Committee considered the salary review and annual bonuses for the investment management team for 2018 and received an independent benchmarking report covering all of the roles within the team. The Committee also took into account the key performance indicators for the year and individual and team objectives set at the start of the year. In conclusion, the Committee agreed that there would be an average increase in base salaries of 6.6% from 1 April 2018 (2017: nil), and that the overall annual bonus awards for this team (including the Deferred Bonus element) would be 110% of base salaries (2017: 102%).

For the year ended 31 March 2018, the Committee agreed that annual bonuses awarded to Picton Capital staff would total £550,000 payable on 30 April 2018 (2017: £537,000) and £483,000 in Deferred Bonus Scheme awards (2017: £555,000). The Deferred Bonus Scheme awards were made at the prevailing share price, and equate to 572,000 units, which vest on 31 March 2020. The cost to the Group of awards made is spread over the vesting periods in accordance with its accounting policy. The accrued cost of the Deferred Bonus Scheme at 31 March 2018 was £1,304,000 (2017: £1,177,000). A summary of the awards made to Picton Capital Limited staff is set out in Note 7 to the financial statements.

Long-term Incentive Plan

This year the Committee considered and recommended the second round of awards under the Long-term Incentive Plan, awarded in June 2017. The LTIP provides the link between the long-term success of the Company and the remuneration of the management team. The awards are conditional on achieving three performance metrics measured over the three year period from 1 April 2017 to 31 March 2020. These metrics are:

- Total shareholder return measured against a bespoke comparator group of similar companies;
- Total property return measured against the MSCI IPD Quarterly Benchmark; and
- Growth in EPRA earnings per share compared to absolute targets.

The Committee reviewed both the performance conditions and the comparator group and recommended that these remained unchanged for the 2017 awards.

Awards totalling 1,036,895 shares were made to the investment management team following the Committee's recommendation. These awards will vest in 2020 subject to meeting the performance conditions.

> As a Guernsey registered company we intend to comply voluntarily with the relevant UK regulations regarding executive remuneration in order to provide transparency to our shareholders.

Remuneration policy

As stated above, the Committee has considered a new remuneration policy for Directors. Although the Board currently only comprises non-executive directors, the Committee agreed that, ahead of the Company potentially moving its management to the UK, it should prepare a remuneration policy which extends to executive directors in the interests of transparency for shareholders. In particular we have considered a new framework for determining annual variable remuneration for executives, and this is set out in the new policy, which was independently reviewed by Deloitte.

In preparing the policy the Committee has received a benchmarking report comparing the remuneration levels of its senior management to other similar real estate companies. As basic salaries are low relative to market the Committee has concluded that variable remuneration potential for any newly appointed executive director would be set at a level to ensure that the total remuneration package for executive directors is competitive but with a greater emphasis on performance related elements.

Implementation of policy

Should the proposals to move central management to the UK be approved, we intend to apply the new policy for the newly appointed executive directors, and report against that policy in next year's Annual Report.

For the annual bonus awards in respect of the year ended 31 March 2019, 54% of the maximum award potential would be based equally on three financial metrics. These are:

- Total Property Return (TPR);
- Growth in EPRA earnings per share; and
- Total Return (TR)

The remaining 46% of the maximum award potential would be based on a mixture of corporate and personal measures. These measures are aligned with the Company's annual objectives.

All targets are commercially sensitive and in the view of the Committee would not induce excessive risk taking. They would be disclosed in next year's Annual Report to the extent that they are no longer commercially sensitive at that time.

The Committee intends that up to 50% of each executive director's annual bonus will be paid in shares and deferred for a period of two years. This represents a change from previous practice whereby deferral was into units in the Deferred Bonus Scheme with settlement in cash.

The Committee will make Long-term Incentive Plan awards to all employees following the publication of its 31 March 2018 results. These awards will be for the three year performance period from 1 April 2018 to 31 March 2021. The performance conditions and targets for these awards will be unchanged from those applied to the 2017 awards, as set out later in this report.

As the Company has no executive directors at the date of this report, the Committee has not set out an illustration of the application of the policy for the year ended 31 March 2019.

Non-executive fee review

Historically we have appointed independent consultants to review the level of non-executive directors' fees on a regular basis, usually every three years. The last independent review took place in 2014, and the Committee considered that it was appropriate to carry out a further review this year. The Committee appointed Deloitte to compare the current level of fees against a benchmark group of similar companies, both internally and externally managed. Following the review the Committee recommended the following new fees rates should apply, as from 1 January 2018.

	New annual rate from 1 January 2018 (£)	Annual rate until 31 December 2017 (£)
Chairman	98,000	82,500
Chairman of the Audit and Risk Committee	47,500	43,000
Chairman of the Property Valuation Committee	45,000	40,000
Chairman of the Remuneration Committee	45,000	40,000
Director	40,000	36,000

As a Committee, we are committed to ongoing dialogue with our shareholders. We hope to receive your support for our proposed new Remuneration Policy at the forthcoming Annual General Meeting.

Vic Holmes
Chairman of the Remuneration Committee

4 June 2018

DIRECTORS' REMUNERATION POLICY

The objective of the Group's remuneration policy is to have a simple and transparent remuneration structure aligned with the Group's strategy.

The Group aims to provide a remuneration package which will retain Directors who possess the skills and experience necessary to manage the Group and maximise shareholder value on a long-term basis. The remuneration policy aims to incentivise Directors by rewarding performance through enhanced shareholder value.

As the Company has no executive directors at the date of this report, the Committee has not set out an illustration of the application of the policy for the year ended 31 March 2019.

Executive Directors' Remuneration Policy Table

BASE SALARY	
Purpose	A base salary to attract and retain executives of appropriate quality to deliver the Group's strategy.
Operation	Basic salaries are normally reviewed annually with changes effective on 1 April. When setting base salaries the Committee will consider relevant market data, as well as the scope of the role and the individual's skills and experience.
Maximum	No absolute maximum has been set for executive Director base salaries. Any annual increase in salaries is set at the discretion of the Remuneration Committee taking into account the factors stated in this table and the following principles: ■ Salaries would typically be increased at a rate consistent with the average employee salary increase. ■ Larger increases may be considered appropriate in certain circumstances (including, but not limited to, a change in an individual's responsibilities or in the scale of their role or in the size and complexity of the Group). ■ Larger increases may also be considered appropriate if a Director has been initially appointed to the Board at a lower than typical salary.
Performance measures	None
Clawback	None

PENSION	
Purpose	Part of competitive remuneration package.
Operation	The Company has established defined contribution pension arrangements for all employees. For executive directors the Company pays a monthly salary supplement in lieu of Company pension contributions.
Maximum	The salary supplement is set at 15% of base salary.
Performance measures	None
Clawback	None

BENEFITS	
Purpose	Part of competitive remuneration package.
Operation	This principally comprises: • Private medical insurance • Life assurance • Permanent health insurance The Committee may agree to provide other benefits as it considers appropriate.
Maximum	Benefits are provided at market rates.
Performance measures	None
Clawback	None

Governance

ANNUAL BONUS	
Purpose	A short-term incentive to reward executive directors on meeting the Company's annual financial and strategic targets and on their personal performance.
Operation	The Committee may determine that up to 50% of the annual bonus will be paid in the Company's shares and deferred for two years. Dividend equivalents will be paid at the end of the deferral period in cash.
Maximum	The maximum bonus will be 175% of base salary.
Performance measures	The annual bonus is based on a range of one-year financial, strategic and individual targets set by the Committee at the beginning of each year. The weightings will also be determined annually to ensure alignment with the Company's strategic priorities although at least 50% of the award will be assessed on corporate financial measures. For corporate financial measures, 50% of the maximum bonus opportunity will be payable for on target performance and, if applicable, up to 25% for threshold performance.
Clawback	Malus and clawback provisions apply.

LONG-TERM INCENTIVE PLAN	
Purpose	A long term incentive plan to align executives' interests with those of shareholders and to promote the long-term success of the Company.
Operation	Awards are granted annually in the form of a conditional share award or nil cost option. Awards will normally vest at the end of a three year period subject to meeting the performance conditions and continuing employment. The Remuneration Committee may award dividend equivalents on awards that vest and may also apply a holding period of a further two years to vested awards.
Maximum	Annual awards with a maximum value of up to 150% of base salary may be made
Performance measures	There will initially be three performance conditions each measured over a three year performance period. Each condition will be equally weighted, but the Committee has the flexibility to vary this. For threshold levels of performance 25% of the award vests, rising to 100% for maximum performance.
Clawback	Malus and clawback provisions apply.

SHAREHOLDING GUIDELINES	
Purpose	To align executive directors with the interests of shareholders.
Operation	Executive directors are expected to build up and thereafter maintain a minimum shareholding equivalent to 200% of basic salary.
Maximum	Not applicable
Performance measures	Not applicable
Clawback	Not applicable

Non-executive Directors Policy Table

FEES	
Purpose	To provide competitive director fees.
Operation	Annual fee for the Chairman, and annual base fees for other non-executives. Additional fees for those directors with additional responsibilities chairing a Board Committee. All fees will be payable quarterly in arrears in cash. Fees will usually be reviewed independently every three years. The independent non-executive Directors are not eligible to receive share options or other performance related elements, or receive any other benefits other than where travel to the Company's registered office is recognised as taxable benefit in which case a non-executive may receive the grossed-up costs of travel as a benefit. Non-executive Directors are entitled to reimbursement of reasonable expenses.
Maximum	The Company's Articles set an annual limit for the non-executive Directors' remuneration of £300,000.
Performance measures	None
Clawback	None

Notes

1) The Committee may amend or substitute any performance condition(s) if one or more events occur which cause it to determine that an amended or substituted performance condition would be more appropriate, provided that any such amended or substituted performance condition would not be materially less difficult to satisfy than the original condition (in its opinion). The Committee may adjust the calculation of performance targets and vesting outcomes (for instance for material acquisitions, disposals or investments and events not foreseen at the time the targets were set) to ensure they remain a fair reflection of performance over the relevant period. The Committee also retains discretion to make downward or upward adjustments resulting from the application of the performance measures if it considers that the outcomes are not a fair and accurate reflection of business performance. In the event that the Committee was to make an adjustment of this sort, a full explanation would be provided in the next Remuneration Report.

2) Performance measures – annual bonus. The annual bonus measures are reviewed annually and chosen to focus executive rewards on delivery of key financial targets for the forthcoming year as well as key strategic or operational goals relevant to an individual. Specific targets for bonus measures are set at the start of each year by the Remuneration Committee based on a range of relevant reference points, including, for Group financial targets, the Company's business plan and are designed to be appropriately stretching.

3) The Committee may amend the terms of awards granted under the share schemes referred to above in accordance with the rules of the relevant plans.

4) Performance measures – LTIP. The LTIP performance measures will be chosen to provide alignment with our longer-term strategy of growing the business in a sustainable manner that will be in the best interests of shareholders and other key stakeholders in the Company. Targets are considered ahead of each grant of LTIP awards by the Remuneration Committee taking into account relevant external and internal reference points and are designed to be appropriately stretching.

5) The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed (i) before the policy set out above came into effect or (ii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes "payments" includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted.

6) The Committee may make minor amendments to the Remuneration Policy for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation, without obtaining shareholder approval for that amendment.

Service contracts
Executive directors will have service contracts, comprising the remuneration elements set out within this policy. There will be no fixed length of service but the contracts can be terminated by either party by giving the other notice in writing for a period not exceeding 12 months. In the event of the appointment of executive directors full details of service contracts will be disclosed in next year's Annual Report.

On termination the applicable payments for each element of remuneration is set out below.

The executive service contracts will be available for inspection at the Company's registered office.

Letters of appointment
Each independent non-executive Director has a letter of appointment which sets out the terms and conditions. They have a six month notice period and their appointment would terminate without compensation if not re-elected at the Annual General Meeting. The independent Directors have no service contracts or interests in any material contracts with the Group.

Recruitment
The remuneration package for a new executive Director would follow, as far as practicable, the above Policy Table. Salaries would reflect the skills and experience of the individual, and may be set at a level to allow progression and performance in the role. The structure of the variable remuneration elements would reflect those in the Policy Table. However the Committee may flex the balance between annual and long-term incentives and the measures used to assess performance. If appropriate, different measures and targets may be applied to a new appointment's annual bonus in their year of joining. Variable pay would be subject to the maximums set out in the Policy Table.

Where an executive Director is an internal promotion, the normal policy is that any legacy arrangements would be honoured in line with the original terms and conditions. Similarly, if an executive Director is appointed following the Company's acquisition of or merger with another company, legacy terms and conditions would be honoured.

Remuneration arrangements for a new non-executive director would be consistent with the above Policy.

The Committee may agree to make compensatory payments for any remuneration arrangements subject to forfeit on leaving a previous employer. This would be considered for each specific case, taking into account any relevant factors relating to the recruitment. There is no limit on such payments, but the Committee would not intend to pay more than the commercial value forfeited. If necessary, the Committee may grant such awards under Listing Rule 9.4.2 R.

Policy for other employees
Remuneration for other employees broadly follows the same principles as for executive Directors. A significant element of remuneration is linked to performance measures. All employees currently participate in the Long-term Incentive Plan, and in the annual bonus. The weighting of individual and corporate measures are dependent on an individual's role.

The Committee does not formally consult with employees when determining executive Director pay. However, the Committee is kept informed of general management decisions made in relation to employee pay and is conscious of the importance of ensuring that its pay decisions for executive Directors are regarded as fair and reasonable within the business.

Policy for payment on loss of office
On cessation of employment of an executive director the Committee will honour any contractual arrangements in place. The Committee may make any other payments in connection with loss of office in discharge of legal obligations or by way of a compromise or settlement of any claim arising. This may include reasonable amounts for outplacement assistance and professional or legal advice.

The Committee may, at its discretion, make an annual bonus payment for the year of cessation depending on the reason for leaving. The Committee will take into consideration appropriate performance measures which may include the individual's performance and contribution during the year, and the Group's financial results. The bonus would usually be time pro-rated and may be settled wholly in cash.

The treatment of outstanding deferred bonus and Long-term Incentive Plan awards will be governed by the relevant plan rules. In both cases unvested awards will normally lapse unless the participant is determined to be a good leaver. The vesting date for a good leaver's awards will normally be the original vesting date, but the Committee has the flexibility to determine that awards may vest at an earlier date. The Committee's determination of the extent to which a good leaver's LTIP awards should vest will take into account the extent to which performance conditions are met either at the date of cessation of employment or the end of the original performance period and, unless the Committee determines otherwise, will be adjusted on a time pro-rated basis. Where an individual leaves after the vesting date but before the end of any holding period, they will retain their LTIP awards unless summarily dismissed.

Consideration of shareholder views
We consulted with major shareholders in advance of the introduction of the Long-term Incentive Plan in November 2016, and amended the terms of the proposed plan as a result of feedback received. We welcome any shareholder feedback on the remuneration policy being proposed at this year's Annual General Meeting.

ANNUAL REPORT ON REMUNERATION

Total remuneration for the year

All of the current Directors of the Company are non-executive. Michael Morris does not receive a fee as a Director of the Company but is remunerated in his capacity as Chief Executive of Picton Capital Limited.

The table below sets out the total remuneration receivable by each of the Directors who held office during the year to 31 March 2018, with a comparison to the previous financial year.

	31 March 2018 £	31 March 2017 £
Nicholas Thompson	**86,375**	82,500
Robert Sinclair	**44,125**	43,000
Roger Lewis	**41,250**	40,000
Vic Holmes	**41,250**	40,000
Mark Batten	**19,000**	–
Michael Morris	**–**	–
	232,000	205,500

The table below shows the remuneration earned by Michael Morris, as Chief Executive of Picton Capital Limited, for the year ended 31 March 2018.

	31 March 2018 £	31 March 2017 £
Basic salary	**227,000**	227,000
Salary supplement (in lieu of pension contributions)	**34,050**	34,050
Annual bonus awarded – cash element	**135,135**	114,700
Annual bonus awarded – deferred element	**165,165**	171,600
Long-term Incentive Plan – equity settled	**160,489**	54,006
	721,839	601,356

Michael Morris's bonus for the year ended 31 March 2018 was determined by the Committee taking into account the key performance indicators and his individual objectives set for the year. If shareholders approve proposals for the Company to enter the UK REIT regime, the Company will move to a more traditional Board structure comprising executive and non-executive directors and, as a consequence, next year's Remuneration Report will contain full retrospective details of how the executive directors' annual bonuses for the year ended 31 March 2019 were determined.

The above deferred element of the annual bonus acquired 195,925 units in the Deferred Bonus Scheme (2017: 204,896 units) as set out on the next page.

The above Long-term Incentive Plan figures represent the amounts charged to the Income Statement in the year based on the initial fair values of the outstanding awards and the estimated likelihood of the awards vesting.

Michael Morris has the following outstanding units in the Deferred Bonus Scheme:

Date of award	Vesting date	Unit value on date of grant	Units at 1 April 2017	Units granted in year	Units vested in year	Units at 31 March 2018
1 April 2015	31 March 2018	71.75p	112,892	-	(112,892)	-
1 April 2016	31 March 2018	69.75p	116,129	-	(116,129)	-
1 April 2016	31 March 2019	69.75p	116,129	-	-	116,129
1 April 2017	31 March 2019	83.75p	204,896	-	-	204,896
1 April 2018	31 March 2020	84.30p	-	195,925	-	195,925
			550,046	**195,925**	**(229,021)**	**516,950**

The units which vested in the year were subsequently paid out after the year end in cash for £214,387.

Long-term Incentive Plan

On 16 June 2017 Michael Morris was awarded a conditional share award in relation to his role as Chief Executive of Picton Capital Limited, as follows:

Number of shares	Basis (% of salary)	Face value per share (£)	Award face value (£)	Performance period	Threshold vesting
334,150	125%	0.84917	283,750	1 April 2017 to 31 March 2020	25%

The face value is based on a weighted average price per share, being the average of the closing share prices over the three business days immediately preceding the award date. Awards will vest after three years subject to continued service and the achievement of the performance conditions set out opposite.

Michael Morris has been granted the following outstanding awards under the Long-term Incentive Plan.

Date of grant	Performance period	Market value on date of grant	At 1 April 2017	Granted in year	Vested in year	At 31 March 2018
27 January 2017	1 April 2016 to 31 March 2019	79.085p	358,791	-	-	358,791
16 June 2017	1 April 2017 to 31 March 2020	84.917p	-	334,150	-	334,150
			358,791	**334,150**	-	**692,941**

PERFORMANCE CONDITION	VESTING LEVEL
Total Shareholder Return (TSR) to exceed the median TSR of a bespoke comparator group of similar companies over the performance period	
TSR is less than the median	0%
TSR is equal to the median	25%
TSR is between the median and the upper quartile ranked company in the comparator group	Pro rata on a straight line basis between 25% and 100%
TSR is equal to or above the upper quartile ranked company in the comparator group	100%
Total Property Return (TPR) to exceed the median return of the MSCI IPD Quarterly Benchmark over the performance period	
TPR is less than the median	0%
TPR is equal to the median	25%
TPR is between the median and the upper quartile ranked fund in the Benchmark	Pro rata on a straight line basis between 25% and 100%
TPR is equal to or above the upper quartile ranked fund in the Benchmark	100%
Growth in EPRA earnings per share (EPS) over the performance period	
EPS growth is less than 3% per annum	0%
EPS growth is equal to 3% per annum	25%
EPS growth is between 3% and 9% per annum	Pro rata on a straight line basis between 25% and 100%
EPS growth is above 9% per annum	100%

Any LTIP vesting will also be subject to the Remuneration Committee confirming that, in its assessment, the vesting outturn was achieved within an acceptable risk profile

No LTIP awards vested during the year ended 31 March 2018.

Share ownership

Directors and employees are encouraged to maintain a shareholding in the Company's shares to provide alignment with investors, although in the case of Picton Capital Limited staff, alignment is also achieved through awards under the Deferred Bonus Scheme. A formal shareholding guideline will apply to any executive director as set out in the Remuneration Policy.

The numbers of shares beneficially held by each Director and senior management (including connected persons), as at 31 March 2018 are shown in the tables below:

	31 March 2018	31 March 2017
Nicholas Thompson *	**215,000**	215,000
Robert Sinclair	**15,000**	15,000
Roger Lewis	**600,000**	600,000
Vic Holmes	**27,214**	27,214
Michael Morris*	**53,596**	53,596
Mark Batten	-	-

Senior management	31 March 2018	31 March 2017
Andrew Dewhirst	**28,500**	24,000
Jay Cable	**9,505**	9,505
Fraser D'Arcy*	**8,687**	8,687

*Includes shares held by a connected person

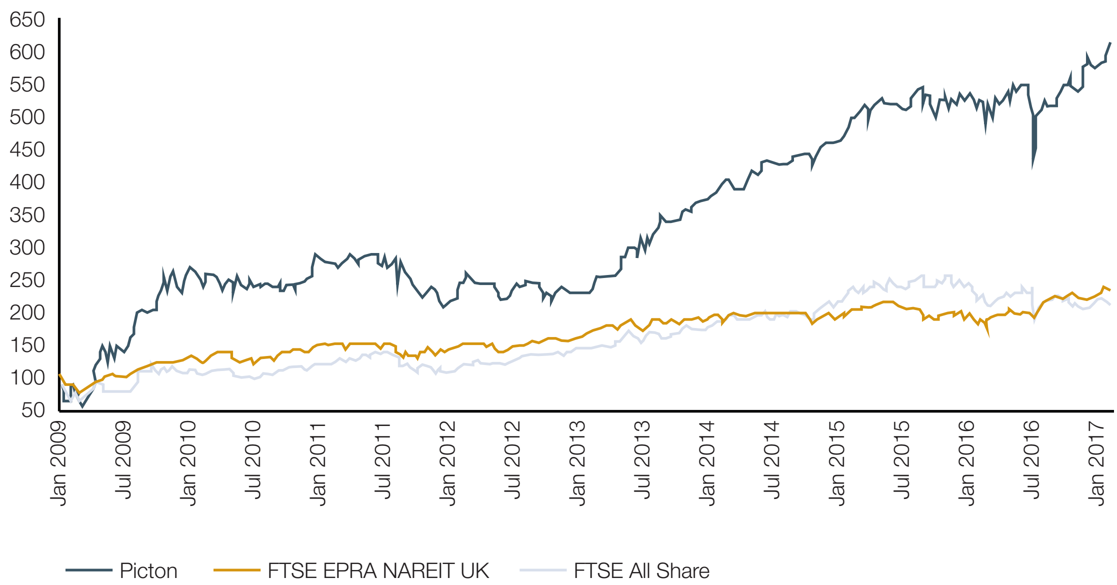
There have been no changes in these shareholdings between the year-end and the date of this report.

Payments to past directors or payments for loss of office

There were no payments to past Directors or payments for loss of office to Directors during the year ended 31 March 2018.

Historical total shareholder return performance

The graph below shows the Company's total shareholder return (TSR) since 2009 as represented by share price growth with dividends reinvested, against the FTSE All Share Index and the FTSE EPRA NAREIT UK Index. As the Company currently has no Chief Executive, there is no comparative pay data for this period.



Percentage change in remuneration of the Chief Executive

As the Company currently has no Chief Executive, this report does not contain a comparison of changes in the level of Chief Executive remuneration and of employee remuneration.

Relative importance of spend on pay

The table below shows the expenditure and percentage change on staff costs compared to other key financial indicators.

	31 March 2018 £000	31 March 2017 £000	% change
Staff costs[1]	**3,079**	2,992	3%
Dividends[2]	**18,487**	17,957	3%
EPRA earnings[3]	**22,625**	20,566	10%

[1] See Note 7 to the Consolidated Financial Statements
[2] See Note 11 to the Consolidated Financial Statements
[3] See EPRA Disclosures section of the Report

Statement of voting at the last Annual General Meeting

At the Annual General Meeting held on 8 November 2017 the Remuneration Report was approved by shareholders representing 22% of the issued share capital of the Company.

	Votes cast	%
For	121,333,412	99.95
Against	59,440	0.05
Withheld	-	-
	121,392,852	**100.0**

Vic Holmes
Chairman of the Remuneration Committee

4 June 2018

Directors' report

The Directors of Picton Property Income Limited present the Annual Report and audited financial statements for the year ended 31 March 2018.

The Company is a closed ended investment company and is registered under the provisions of the Companies (Guernsey) Law, 2008.

Principal activity

The principal activity of the Group is property investment with the objective of providing shareholders with an attractive level of income together with the potential for capital growth, by investing in a diversified UK commercial property portfolio.

With effect from 29 October 2008, the Company became regulated under the Protection of Investors (Bailiwick of Guernsey) Law, 1987 (as amended). Under this regulation, the Company was deemed to be authorised by the Guernsey Financial Services Commission.

Results and dividends

The results for the year are set out in the Consolidated Statement of Comprehensive Income. As set out in Note 11 to the Consolidated Financial Statements, the Company has paid four interim dividends, three of 0.85 pence per share and one of 0.875 pence per share, making a total dividend for the year ended 31 March 2018 of 3.425 pence per share (2017: 3.325 pence).

Directors

The Directors of the Company who served throughout the year are set out on page 58.

The Directors' interests in the shares of the Company as at 31 March 2018 are set out in the Remuneration Report.

Listing

The Company is listed on the main market of the London Stock Exchange.

Share capital

The issued share capital of the Company as at 31 March 2018 was 540,053,660 (2017: 540,053,660) ordinary shares of no par value, including 1,070,000 ordinary shares which were acquired during the year by the Trustee of the Company's Employee Benefit Trust (2017: nil).

The Directors have authority to buy back up to 14.99% of the Company's ordinary shares in issue, subject to the renewal of this authority from shareholders at each Annual General Meeting. Any buy-back of ordinary shares is, and will be, made subject to Guernsey law, and the making and timing of any buy-backs are at the absolute discretion of the Board. No ordinary shares were purchased under this authority during the year.

At the 2017 Annual General Meeting shareholders gave the Directors authority to issue up to 54,005,366 shares (being 10% of the Company's issued share capital as at 6 October 2017) without having to first offer those shares to existing shareholders. No ordinary shares have been issued under this authority during the year. This authority expires at this year's Annual General Meeting and a resolution will be proposed for its renewal.

Shares held in the Employee Benefit Trust

The Trustee of the Picton Property Income Limited Long-term Incentive Plan holds 1,070,000 ordinary shares in the Company in trust to satisfy awards made under the Long-term Incentive Plan. The Trustee has waived its right to receive dividends on these shares.

Statement of going concern

The Group's business activities, together with the factors affecting performance, investment activities and future development are set out in the Strategic Report. The financial position of the Group, including its liquidity position, borrowing facilities and debt maturity profile, is set out in the Financial Review and in the Consolidated Financial Statements.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Therefore, they continue to adopt the going concern basis in preparing the financial statements.

Viability assessment and statement

The 2016 UK Corporate Governance Code requires the Board to make a 'viability statement' which considers the Company's current position and principal risks and uncertainties combined with an assessment of the future prospects for the Company, in order that the Board can state that the Company will be able to continue its operations over the period of their assessment.

The Board conducted this review over a five year timescale, considered to be the most appropriate for long-term investment in commercial property. The assessment has been undertaken, taking into account the principal risks and uncertainties faced by the Group which could impact its investment strategy, future performance, loan covenants and liquidity.

The major risks identified as relevant to the viability assessment were those relating to a downturn in the UK commercial property market and the resultant impact on the valuation of the property portfolio, the level of rental income receivable and the subsequent effect on cash resources and financial covenants. The Board took into account the illiquid nature of the Company's property assets, the existence of long-term borrowings, the effects of significant falls in valuations and rental income on the ability to remain within financial covenants, maintain dividend payments and retain investors. These matters were assessed over the period to 31 March 2023, and will continue to be assessed over five year rolling periods.

In the ordinary course of business the Board reviews a detailed financial model on a quarterly basis, including forecast market returns. This model uses prudent assumptions regarding lease expiries, breaks and incentives. For the purposes of the viability assessment of the Group, the model has been adjusted to cover a five year period and is stress tested with a number of scenarios. These include significant falls in capital values (in line with previous market conditions), pessimistic assumptions around lease breaks and expiries, increased void periods and incentives, and increases in occupier defaults. The Directors consider that the stress testing performed was sufficiently robust that even under extreme conditions the Company remains viable.

Based on their assessment, and in the context of the Group's business model and strategy, the Directors expect that the Group will be able to continue in operation and meet its liabilities as they fall due over the five year period to 31 March 2023.

Alternative Investment Fund Managers Directive

The Group's activities currently fall within the scope of this Directive, with the Company acting as the Alternative Investment Fund Manager (AIFM).

If the Company's proposals to change its technical listing status to that of a commercial company, as set out in the Chairman's Statement, are approved, the Group will no longer be subject to this legislation.

Non-mainstream pooled investments

The Company currently conducts its affairs so that its shares can be recommended by independent financial advisers to retail investors in accordance with the FCA's rules in relation to non-mainstream pooled investments and intends to continue to do so for the foreseeable future.

If the Company's proposals to convert to a UK REIT are approved, it will be exempt from these rules.

Substantial shareholdings

Based on notifications received and on information provided by the Company's brokers, the Company understands the following shareholders held a beneficial interest of 3% or more of the Company's issued share capital as at 15 May 2018.

	% of issued share capital
Investec Wealth & Investment Limited	16.1
Alliance Trust Savings Limited	6.8
Mattioli Woods Plc	5.4
Canaccord Genuity Wealth Management	5.3
BlackRock Inc.	3.8
Smith & Williamson Investment Management	3.4
Brooks MacDonald Asset Management	3.3
The Vanguard Group Inc.	3.3
Brewin Dolphin Limited	3.3
Transact Nominees Limited	3.1

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

KPMG Channel Islands Limited (the "Auditor") has expressed its willingness to continue in office as the Company's auditor and a resolution proposing its reappointment will be submitted at the Annual General Meeting.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards, as issued by the IASB, and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of its profit or loss for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies (Guernsey) Law, 2008. They are responsible for such internal controls as they determine are necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error, and have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website, and for the preparation and dissemination of financial statements. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement in respect of the annual report and financial statements

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

By Order of the Board

Vic Holmes

4 June 2018

River Way Industrial Estate, Harlow

Financial statements

Independent auditor's report

To the members of Picton Property Income Limited

Our opinion is unmodified

We have audited the consolidated financial statements (the "Financial Statements") of Picton Property Income Limited (the "Company") and its subsidiaries (together, the "Group"), which comprise the consolidated balance sheet as at 31 March 2018, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements:

- give a true and fair view of the financial position of the Group as at 31 March 2018, and of the Group's financial performance and the Group's cash flows for the year then ended;
- are prepared in accordance with International Financial Reporting Standards (IFRS); and
- comply with the Companies (Guernsey) Law, 2008.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company and Group in accordance with, UK ethical requirements including FRC Ethical Standards as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Key Audit Matters: our assessment of the risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the Financial Statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matter was as follows (unchanged from 2017):

Valuation of investment properties

£670.7 million

(2017: £615.2 million)

Refer to pages 66 and 67 of the Audit and Risk Committee Report, Note 2 Significant Accounting Policies and Note 14 Investment Properties.

The risk

Basis

The Group's investment property portfolio accounted for 93% (2017: 92%) of the Group's total assets as at 31 March 2018. The fair value of investment properties at 31 March 2018 was assessed by the Board of Directors based on independent valuations prepared by the Group's external property valuer (the "Valuer").

Risk

As highlighted in the Audit and Risk Committee Report, the valuation of the Group's investment property portfolio is a significant area of our audit given that it represents the majority of the total assets of the Group and requires the use of significant judgements and subjective assumptions.

Our response

Our audit procedures included:

Control evaluation:

We assessed the design, implementation and operating effectiveness of certain controls over the valuation including the review and approval by the Board of Directors and the capture and recording of information contained in the lease database for investment properties.

Evaluating experts engaged by management:

We assessed the competence, capabilities and objectivity of the Valuer. We also assessed the independence of the Valuer by considering the scope of their work and the terms of their engagement.

Evaluating assumptions and inputs used in the valuation:

With the assistance of our own Real Estate valuation specialist we assessed the valuations prepared by the Valuer by evaluating the appropriateness of the valuation methodologies and assumptions used, including undertaking discussions on key findings with the Valuer and challenging the valuations based on market information and knowledge.

We also compared a sample of key inputs to the valuations such as annual rent, occupancy and tenancy contracts for consistency with other audit findings.

Assessing disclosures:

We also considered the Group's investment properties valuation policies and their application as described in the notes to the Financial Statements for compliance with IFRS in addition to the adequacy of disclosures in Note 14 in relation to fair value of the investment properties.

Our application of materiality and an overview of the scope of our audit

Materiality for the Financial Statements as a whole was set at £7.0 million, determined with reference to a benchmark of Group Total Assets of £721.3 million of which it represents approximately 1% (2017: 1%).

We reported to the Audit and Risk Committee any corrected or uncorrected identified misstatements exceeding £350,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Group was undertaken to the materiality level specified above, which has informed our identification of significant risks of material misstatement and the associated audit procedures performed in those areas as detailed above.

The Group team performed the audit of the Group as if it was a single aggregated set of financial information. The audit was performed using the materiality level set out above and covered 100% of total Group revenue, total Group profit before tax, and total Group assets and liabilities.

We have nothing to report on going concern

We are required to report to you if we have anything material to add or draw attention to in relation to the Directors' statement in Note 2 to the Financial Statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group's use of that basis for a period of at least twelve months from the date of approval of the Financial Statements. We have nothing to report in this respect.

We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the Financial Statements. Our opinion on the Financial Statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our Financial Statements audit work, the information therein is materially misstated or inconsistent with the Financial Statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the viability assessment and statement (pages 82 and 83) that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed or mitigated; and
- the Directors' explanation in the viability assessment and statement (pages 82 and 83) as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

CORPORATE GOVERNANCE DISCLOSURES

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the 2016 UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report to you in these respects.

WE HAVE NOTHING TO REPORT ON OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- the Company has not kept proper accounting records; or
- the Financial Statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

RESPECTIVE RESPONSIBILITIES

Directors' responsibilities

As explained more fully in their statement set out on page 83, the Directors are responsible for: the preparation of the Financial Statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of this report and restrictions on its use by persons other than the Company's members as a body

This report is made solely to the Company's members, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Deborah Smith
For and on behalf of KPMG Channel Islands Limited

Chartered Accountants and Recognised Auditors, Guernsey

4 June 2018

Financial Statements

Consolidated statement of comprehensive income

for the year ended 31 March 2018

	Notes	Income £000	Capital £000	2018 Total £000	2017 Total £000
Income					
Revenue from properties	3	48,782	–	**48,782**	54,398
Property expenses	4	(10,335)	–	**(10,335)**	(12,011)
Net property income		**38,447**	**–**	**38,447**	**42,387**
Expenses					
Management expenses	6	(3,652)	–	**(3,652)**	(3,636)
Other operating expenses	8	(1,914)	–	**(1,914)**	(1,613)
Total operating expenses		**(5,566)**	**–**	**(5,566)**	**(5,249)**
Operating profit before movement on investments		**32,881**	**–**	**32,881**	**37,138**
Investments					
Profit on disposal of investment properties	14	–	2,623	**2,623**	1,847
Investment property valuation movements	14	–	38,920	**38,920**	15,087
Total profit on investments		**–**	**41,543**	**41,543**	**16,934**
Operating profit		**32,881**	**41,543**	**74,424**	**54,072**
Financing					
Interest received		35	–	**35**	62
Interest paid	9	(9,782)	–	**(9,782)**	(10,885)
Total finance costs		**(9,747)**	**–**	**(9,747)**	**(10,823)**
Profit before tax		**23,134**	**41,543**	**64,677**	**43,249**
Tax	10	(509)	–	**(509)**	(499)
Profit and total comprehensive income for the period		**22,625**	**41,543**	**64,168**	**42,750**
Earnings per share					
Basic	12	4.2p	7.7p	**11.9p**	7.9p
Diluted	12	4.2p	7.7p	**11.9p**	7.9p

The total column of this statement represents the Group's Consolidated Statement of Comprehensive Income. The supplementary income return and capital return columns are prepared under guidance published by the Association of Investment Companies "AIC". All items in the above statement derive from continuing operations.

All of the profit and total comprehensive income for the year is attributable to the equity holders of the Company.

Notes 1 to 27 form part of these consolidated financial statements.

Consolidated statement of changes in equity

for the year ended 31 March 2018

	Notes	Share Capital £000	Retained Earnings £000	Other Reserves £000	Total £000
Balance as at 31 March 2016		**157,449**	**259,683**	**–**	**417,132**
Profit for the year		–	42,750	–	42,750
Dividends paid	11	–	(17,957)	–	(17,957)
Balance as at 31 March 2017		**157,449**	**284,476**	**–**	**441,925**
Profit for the year		–	64,168	–	64,168
Dividends paid	11	–	(18,487)	–	(18,487)
Share-based awards	7	–	–	642	642
Purchase of shares held in trust	7	–	–	(893)	(893)
Balance as at 31 March 2018		**157,449**	**330,157**	**(251)**	**487,355**

Notes 1 to 27 form part of these consolidated financial statements.

Consolidated balance sheet

As at 31 March 2018

	Notes	2018 £000	2017 £000
Non-current assets			
Investment properties	14	**670,674**	615,170
Tangible assets		**5**	17
Total non-current assets		**670,679**	**615,187**
Current assets			
Investment properties held for sale	14	**3,850**	–
Accounts receivable	15	**15,273**	15,541
Cash and cash equivalents	16	**31,510**	33,883
Total current assets		**50,633**	**49,424**
Total assets		**721,312**	**664,611**
Current liabilities			
Accounts payable and accruals	17	**(21,471)**	(19,958)
Loans and borrowings	18	**(712)**	(568)
Obligations under finance leases	22	**(109)**	(109)
Total current liabilities		**(22,292)**	**(20,635)**
Non-current liabilities			
Loans and borrowings	18	**(209,952)**	(200,336)
Obligations under finance leases	22	**(1,713)**	(1,715)
Total non-current liabilities		**(211,665)**	**(202,051)**
Total liabilities		**(233,957)**	**(222,686)**
Net assets		**487,355**	**441,925**
Equity			
Share capital	20	**157,449**	157,449
Retained earnings		**330,157**	284,476
Other reserves		**(251)**	–
Total equity		**487,355**	**441,925**
Net asset value per share	23	**90p**	**82p**

These consolidated financial statements were approved by the Board of Directors on 4 June 2018 and signed on its behalf by:

Vic Holmes
Director
4 June 2018

Notes 1 to 27 form part of these consolidated financial statements.

Consolidated statement of cash flows

for the year ended 31 March 2018

	Notes	2018 £000	2017 £000
Operating activities			
Profit for the period		**74,424**	54,072
Adjustments for non-cash items	21	**(40,889)**	(16,894)
Interest received		**35**	62
Interest paid		**(9,160)**	(9,273)
Tax paid		**(328)**	(232)
Decrease/(increase) in accounts receivable		**267**	(2,344)
Increase in accounts payable and accruals		**1,286**	1,449
Cash inflows from operating activities		**25,635**	**26,840**
Investing activities			
Capital expenditure on investment properties	14	**(3,553)**	(2,819)
Acquisition of investment properties	14	**(24,543)**	–
Disposal of investment properties		**10,285**	51,510
Cash (outflows)/inflows from investing activities		**(17,811)**	**48,691**
Financing activities			
Borrowings repaid		**(3,104)**	(45,965)
Borrowings drawn		**12,500**	–
Financing costs		**(213)**	(485)
Purchase of shares held in trust	7	**(893)**	–
Dividends paid	11	**(18,487)**	(17,957)
Cash outflows from financing activities		**(10,197)**	**(64,407)**
Net (decrease)/increase in cash and cash equivalents		**(2,373)**	**11,124**
Cash and cash equivalents at beginning of year		**33,883**	22,759
Cash and cash equivalents at end of year	16	**31,510**	**33,883**

Notes 1 to 27 form part of these consolidated financial statements.

Notes to the consolidated financial statements

for the year ended 31 March 2018

1. General information

Picton Property Income Limited (the "Company" and together with its subsidiaries the "Group") was registered on 15 September 2005 as a closed ended Guernsey investment company. The consolidated financial statements are prepared for the year ended 31 March 2018 with comparatives for the year ended 31 March 2017.

2. Significant accounting policies

Basis of accounting

The financial statements have been prepared on a going concern basis and adopt the historical cost basis, except for the revaluation of investment properties. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The financial statements, which give a true and fair view, are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by IASB and are in compliance with the Companies (Guernsey) Law, 2008.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and continue to adopt the going concern basis in preparing the financial statements.

The financial statements are presented in pounds sterling, which is the Company's functional currency. All financial information presented in pounds sterling has been rounded to the nearest thousand, except when otherwise indicated.

New or amended standards issued

The accounting policies adopted are consistent with those of the previous financial period, as amended to reflect the adoption of new standards, amendments and interpretations which became effective in the year as shown below.

- Amendments to IAS 7: Disclosure Initiative
- Amendments to IAS 12: Deferred Tax Assets for Unrealised Losses
- Annual improvements to IFRSs 2014-2016 cycle

The adoption of these standards have had no material effect on the consolidated financial statements of the Group.

At the date of approval of these financial statements there are a number of new and amended standards in issue but not yet effective for the financial year ended 31 March 2018 and thus have not been applied by the Group. None of these are expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

- IFRS 9: 'Financial Instruments' replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard also adds new requirements to address the impairment of financial assets and means that a loss event will no longer need to occur before an impairment allowance is recognised. For financial liabilities, IFRS 9 largely carries forward without substantive amendment from IAS 39. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in profit or loss. The standard introduces new requirements for hedge accounting that align hedge accounting more closely with risk management and establishes a more principles-based approach to hedge accounting. The Group has assessed the full impact of IFRS 9 and it does not currently anticipate that this standard will have any material impact on the Group's financial statements as presented for the current year.
- IFRS 15: 'Revenue from Contracts' specifies how revenue is recognised when or as an entity transfers control of goods or services to a customer. It also provides for the reporting of useful information on an entity's contracts with customers. The Group notes lease contracts within the scope of IAS 17 'Leases' are excluded from the scope of IFRS 15. Rental income derived from operating leases is therefore outside the scope of IFRS 15. The Group does not have any contracts in place at 31 March 2018 that it believes meet these specific criteria, but will review again in advance of implementing IFRS 15.
- IFRS 16: 'Leases' will result in almost all leases being recognised on the Balance Sheet, as the distinction between operating and finance leases will be removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. Lessors will continue to classify leases as finance and operating leases. The Group has assessed the full impact of IFRS 16 and it does not anticipate currently that this standard will have any material impact on the Group's financial statements as presented for the current year.
- Amendments to IFRS 2: 'Classification and Measurement of Share-based payment Transactions' covers three accounting areas: measurement of cash-settled share-based payments, classification of share-based payments settled net of tax withholdings, and accounting for a modification of a share-based payment from cash-settled to equity-settled. The new arrangements could affect the classification and/or measurement of these arrangements and potentially the timing and amount of expense recognised for new and outstanding awards. The Group has assessed the full impact of this amendment to IFRS 2 and it does not currently anticipate that it will have any material impact on the Group's financial statements as presented for the current year.

Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making estimates about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Significant estimates

The critical estimates and assumptions relate to the investment property valuations applied by the Group's independent valuer and this is described in more detail in Note 14. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

Significant judgements

Critical judgements, where made, are disclosed within the relevant section of the financial statements in which such judgements have been applied. Key judgements relate to the treatment of business combinations, lease classifications, or employee benefits where different accounting policies could be applied. These are described in more detail in the accounting policy notes below, or in the relevant notes to the financial statements.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company at the reporting date. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. These financial statements include the results of the subsidiaries disclosed in Note 13. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Presentation of the Consolidated Statement of Comprehensive Income

In order to better reflect the activities of an investment company and in accordance with guidance issued by the AIC, supplementary information which analyses the Consolidated Statement of Comprehensive Income between items of a revenue and capital nature has been presented alongside the Consolidated Statement of Comprehensive Income.

Fair value hierarchy

The fair value measurement for the assets and liabilities are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: unobservable inputs for the asset or liability.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the transfer has occurred.

Investment properties

Freehold property held by the Group to earn income or for capital appreciation or both is classified as investment property in accordance with IAS 40 'Investment Property'. Property held under finance leases for similar purposes is also classified as investment property. Investment property is initially recognised at purchase cost plus directly attributable acquisition expenses and subsequently measured at fair value. The fair value of investment property is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and who has recent experience in the location and category of the investment property being valued.

The fair value of investment properties is measured based on each property's highest and best use from a market participant's perspective and considers the potential uses of the property that are physically possible, legally permissible and financially feasible. The Group ensures the use of suitable qualified external valuers valuing the investment properties held by the Group.

2. Significant accounting policies continued

The fair value of investment property generally involves consideration of:

- Market evidence on comparable transactions for similar properties;
- The actual current market for that type of property in that type of location at the reporting date and current market expectations;
- Rental income from leases and market expectations regarding possible future lease terms;
- Hypothetical sellers and buyers, who are reasonably informed about the current market and who are motivated, but not compelled, to transact in that market on an arm's length basis; and
- Investor expectations on matters such as future enhancement of rental income or market conditions.

Gains and losses arising from changes in fair value are included in the Statement of Comprehensive Income in the year in which they arise. Purchases and sales of investment property are recognised when contracts have been unconditionally exchanged and the significant risks and rewards of ownership have been transferred.

An item of investment property is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Consolidated Statement of Comprehensive Income in the year the item is derecognised. Investment properties are not depreciated.

Realised and unrealised gains or losses on investment properties have been presented as capital items within the Consolidated Statement of Comprehensive Income in accordance with the guidance published by the AIC.

The loans have a first ranking mortgage over the majority of properties; see Note 14.

Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, the present value of the minimum lease payments. Lease payments are apportioned between finance charges and a reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the Consolidated Statement of Comprehensive Income.

An operating lease is a lease other than a finance lease. Lease income is recognised in income on a straight-line basis over the lease term. Direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income. The financial statements reflect the requirements of SIC 15 'Operating Leases – Incentives' to the extent that they are material. Premiums received on the surrender of leases are recorded as income immediately if there are no relevant conditions attached to the surrender.

Cash and cash equivalents

Cash includes cash in hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities in three months or less and that are subject to an insignificant risk of change in value.

Income and expenses

Income and expenses are included in the Consolidated Statement of Comprehensive Income on an accruals basis. All of the Group's income and expenses are derived from continuing operations.

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured.

Lease incentive payments are amortised on a straight-line basis over the period from the date of lease inception to the lease end. Upon receipt of a surrender premium for the early termination of a lease, the profit, net of dilapidations and non-recoverable outgoings relating to the lease concerned, is immediately reflected in revenue from properties.

Property operating costs include the costs of professional fees on letting and other non-recoverable costs.

The income charged to occupiers for property service charges and the costs associated with such service charges are shown separately in Notes 3 and 4 to reflect that, notwithstanding this money is held on behalf of occupiers, the ultimate risk for paying and recovering these costs rests with the property owner.

Employee benefits

– Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the Consolidated Statement of Comprehensive Income in the periods during which services are rendered by employees.

– Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

– Share-based payments

The fair value of the amounts payable to employees in respect of the Deferred Bonus Scheme, which are settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period that the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as staff costs in the Consolidated Statement of Comprehensive Income.

The grant date fair value of awards to employees made under the Long-term Incentive Plan is recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related non-market performance conditions at the vesting date. For share-based payment awards with market conditions, the grant date fair value of the share-based awards is measured to reflect such conditions and there is no adjustment between expected and actual outcomes.

The cost of the Company's shares held by the Employee Benefit Trust is deducted from equity in the Group Balance Sheet. Any shares held by the Trust are not included in the calculation of earnings or net assets per share.

Dividends

Dividends are recognised in the period in which they are declared.

Accounts receivable

Accounts receivable are stated at their nominal amount as reduced by appropriate allowances for estimated irrecoverable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognised in profit or loss in the Consolidated Statement of Comprehensive Income when the liabilities are derecognised, as well as through the amortisation process.

Assets classified as held for sale

Any investment properties on which contracts for sale have been exchanged but which had not completed at the period end are disclosed as properties held for sale. Investment properties included in the held for sale category continue to be measured in accordance with the accounting policy for investment properties.

Other assets and liabilities

Other assets and liabilities, including trade creditors and accruals, trade and other debtors and creditors, and deferred rental income, are not interest bearing and are stated at their nominal value.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

Taxation

The Directors conduct the affairs of the Group such that the management and control of the Group is not exercised in the United Kingdom and that the Group does not carry on a trade in the United Kingdom. The Group is subject to United Kingdom taxation on income arising on the investment properties after deduction of allowable debt financing costs and allowable expenses. The Group is tax exempt in Guernsey for the year ended 31 March 2018.

2. Significant accounting policies continued

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxation reported in the Consolidated Statement of Comprehensive Income because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred income tax assets are only recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. As the Directors consider that the value of the property portfolio is likely to be realised by sale rather than use over time, and that no charge to Guernsey or United Kingdom taxation will arise on capital gains, no provision has been made for deferred tax on valuation uplifts.

Principles for the Consolidated Statement of Cash Flows

The Consolidated Statement of Cash Flows has been drawn up according to the indirect method, separating the cash flows from operating activities, investing activities and financing activities. The net result has been adjusted for amounts in the Consolidated Statement of Comprehensive Income and movements in the Consolidated Balance Sheet which have not resulted in cash income or expenditure in the relating period.

The cash amounts in the Consolidated Statement of Cash Flows include those assets that can be converted into cash without any restrictions and without any material risk of decreases in value as a result of the transaction. Dividends that have been paid are included in the cash flow from financing activities.

Reclassification of comparative amounts

Certain comparative amounts in the Consolidated Balance Sheet have been reclassified to conform with the current year's presentation. The reclassification does not affect the previously reported profit and total comprehensive income or net asset value.

3. Revenue from properties

	2018 £000	2017 £000
Rents receivable (adjusted for lease incentives)	**41,412**	40,555
Surrender premiums	**200**	263
Dilapidation receipts	**1,111**	1,090
Other income	**132**	6,003
Service charge income	**5,927**	6,487
	48,782	**54,398**

Rents receivable includes lease incentives recognised of £0.2 million (2017: £0.9 million).

In the year ended 31 March 2017, other income included a £5.3 million settlement received in respect of a dispute at the hotel in Luton.

4. Property expenses

	2018 £000	2017 £000
Property operating costs	**2,578**	3,501
Property void costs	**1,830**	2,023
Recoverable service charge costs	**5,927**	6,487
	10,335	**12,011**

5. Operating segments

The Board is charged with setting the Company's investment strategy in accordance with the Company's investment restrictions and overall objectives. The key measure of performance used by the Board to assess the Group's performance is the total return on the Group's net asset value. As the total return on the Group's net asset value is calculated based on the net asset value per share calculated under IFRS as shown at the foot of the Balance Sheet, assuming dividends are reinvested, the key performance measure is that prepared under IFRS. Therefore no reconciliation is required between the measure of profit or loss used by the Board and that contained in the financial statements.

The Board has delegated the day-to-day implementation of this strategy to the Investment Manager but retains responsibility to ensure that adequate resources of the Company are directed in accordance with its decisions. The operating activities of the Investment Manager are reviewed on a regular basis to ensure compliance with the policies and legal responsibilities of the Board.

The Investment Manager has been given authority to act on behalf of the Company in certain situations. Under the terms of the Investment Management Agreement, subject to the overall supervision of the Board, the Investment Manager advises on the investment strategy of the Company, advises the Company on its borrowing policy and geared investment position, manages the investment of the Company's short-term liquid resources, and advises on the use and management of derivatives and hedging by the Company. While the Investment Manager may make operational decisions on a day-to-day basis regarding the property investments, any changes to the investment strategy or allocation decisions have to be approved by the Board, even though they may be proposed by the Investment Manager.

The Board therefore retains full responsibility for investment policy and strategy. The Investment Manager will always act under the terms of the Investment Management Agreement, which cannot be changed without the approval of the Board. The Board has considered the requirements of IFRS 8 'Operating Segments'. The Board is of the opinion that the Group, through its subsidiary undertakings, operates in one reportable industry segment, namely real estate investment, and across one primary geographical area, namely the United Kingdom, and therefore no segmental reporting is required. The portfolio consists of 51 commercial properties, which are in the industrial, office, retail and leisure sectors.

6. Management expenses

	2018 £000	2017 £000
Staff costs	3,079	2,992
Other management costs	573	644
	3,652	3,636

The Investment Manager for the Group is Picton Capital Limited, a wholly owned subsidiary company. The above staff and other management costs are those incurred by Picton Capital Limited during the year.

7. Staff costs

	2018 £000	2017 £000
Wages and salaries	1,667	1,729
Social security costs	276	287
Other pension costs	50	58
Share-based payments – cash settled	620	742
Share-based payments – equity settled	466	176
	3,079	2,992

Staff costs are those of the employees of Picton Capital Limited. Employees in the Group participate in two share-based remuneration arrangements. Awards made under the Deferred Bonus Scheme, which are cash settled, are linked to the Company's share price and dividends paid, and awards will vest after two years. Employees must still be in the Group's employment on the vesting date to receive payment. During the year the Group made awards of 572,389 units (2017: 662,149 units), which vest on 31 March 2020.

7. Staff Costs continued

The table below summarises the awards made under the Deferred Bonus Scheme. Employees have the option to defer the vesting date of their awards for a maximum of seven years. The units which vested at 31 March 2018, and were not deferred, were paid out subsequent to the year end at a cost of £508,000 (2017: £494,000).

Vesting Date	Units at 31 March 2016	Units granted in the year	Units cancelled in the year	Units redeemed in the year	Units at 31 March 2017	Units granted in the year	Units cancelled in the year	Units redeemed in the year	Units at 31 March 2018
31 March 2014	2,920	–	–	(2,920)	–	–	–	–	**–**
31 March 2015	155,000	–	–	(155,000)	–	–	–	–	**–**
31 March 2016	77,676	–	–	(12,478)	65,198	–	–	–	**65,198**
31 March 2017	668,567	–	(4,191)	(536,460)	127,916	–	–	–	**127,916**
31 March 2018	731,978	–	(5,998)	–	725,980	–	(56,549)	(542,197)	**127,234**
31 March 2019	372,222	662,149	(2,688)	–	1,031,683	–	(80,793)	–	**950,890**
31 March 2020	–	–	–	–	–	572,389	–	–	**572,389**
	2,008,363	**662,149**	**(12,877)**	**(706,858)**	**1,950,777**	**572,389**	**(137,342)**	**(542,197)**	**1,843,627**

The Company also has a Long-term Incentive Plan (the "LTIP") for all employees which is equity settled. Awards vest three years from the grant date and are conditional on three performance metrics measured over each three year period. On 16 June 2017, the Company made awards of 1,036,895 shares for the three year period ending on 31 March 2020. In the previous year awards of 1,170,258 shares were made on 27 January 2017 for the period ending 31 March 2019.

The three performance metrics are:

- Total shareholder return (TSR) of Picton Property Income Limited, compared to a comparator group of similar listed companies;
- Total property return (TPR) of the property assets held within the Picton Property Income Limited Group, compared to the MSCI IPD Quarterly Benchmark; and
- Growth in EPRA earnings per share (EPS) of the Picton Property Income Limited Group.

The fair value of option grants is measured using a combination of a Monte Carlo model for the market conditions (TSR) and a Black-Scholes model for the non-market conditions (TPR and EPS). The fair value is recognised over the expected vesting period. For the awards made during this year and the previous year the main inputs and assumptions of the models, and the resulting fair values, are:

Assumptions	16 June 2017	27 January 2017
Grant date		
Share price at date of grant	84.25p	79.75p
Exercise price	Nil	Nil
Expected term	3 years	2.3 years
Risk free rate – TSR condition	0.21%	0.29%
Share price volatility – TSR condition	18.3%	19.8%
Median volatility of comparator group – TSR condition	16.1%	17.0%
Correlation – TSR condition	35.0%	37.4%
TSR performance at grant date – TSR condition	3.3%	17.9%
Median TSR performance of comparator group at grant date – TSR condition	7.0%	6.1%
Fair value – TSR condition (Monte Carlo method)	31.98p	55.72p
Fair value – TPR condition (Black Scholes model)	84.25p	79.75p
Fair value – EPS condition (Black Scholes model)	84.25p	79.75p

The Trustee of the Company's Employee Benefit Trust acquired 1,070,000 ordinary shares during the year for £893,000 (2017: nil).

The emoluments of the Directors are set out in the Remuneration Report.

The Group employed 10 members of staff at 31 March 2018 (2017: 12). The average number of people employed by the Group for the year ended 31 March 2018 was 12 (2017: 12).

8. Other operating expenses

	2018 £000	2017 £000
Valuation expenses	**116**	111
Administrator fees	**148**	171
Auditor's remuneration	**149**	145
Directors' fees	**232**	206
Professional fees	**250**	383
Other expenses	**712**	430
Recurring costs	**1,607**	**1,446**
REIT conversion and restructuring costs	**307**	–
Restructuring costs	**–**	167
Exceptional costs	**307**	**167**
	1,914	**1,613**

Auditor's remuneration comprises:	2018 £000	2017 £000
Audit fees:		
Audit of Group financial statements	**65**	65
Audit of subsidiaries' financial statements	**43**	43
Audit related fees:		
Review of half year financial statements	**14**	14
	122	**122**
Non-audit fees:		
Additional controls testing	**14**	14
FCA CASS audit	**6**	5
Liquidators' fees	**7**	–
Tax compliance	**–**	4
	27	**23**
	149	**145**

Liquidators' fees incurred to 31 March 2018 were in connection with the liquidation of Picton ZDP Limited.

9. Interest paid

	2018 £000	2017 £000
Interest payable on loans at amortised cost	**8,780**	8,812
Capital additions on zero dividend preference shares	**–**	1,074
Interest on obligations under finance leases	**114**	114
Non-utilisation fees	**311**	269
Amortisation of finance costs	**577**	616
	9,782	**10,885**

The loan arrangement costs incurred to 31 March 2018 are £5,244,000 (2017: £6,213,000). These are amortised over the duration of the loans with £577,000 amortised in the year ended 31 March 2018 (2017: £616,000).

10. TAX

The charge for the year is:

	2018 £000	2017 £000
Current UK income tax	**510**	331
Income tax adjustment to provision for prior year	**(203)**	25
	307	**356**
Current UK corporation tax	**195**	143
UK corporation tax adjustment to provision for prior year	**7**	–
	202	**143**
Total tax charge	**509**	**499**

A reconciliation of the income tax charge applicable to the results at the statutory income tax rate to the charge for the year is as follows:

	2018 £000	2017 £000
Profit before taxation	**64,677**	43,249
Expected tax charge on ordinary activities at the standard rate of taxation of 20%	**12,935**	8,650
Less:		
Revaluation gains not taxable	**(7,784)**	(3,387)
Gains on disposal not taxable	**(525)**	–
Income not taxable, including interest receivable	**(152)**	(1,223)
Expenditure not allowed for income tax purposes	**404**	552
Losses utilised	**(33)**	(179)
Capital allowances and other allowable deductions	**(4,498)**	(4,102)
Losses carried forward to future years	**163**	20
Adjustment to provision for prior years	**(203)**	25
Total income tax charge	**307**	**356**

For the year ended 31 March 2018 there was an income tax liability of £307,000 in respect of the Group (2017: £356,000) and corporation tax of £202,000 (2017: £143,000).

The Group is exempt from Guernsey taxation under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989. A fixed fee of £1,200 per company per year is payable to the States of Guernsey in respect of this exemption. No charge to Guernsey taxation will arise on capital gains.

The Directors conduct the affairs of the Group such that the management and control of the Group is not exercised in the United Kingdom and that the Group does not carry on a trade in the United Kingdom.

The Group is subject to United Kingdom taxation on rental income arising on the investment properties after deduction of allowable debt financing costs and allowable expenses. The treatment of such costs and expenses in estimating the overall tax liability for the Group requires judgement and assumptions regarding their deductibility. The Directors have considered comparable market evidence and practice in determining the extent to which these are allowable. This is shown above as current UK income tax. UK corporation tax relates to the corporation tax arising in respect of Picton Capital Limited.

No deferred tax asset has been recognised from unused tax losses which total £4.9 million (2017: £4.1 million) as the Group is only able to utilise the losses to offset taxable profits in certain discrete business streams, and the Directors consider the probability of realising the benefit of these losses, except to an immaterial extent, to be low.

11. Dividends

	2018 £000	2017 £000
Declared and paid:		
Interim dividend for the period ended 31 March 2016: 0.825 pence	–	4,455
Interim dividend for the period ended 30 June 2016: 0.825 pence	–	4,456
Interim dividend for the period ended 30 September 2016: 0.825 pence	–	4,456
Interim dividend for the period ended 31 December 2016: 0.85 pence	–	4,590
Interim dividend for the period ended 31 March 2017: 0.85 pence	4,590	–
Interim dividend for the period ended 30 June 2017: 0.85 pence	4,590	–
Interim dividend for the period ended 30 September 2017: 0.85 pence	4,591	–
Interim dividend for the period ended 31 December 2017: 0.875 pence	4,716	–
	18,487	17,957

The interim dividend of 0.875 pence per ordinary share in respect of the period ended 31 March 2018 has not been recognised as a liability as it was declared after the year end. A dividend of £4,716,000 was paid on 31 May 2018.

12. Earnings per share

Basic & diluted earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue during the year, excluding the average number of shares held by the Employee Benefit Trust for the year. The diluted number of shares also reflects the contingent shares to be issued under the Long Term Incentive Plan.

The following reflects the profit and share data used in the basic and diluted profit per share calculation:

	2018	2017
Net profit attributable to ordinary shareholders of the Company from continuing operations (£000)	64,168	42,750
Weighted average number of ordinary shares for basic profit per share	539,734,126	540,053,660
Weighted average number of ordinary shares for diluted profit per share	539,738,613	540,053,660

13. Investments in subsidiaries

The Company had the following principal subsidiaries as at 31 March 2018 and 31 March 2017:

Name	Place of incorporation	Ownership proportion
Picton UK Real Estate (Property) Limited	Guernsey	100%
Picton (UK) REIT (SPV) Limited	Guernsey	100%
Picton (UK) Listed Real Estate	Guernsey	100%
Picton UK Real Estate (Property) No 2 Limited	Guernsey	100%
Picton (UK) REIT (SPV No 2) Limited	Guernsey	100%
Picton Capital Limited	England & Wales	100%
Picton (General Partner) No 2 Limited	Guernsey	100%
Picton (General Partner) No 3 Limited	Guernsey	100%
Picton No 2 Limited Partnership	England & Wales	100%
Picton No 3 Limited Partnership	England & Wales	100%
Picton Property No 3 Limited	Guernsey	100%
Picton Finance Limited	Guernsey	100%

The results of the above entities are consolidated within the Group financial statements.

Picton UK Real Estate (Property) Limited and Picton (UK) REIT (SPV) Limited own 100% of the units in Picton (UK) Listed Real Estate, a Guernsey Unit Trust (the "GPUT"). The GPUT holds a 99.9% interest in both Picton No 2 Limited Partnership and Picton No 3 Limited Partnership, the remaining balances are held by Picton (General Partner) No. 2 Limited and Picton (General Partner) No. 3 Limited respectively.

During the year Picton ZDP Limited was liquidated following the repayment of the zero dividend preference shares in the prior year.

14. Investment properties

The following table provides a reconciliation of the opening and closing amounts of investment properties classified as Level 3 recorded at fair value.

	2018 £000	2017 £000
Fair value at start of year	**615,170**	646,018
Acquisitions	**24,543**	–
Capital expenditure on investment properties	**3,553**	2,819
Disposals	**(10,285)**	(50,601)
Realised gains on disposal	**2,655**	2,440
Realised losses on disposal	**(32)**	(593)
Unrealised gains on investment properties	**49,664**	25,729
Unrealised losses on investment properties	**(10,744)**	(10,642)
Transfer to assets classified as held for sale	**(3,850)**	–
Fair value at the end of the year	**670,674**	**615,170**
Historic cost at the end of the year	**660,263**	**654,057**

The fair value of investment properties reconciles to the appraised value as follows:

	2018 £000	2017 £000
Appraised value	**683,800**	624,410
Valuation of assets held under finance leases	**1,657**	1,680
Lease incentives held as debtors	**(10,933)**	(10,920)
Assets classified as held for sale	**(3,850)**	–
Fair value at the end of the year	**670,674**	**615,170**

As at 31 March 2018 contracts had been exchanged to sell Merchants House in Chester so this asset has been classified as an asset held for sale. The sale is due to complete in June 2018. As at 31 March 2017 there were no assets classified as held for sale.

The investment properties were valued by CBRE Limited, Chartered Surveyors, as at 31 March 2018 and 31 March 2017 on the basis of fair value in accordance with the RICS Valuation – Global Standards 2017 which incorporate the International Valuation Standards and the RICS valuation - Professional Standards UK January 2014 (Revised April 2015). The total fees earned by CBRE Limited from the Group are less than 5% of their total UK revenue.

The fair value of the Group's investment properties has been determined using an income capitalisation technique, whereby contracted and market rental values are capitalised with a market capitalisation rate. The resulting valuations are cross-checked against the equivalent yields and the fair market values per square foot derived from comparable market transactions on an arm's length basis.

The Group's investment properties are valued quarterly by independent valuers, CBRE Limited. The valuations are based on:

- Information provided by the Investment Manager including rents, lease terms, revenue and capital expenditure. Such information is derived from the Investment Manager's financial and property systems and is subject to the Group's overall control environment.
- Valuation models used by the valuers, including market related assumptions based on their professional judgement and market observation.

The assumptions and valuation models used by the valuers, and supporting information, are reviewed by the Investment Manager and the Board through the Property Valuation Committee. Members of the Property Valuation Committee, together with the Investment Manager, meet with the independent valuer on a quarterly basis to review the valuations and underlying assumptions, including considering current market trends and conditions, and changes from previous quarters. The Directors will also consider where circumstances at specific investment properties, such as alternative uses and issues with occupational tenants, are appropriately reflected in the valuations. The fair value of investment properties is measured based on each property's highest and best use from a market participant's perspective and considers the potential uses of the property that are physically possible, legally permissible and financially feasible.

As at 31 March 2018 and 31 March 2017 all of the Group's properties are Level 3 in the fair value hierarchy as it involves use of significant inputs. There were no transfers between levels during the year and the prior year. Level 3 inputs used in valuing the properties are those which are unobservable, as opposed to Level 1 (inputs from quoted prices) and Level 2 (observable inputs either directly, i.e. as prices, or indirectly, i.e. derived from prices).

Information on these significant unobservable inputs per sector of investment properties is disclosed as follows:

	2018			2017		
	Office	Industrial	Retail and Leisure	Office	Industrial	Retail and Leisure
Appraised value (£000)	**245,500**	**281,855**	**156,445**	213,935	250,350	160,125
Area (sq ft, 000s)	**928**	**2,731**	**829**	925	2,730	824
Range of unobservable inputs:						
Gross ERV (sq ft per annum)						
— range	**£9.52 to £52.65**	**£3.25 to £17.21**	**£5.19 to £91.14**	£6.42 to £50.45	£3.25 to £16.85	£5.24 to £91.14
— weighted average	**£26.96**	**£8.24**	**£32.73**	**£26.39**	**£7.76**	**£31.60**
Net initial yield						
— range	**2.32% to 11.46%**	**1.29% to 9.08%**	**3.01% to 19.90%**	0% to 16.79%	4.49% to 10.29%	3.15% to 14.23%
— weighted average	**5.29%**	**5.19%**	**6.32%**	**5.67%**	**5.75%**	**6.33%**
Reversionary yield						
— range	**5.52% to 13.70%**	**4.93% to 10.12%**	**4.55% to 10.95%**	5.74% to 15.39%	5.38% to 11.60%	4.77% to 23.76%
— weighted average	**7.14%**	**5.94%**	**6.52%**	**7.52%**	**6.47%**	**6.89%**
True equivalent yield						
— range	**5.46% to 11.71%**	**5.00% to 9.48%**	**4.37% to 10.35%**	5.59% to 13.04%	5.42% to 10.87%	4.66% to 9.77%
— weighted average	**7.05%**	**5.98%**	**6.60%**	**7.32%**	**6.57%**	**6.66%**

An increase/decrease in ERV will increase/decrease valuations, while an increase/decrease to yield decreases/increases valuations. The table below sets out the sensitivity of the valuation to changes of 50 basis points in yield.

Sector	Movement	2018 Impact on valuation	2017 Impact on valuation
Industrial	Increase of 50 basis points	**Decrease of £24.2m**	Decrease of £19.5m
	Decrease of 50 basis points	**Increase of £29.0m**	Increase of £23.0m
Office	Increase of 50 basis points	**Decrease of £18.8m**	Decrease of £16.0m
	Decrease of 50 basis points	**Increase of £21.8m**	Increase of £18.5m
Retail and Leisure	Increase of 50 basis points	**Decrease of £13.2m**	Decrease of £12.7m
	Decrease of 50 basis points	**Increase of £17.0m**	Increase of £16.4m

15. Accounts receivable

	2018 £000	2017 £000
Tenant debtors (net of provisions for bad debts)	4,011	4,107
Lease incentives	10,933	10,920
Other debtors	329	514
	15,273	15,541

Tenant debtors, which are generally due for settlement at the relevant quarter end, are recognised and carried at the original invoice amount less an allowance for any uncollectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable.

16. Cash and cash equivalents

	2018 £000	2017 £000
Cash at bank and in hand	30,986	31,056
Short-term deposits	524	2,827
	31,510	33,883

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The carrying amounts of these assets approximate their fair value.

17. Accounts payable and accruals

	2018 £000	2017 £000
Accruals	5,355	5,092
Deferred rental income	9,104	8,590
VAT liability	2,243	2,345
Income tax liability	444	295
Trade creditors	236	125
Other creditors	4,089	3,511
	21,471	19,958

18. Loans and borrowings

	Maturity	2018 £000	2017 £000
Current			
Aviva facility	–	**1,153**	1,104
Capitalised finance costs	–	**(441)**	(536)
		712	**568**
Non-current			
Santander revolving credit facility	18 June 2021	**10,500**	–
Canada Life facility	20 July 2022	**33,718**	33,718
Canada Life facility	24 July 2027	**80,000**	80,000
Aviva facility	24 July 2032	**88,669**	89,822
Capitalised finance costs	–	**(2,935)**	(3,204)
		209,952	**200,336**
		210,664	**200,904**

The following table provides a reconciliation of the movement in loans and borrowings to cash flows arising from financing activities.

	2018 £000	2017 £000
Balance as at 1 April	**200,904**	245,664
Changes from financing cash flows		
Proceeds from loans and borrowings	**12,500**	–
Repayment of loans and borrowings	**(3,104)**	(45,965)
Financing costs	**(213)**	(485)
	9,183	(46,450)
Other changes		
Accrued additional capital on zero dividend preference shares ("ZDPs")	**–**	1,074
Amortisation of financing costs	**577**	616
	577	1,690
Balance as at 31 March	**210,664**	200,904

The Group has a loan with Canada Life Limited for £113.7 million, which is fully drawn. The loan matures in July 2027, with £33.7 million repayable in July 2022. Interest is fixed at 4.08% over the life of the loan. The loan agreement has a loan to value covenant of 65% and an interest cover test of 1.75. The loan is secured over the Group's properties held by Picton No 2 Limited Partnership and Picton UK Real Estate Trust (Property) No 2 Limited, valued at £289.8 million (2017: £270.5 million).

Additionally the Group has a term loan facility agreement with Aviva Commercial Finance Limited for £95.3 million, which was fully drawn on 24 July 2012. The loan is for a term of 20 years, with approximately one third repayable over the life of the loan in accordance with a scheduled amortisation profile. The Group has repaid £1.1 million in the year (2017: £1.1 million). Interest on the loan is fixed at 4.38% over the life of the loan. The facility has a loan to value covenant of 65% and a debt service cover ratio of 1.4. The facility is secured over the Group's properties held by Picton No 3 Limited Partnership and Picton Property No 3 Limited, valued at £232.4 million (2017: £225.2 million).

The Group has two revolving credit facilities ("RCFs") with Santander Corporate & Commercial Banking. The facility that had a maturity date of 2018 was extended during the year and now expires at the same time as the second RCF, in June 2021. The extended RCF is initially for £24 million, and once drawn, interest is charged at 190 basis points over 3 month LIBOR. In total the Group has £51.0 million available under both facilities, of which £10.5 million was drawn down at year end.

The ZDPs were fully repaid in the year ended 31 March 2017.

The fair value of the drawn loan facilities at 31 March 2018, estimated as the present value of future cash flows discounted at the market rate of interest at that date, was £235.1 million (2017: £229.1 million). The fair value of the secured loan facilities is classified as Level 2 under the hierarchy of fair value measurements.

There were no transfers between levels of the fair value hierarchy during the current or prior years.

The weighted average interest rate on the Group's borrowings as at 31 March 2018 was 4.1% (2017: 4.2%).

18. Loans and borrowings continued

In accordance with the AIFM Directive, information in relation to the Group's leverage is required to be made available to investors. The Group's maximum and average actual leverage levels at 31 March 2018 are shown below:

	Gross method	Commitment method
Maximum limit	285%	285%
Actual	140%	144%

For the purpose of the AIFM Directive, leverage is any method which increases the Group's exposure, including the borrowing of cash and use of derivatives. It is expressed as a percentage of the Group's exposure to its net asset value and is calculated on both a gross and commitment method.

Under the gross method, exposure represents the sum of the Group's positions after deduction of cash balances, without taking account of any hedging or netting arrangements. Under the commitment method, exposure is calculated without the deduction of cash balances and after certain hedging and netting positions are offset against each other.

The leverage limits are set by the Board and are in line with the maximum leverage levels permitted in the Company's Articles of Incorporation.

19. Contingencies and capital commitments

The Group has not entered into any refurbishment contracts and no further obligations to construct or develop investment property or for repairs, maintenance or enhancements were in place as at 31 March 2018 (2017: £2.9 million).

20. Share capital and other reserves

	2018 £000	2017 £000
Authorised:		
Unlimited number of ordinary shares of no par value	–	–
Issued and fully paid:		
540,053,660 ordinary shares of no par value (31 March 2017: 540,053,660)	–	–
Share premium	157,449	157,449

	2018 Number of shares	2017 Number of shares
Ordinary share capital	540,053,660	540,053,660
Number of shares held in Employee Benefit Trust	(1,070,000)	–
Number of ordinary shares	538,983,660	540,053,660

The fair value of awards made under the Long Term Incentive Plan is recognised in other reserves.

Subject to the solvency test contained in the Companies (Guernsey) Law, 2008 being satisfied, ordinary shareholders are entitled to all dividends declared by the Company and to all of the Company's assets after repayment of its borrowings and ordinary creditors. The Trustee of the Company's Employee Benefit Trust has waived its right to receive dividends on the 1,070,000 shares it holds. Ordinary shareholders have the right to vote at meetings of the Company. All ordinary shares carry equal voting rights.

The Directors have authority to buy back up to 14.99% of the Company's ordinary shares in issue, subject to the annual renewal of the authority from shareholders. Any buy-back of ordinary shares will be made subject to Guernsey law, and the making and timing of any buy-backs will be at the absolute discretion of the Board.

21. Adjustment for non-cash movements in the cash flow statement

	2018 £000	2017 £000
Profit on disposal of investment properties	(2,623)	(1,847)
Movement in investment property valuation	(38,920)	(15,087)
Share-based provisions	642	–
Depreciation of tangible assets	12	40
	(40,889)	(16,894)

22. Obligations under leases

The Group has entered into a number of leases in relation to its investment properties. These leases are for fixed terms and subject to regular rent reviews. They contain no material provisions for contingent rents, renewal or purchase options nor any restrictions outside of the normal lease terms.

Finance lease obligations in respect of rents payable on leasehold properties were payable as follows:

	2018 £000	2017 £000
Future minimum payments due:		
Within one year	117	116
In the second to fifth years inclusive	466	466
After five years	7,499	7,616
	8,082	**8,198**
Less: finance charges allocated to future periods	(6,260)	(6,374)
Present value of minimum lease payments	1,822	**1,824**

The present value of minimum lease payments is analysed as follows:

	2018 £000	2017 £000
Current		
Within one year	109	109
	109	**109**
Non-current		
In the second to fifth years inclusive	395	396
After five years	1,318	1,319
	1,713	**1,715**
	1,822	**1,824**

Operating leases where the Group is lessor

The Group leases its investment properties under operating leases.

At the reporting date, the Group's future income based on the unexpired lessor lease length was as follows (based on annual rentals):

	2018 £000	2017 £000
Within one year	41,083	40,360
In the second to fifth years inclusive	125,186	125,866
After five years	100,087	107,534
	266,356	**273,760**

The Group has entered into commercial property leases on its investment property portfolio. These properties, held under operating leases, are measured under the fair value model as the properties are held to earn rentals. The majority of these non-cancellable leases have remaining lease terms of more than five years.

23. Net asset value

The net asset value per share calculation uses the number of shares in issue at the year end and excludes the actual number of shares held by the Employee Benefit Trust at the year end, see Note 20.

24. Financial instruments

The Group's financial instruments comprise cash and cash equivalents, accounts receivable, secured loans, obligations under finance leases and accounts payable that arise from its operations. The Group does not have exposure to any derivative financial instruments. Apart from the secured loans, as disclosed in Note 18, the fair value of the financial assets and liabilities is not materially different from their carrying value in the financial statements.

Categories of financial instruments

31 March 2018	Note	Held at fair value through profit or loss £000	Financial assets and liabilities at amortised cost £000	Total £000
Financial assets				
Debtors	15	–	4,340	4,340
Cash and cash equivalents	16	–	31,510	31,510
		–	35,850	35,850
Financial liabilities				
Loans and borrowings	18	–	210,664	210,664
Obligations under finance leases	22	–	1,822	1,822
Creditors and accruals	17	–	9,680	9,680
		–	222,166	222,166

31 March 2017	Note	Held at fair value through profit or loss £000	Financial assets and liabilities at amortised cost £000	Total £000
Financial assets				
Debtors	15	–	4,621	4,621
Cash and cash equivalents	16	–	33,883	33,883
		–	38,504	38,504
Financial liabilities				
Loans and borrowings	18	–	200,904	200,904
Obligations under finance leases	22	–	1,824	1,824
Creditors and accruals	17	–	8,728	8,728
		–	211,456	211,456

25. Risk management

The Group invests in commercial properties in the United Kingdom. The following describes the risks involved and the applied risk management. The Investment Manager reports regularly both verbally and formally to the Board, and its relevant committees, to allow them to monitor and review all the risks noted below.

Capital risk management

The Group aims to manage its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The capital structure of the Group consists of debt, as disclosed in Note 18, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings. The Group is not subject to any external capital requirements.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as the principal borrowings outstanding, as detailed under Note 18, divided by the gross assets. There is a limit of 65% as set out in the Articles of Association of the Company. Gross assets are calculated as non-current and current assets, as shown in the Consolidated Balance Sheet.

At the reporting date the gearing ratios were as follows:

	2018 £000	2017 £000
Total borrowings	214,040	204,644
Gross assets	721,312	664,611
Gearing ratio (must not exceed 65%)	29.7%	30.8%

The Board of Directors monitors the return on capital as well as the level of dividends to ordinary shareholders. The Group has managed its capital risk by entering into long-term loan arrangements which will enable the Group to reduce its borrowings in an orderly manner over the long-term. The Group has two revolving credit facilities which provide greater flexibility in managing the level of borrowings.

The Group's net debt to equity ratio at the reporting date was as follows:

	2018 £000	2017 £000
Total liabilities	233,957	222,686
Less: cash and cash equivalents	(31,510)	(33,883)
Net debt	202,447	**188,803**
Total equity	487,355	**441,925**
Net debt to equity ratio at end of year	0.42	**0.43**

Credit risk

The following tables detail the balances held at the reporting date that may be affected by credit risk:

31 March 2018	Note	Held at fair value through profit or loss £000	Financial assets and liabilities at amortised cost £000	Total £000
Financial assets				
Tenant debtors	15	–	4,011	4,011
Cash and cash equivalents	16	–	31,510	31,510
		–	35,521	35,521

31 March 2017	Note	Held at fair value through profit or loss £000	Financial assets and liabilities at amortised cost £000	Total £000
Financial assets				
Tenant debtors	15	–	4,107	4,107
Cash and cash equivalents	16	–	33,883	33,883
		–	**37,990**	**37,990**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's exposure and credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed regularly.

Trade debtors consist of a large number of occupiers, spread across diverse industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of trade debtors and, where appropriate, credit guarantees are acquired. The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. Rent collection is outsourced to managing agents who report regularly on payment performance and provide the Group with intelligence on the continuing financial viability of occupiers.

A provision of £384,000 (2017: £249,000) exists at the year end, in relation to outstanding debtors that are considered to be impaired based on a review of individual debtor balances. The Group believes that unimpaired amounts that are overdue by more than 30 days are still collectable, based on the historic payment behaviours and extensive analyses of the underlying customers' credit ratings. At 31 March 2018 debtors overdue by more than 30 days totalled £1,094,000 (2017: £1,840,000).

25. Risk management continued

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk. The Board continues to monitor the Group's exposure to credit risk.

The Group has a panel of banks with which it makes deposits, based on credit ratings with set counterparty limits. The Group's main cash balances are held with National Westminster Bank plc ("NatWest"), Santander plc ("Santander"), Nationwide International Limited ("Nationwide") and The Royal Bank of Scotland plc ("RBS"). Bankruptcy or insolvency of the bank holding cash balances may cause the Group's rights with respect to the cash held by them to be delayed or limited. The Group manages its risk by monitoring the credit quality of its bankers on an ongoing basis. NatWest, Santander, Nationwide and RBS are rated by all the major rating agencies. If the credit quality of these banks deteriorates, the Group would look to move the short-term deposits or cash to another bank. Procedures exist to ensure that cash balances are split between banks to minimise exposure. At 31 March 2018 and at 31 March 2017 Standard & Poor's credit rating for Nationwide and Santander was A-1 and the Group's remaining bankers had an A-2 rating.

There has been no change in the fair values of cash or receivables as a result of changes in credit risk in the current or prior periods, due to the actions taken to mitigate this risk, as stated above.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group's liquidity risk is managed on an ongoing basis by the Investment Manager and monitored on a quarterly basis by the Board by maintaining adequate reserves and loan facilities, continuously monitoring forecasts and actual cash flows and matching the maturity profiles of financial assets and liabilities for a period of at least twelve months.

The table below has been drawn up based on the undiscounted contractual maturities of the financial assets/(liabilities), including interest that will accrue to maturity.

31 March 2018	**Less than one year £000**	**1 to 5 Years £000**	**More than 5 years £000**	**Total £000**
Cash and cash equivalents	**31,522**	**–**	**–**	**31,522**
Debtors	**4,340**	**–**	**–**	**4,340**
Capitalised finance costs	**441**	**1,448**	**1,487**	**3,376**
Obligations under finance leases	**(117)**	**(466)**	**(1,239)**	**(1,822)**
Fixed interest rate loans	**(9,708)**	**(71,862)**	**(209,924)**	**(291,494)**
Floating interest rate loans	**(254)**	**(11,065)**	**–**	**(11,319)**
Creditors and accruals	**(9,680)**	**–**	**–**	**(9,680)**
	16,544	**(81,945)**	**(209,676)**	**(275,077)**

31 March 2017	**Less than one year £000**	**1 to 5 Years £000**	**More than 5 years £000**	**Total £000**
Cash and cash equivalents	33,925	–	–	33,925
Debtors	4,621	–	–	4,621
Capitalised finance costs	536	1,476	1,728	3,740
Obligations under finance leases	(116)	(466)	(1,242)	(1,824)
Fixed interest rate loans	(9,708)	(38,832)	(252,662)	(301,202)
Creditors and accruals	(8,728)	–	–	(8,728)
	20,530	**(37,822)**	**(252,176)**	**(269,468)**

Market risk

The Group's activities are primarily within the real estate market, exposing it to very specific industry risks.

The yields available from investments in real estate depend primarily on the amount of revenue earned and capital appreciation generated by the relevant properties as well as expenses incurred. If properties do not generate sufficient revenues to meet operating expenses, including debt service and capital expenditure, the Group's revenue will be adversely affected.

Revenue from properties may be adversely affected by the general economic climate, local conditions such as oversupply of properties or a reduction in demand for properties in the market in which the Group operates, the attractiveness of the properties to occupiers, the quality of the management, competition from other available properties and increased operating costs (including real estate taxes).

In addition, the Group's revenue would be adversely affected if a significant number of occupiers were unable to pay rent or its properties could not be rented on favourable terms. Certain significant expenditure associated with each equity investment in real estate (such as external financing costs, real estate taxes and maintenance costs) generally are not reduced when circumstances cause a reduction in revenue from properties. By diversifying in regions, sectors, risk categories and occupiers, the Investment Manager expects to lower the risk profile of the portfolio. The Board continues to oversee the profile of the portfolio to ensure risks are managed.

The valuation of the Group's property assets is subject to changes in market conditions. Such changes are taken to the Consolidated Statement of Comprehensive Income and thus impact on the Group's net result. A 5% increase or decrease in property values would increase or decrease the Group's net result by £34.2 million (2017: £31.2 million).

Interest rate risk management

Interest rate risk arises on interest payable on the revolving credit facilities only. The Group's senior debt facilities have fixed interest rates over the lives of the loans and thus the Group has limited exposure to interest rate risk on the majority of its borrowings and no sensitivity is presented.

Interest rate risk

The following table sets out the carrying amount, by maturity, of the Group's financial assets/(liabilities).

31 March 2018	Less than 1 year £000	1 to 5 Years £000	More than 5 years £000	Total £000
Floating				
Cash and cash equivalents	**31,510**	**–**	**–**	**31,510**
Secured loan facilities	**–**	**(10,500)**	**–**	**(10,500)**
Fixed				
Secured loan facilities	**(1,153)**	**(38,866)**	**(163,521)**	**(203,540)**
Obligations under finance leases	**(109)**	**(395)**	**(1,318)**	**(1,822)**
	30,248	**(49,761)**	**(164,839)**	**(184,352)**

31 March 2017	Less than 1 year £000	1 to 5 Years £000	More than 5 years £000	Total £000
Floating				
Cash and cash equivalents	33,883	–	–	33,883
Fixed				
Secured loan facilities	(1,104)	(4,928)	(198,612)	(204,644)
Obligations under finance leases	(109)	(396)	(1,319)	(1,824)
	32,670	**(5,324)**	**(199,931)**	**(172,585)**

Concentration risk

As discussed above, all of the Group's investments are in the UK and therefore it is exposed to macroeconomic changes in the UK economy. Furthermore, the Group places reliance on a limited number of occupiers for its rental income, with one occupier accounting for 3.8% of the Group's annual contracted rental income.

Currency risk

The Group has no exposure to foreign currency risk.

26. Related party transactions

The total fees earned during the year by the Directors of the Company amounted to £232,000 (2017: £205,500). As at 31 March 2018 the Group owed £nil to the Directors (2017: £nil). The emoluments of each Director are set out in the Remuneration Report.

Picton Property Income Limited has no controlling parties.

27. Events after the balance sheet date

A dividend of £4,716,000 (0.875 pence per share) was approved by the Board on 23 April 2018 and paid on 31 May 2018.

Belkin Unit, Shipton Way, Rushden

Additional Information

EPRA DISCLOSURES (UNAUDITED)

The European Public Real Estate Association (EPRA) is the industry body representing listed companies in the real estate sector. EPRA publishes Best Practice Recommendations (BPR) to establish consistent reporting by European property companies. Further information on the EPRA BPR can be found at www.epra.com.

EPRA earnings per share

EPRA Earnings represents the earnings from core operational activities, excluding investment property revaluations and gains/losses on asset disposals. It demonstrates the extent to which dividend payments are underpinned by recurring operational activities.

	2018 £000	2017 £000	2016 £000
Profit for the year after taxation	**64,168**	42,750	64,848
Exclude:			
Investment property valuation movement	**(38,920)**	(15,087)	(44,171)
Gains on disposal of investment properties	**(2,623)**	(1,847)	(799)
Exceptional income	**–**	(5,250)	–
EPRA earnings	**22,625**	20,566	19,878
Weighted average number of shares in issue (000s)	**539,734**	540,054	540,054
EPRA earnings per share	**4.2p**	3.8p	3.7p

EPRA NAV per share

The EPRA Net Asset Value highlights the fair value of net assets on an ongoing, long-term basis. It excludes assets and liabilities that are not expected to crystallise in normal circumstances such as the fair value of financial derivatives and deferred taxes on property valuation surpluses.

	2018 £000	2017 £000	2016 £000
Balance Sheet net assets	**487,355**	441,925	417,132
Fair value of financial instruments	**–**	–	–
Deferred tax	**–**	–	–
EPRA NAV	**487,355**	441,925	417,132
Shares in issue (000s)	**538,984**	540,054	540,054
EPRA NAV per share	**90p**	82p	77p

EPRA NNNAV per share

The EPRA Triple Net Asset Value includes the fair value adjustments in respect of all material balance sheet items.

	2018 £000	2017 £000	2016 £000
EPRA NAV	**487,355**	441,925	417,132
Fair value of debt	**(21,106)**	(24,475)	(21,807)
Deferred tax	**–**	–	–
EPRA NNNAV	**466,249**	417,450	395,325
Shares in issue (000s)	**538,984**	540,054	540,054
EPRA NNNAV per share	**87p**	77p	73p

EPRA net initial yield (NIY)

EPRA NIY is calculated as the annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the gross market valuation of the properties.

	2018 £000	2017 £000	2016 £000
Investment property valuation	**683,800**	624,410	654,605
Allowance for estimated purchasers' costs	**46,197**	42,362	44,478
Gross up property portfolio valuation	**729,997**	666,772	699,083
Annualised cash passing rental income	**41,360**	39,998	40,365
Property outgoings	**(1,327)**	(911)	(957)
Annualised net rents	**40,033**	39,087	39,408
EPRA Net Initial Yield	**5.5%**	5.9%	5.6%

EPRA “topped-up” net initial yield

The EPRA “topped-up” NIY is calculated by making an adjustment to the EPRA NIY in respect of the expiration of rent free periods (or other unexpired lease incentives such as discounted rent periods and step rents).

	2018 £000	2017 £000	2016 £000
EPRA NIY annualised net rents	**40,033**	39,087	39,408
Annualised cash rent that will apply at expiry of lease incentives	**3,160**	2,633	3,947
Topped-up annualised net rents	**43,193**	41,720	43,355
EPRA “topped-up” NIY	**5.9%**	6.3%	6.2%

EPRA vacancy rate

EPRA Vacancy Rate is the estimated rental value (ERV) of vacant space divided by the ERV of the whole property, expressed as a percentage.

	2018 £000	2017 £000	2016 £000
Annualised potential rental value of vacant premises	**1,995**	2,647	1,867
Annualised potential rental value for the complete property portfolio	**47,854**	45,887	47,596
EPRA Vacancy Rate	**4.2%**	5.8%	3.9%

EPRA cost ratio

EPRA Cost Ratio reflects the overheads and operating costs as a percentage of the gross rental income.

	2018 £000	2017 £000	2016 £000
Property operating costs	**2,578**	3,501	3,308
Property void costs	**1,830**	2,023	1,540
Management expenses	**3,652**	3,636	2,901
Other operating expenses	**1,914**	1,613	1,510
Less:			
Ground rent costs	**(217)**	(239)	(259)
EPRA costs (including direct vacancy costs)	**9,757**	10,534	9,000
Property void costs	**(1,830)**	(2,023)	(1,540)
EPRA costs (excluding direct vacancy costs)	**7,927**	8,511	7,460
Gross rental income	**41,412**	40,555	39,663
Less ground rent costs	**(217)**	(239)	(259)
Gross rental income	**41,195**	40,316	39,404
EPRA Cost Ratio (including direct vacancy costs)	**23.7%**	26.1%	22.8%
EPRA Cost Ratio (excluding direct vacancy costs)	**19.2%**	21.1%	18.9%

Capital expenditure

The table below sets out the capital expenditure incurred over the financial year, in accordance with EPRA Best Practices Recommendations.

	2018 £000	2017 £000
Acquisitions	**–**	–
Development	**–**	–
Like-for-like portfolio	**3,553**	2,819
Other	**–**	–
Total capital expenditure	**3,553**	2,819

Like-for-like rental growth

The table below sets out the like-for-like rental growth of the portfolio, by sector, in accordance with EPRA Best Practices Recommendations.

	Offices		Industrial		Retail and Leisure		Total	
	2018 £000	2017 £000	2018 £000	2017 £000	2018 £000	2017 £000	2018 £000	2017 £000
Like-for-like rental income	**13,740**	12,633	**15,990**	14,972	**10,758**	10,860	**40,488**	38,465
Properties acquired	**691**	–	**–**	–	**–**	–	**691**	–
Properties sold	**233**	1,927	**–**	–	**–**	163	**233**	2,090
	14,664	14,560	**15,990**	14,972	**10,758**	11,023	**41,412**	40,555

EPRA sustainability reporting

This section outlines our energy, GHG emissions, water, waste, business travel and own premises consumption. We report in line with the EPRA Sustainability Best Practice Recommendations. The Group's sustainability data reported below is for the year ended 31 December 2017, with comparatives for the year ended 31 December 2016.

Organisational boundaries and coverage

There were a total of 56 properties, including disposals, within the portfolio during 2017. We had operational control at 34 of these sites. Under each table we have identified how many properties are being reported and any reasoning as to why a property has been omitted from the sample.

During 2017, we disposed of five sites, spread throughout the year. We had operational control over three of these sites, with data included in the absolute energy and carbon emissions. We have also acquired one new site, Tower Wharf, Bristol which is our fifth largest office. We expect this site to have a significant impact on absolute consumption figures in 2018 as it was acquired in August 2017.

We are endeavouring to report occupier energy, water and waste data on all occupier controlled sites. Occupier data is split out per unit rather than at site level to provide accurate areas (GIA). Occupier data is provided under its own section as to not confuse it with landlord controlled sites and is reported under Scope 3 emissions.

Normalisation

We have used kWh/m2/year to normalise data where applicable. This is the most consistent normalisation metric across the whole portfolio. Normalisation metrics have been clearly stated under each applicable table with any anomalies addressed. During the like-for-like analysis, we have removed any acquired or disposed site which does not cover the full 2016 and 2017 reporting periods to ensure reliable comparisons. We currently have been unable to remove vacant units from our like-for-like comparisons but note that this will have a minimal impact on comparisons. It is estimated that less than 5% of our consumption is through vacant units.

Energy

We have had a very successful year in reducing our like-for-like electricity and natural gas consumption, recording a 19% reduction in electricity consumption and 27% reduction in natural gas consumption. Like-for-like electricity data was collated at 28 of 34 sites where we have operational control, with six sites being excluded due to acquisition/disposals. Like-for-like natural gas data was collated at 16 of 21 sites where we have operational control, with five sites being excluded due to acquisition/disposals. We have implemented several energy efficiency measures mainly focusing on LED installations for electricity and plant refurbishments for natural gas.

Asset IQ has been one of the major success stories in reducing electricity and natural gas at 50 Farringdon Road, seeing a 45% drop in both utilities. Asset IQ identifies inefficiencies in plant and equipment run hours by analysing each meter's usage in real time. Due to the success at this site, we have recently implemented the tool at 180 West George Street, Glasgow with further planned roll outs during 2018 and beyond.

Key sites which have gone through LED upgrades include: Waterside House, Leeds, Colchester Business Park and Citylink, Croydon. The projects have all helped deliver over a 10% reduction in energy use during 2017. We will continue to look for opportunities for further upgrades during 2018 and beyond to ensure our buildings are operating as efficiently as possible.

We have been working hard to improve the accuracy of our energy data, with less than 5% of our consumption considered as estimated. Part of the reduction in consumption is the elimination of estimated date by installing AMRs. This upgrade of our meters is part of our policy of moving all electricity and natural gas supplies onto one main supplier for each utility type. In addition to the meter upgrades, 94% (electricity) and 96% (natural gas) of our consumption is renewably sourced; all remaining supplies are moving across to our main energy suppliers as and when they come back within our control.

We have seen a 25% reduction in building utility intensity due to the number of energy efficiency projects, improved metering and the occupier engagement actions we carried out during 2017.

The table below sets out the total energy consumption from the Group's portfolio by sector.

Sector	Total energy consumption from electricity (kWh)	Electricity from renewable sources (%)	Total energy consumption from fuels (kWh)	Fuel from renewable sources (%)	Building energy intensity (kWh/m²/ year)
Industrial	57,272	30%	16,543	1%	0.69
Office	8,603,260	96%	6,519,755	96%	99.89
Retail and Leisure	739,699	79%	257,706	100%	28.28
Total	**9,400,231**	**94%**	**6,794,004**	**96%**	**74.26**

1. The above data covers 34 out of 34 sites for electricity and 21 out of 21 sites for natural gas. Occupier consumption is included where the landlord controls the energy contract. Any data from occupier controlled contracts has been excluded and is outlined in the occupier consumption section.
2. Where data was unavailable, consumption was estimated by prorating the daily rate of consumption calculated from the available information. Of the total electricity consumption 4.0% is estimated, and 6.2% of fuel consumption is estimated.
3. Each site's whole floor area has been used to calculate intensities even if a site only has a vacant unit supply. Vacant units represent roughly 2.3% of total consumption across the portfolio, predominantly located in industrial sites.

The table below sets out the like-for-like energy consumption by sector, and the change from the previous year.

	Electricity consumption (kWh)			Fuel consumption (kWh)		
Sector	2017	2016	Change	2017	2016	Change
Industrial	**57,272**	219,002	-74%	**14,751**	15,982	-8%
Office	**6,973,797**	7,996,210	-13%	**5,308,872**	6,881,039	-23%
Retail and Leisure	**589,893**	1,201,022	-51%	**256,864**	744,580	-66%
Total	**7,620,962**	9,416,234	-19%	**5,580,487**	7,641,601	-27%

1. For electricity consumption, the data covers 28 out of 34 sites and for fuel consumption the data covers 16 out of 21 sites where the landlord controls the supplies. Some landlord supplies include occupier consumption where the landlord controls the energy contract. Any data from occupier controlled contracts has been excluded and is outlined in the occupier consumption section.
2. Where data was unavailable, consumption was estimated by prorating the daily rate of consumption calculated from the available information. Of the like-for-like electricity consumption 3.8% is estimated and for fuel 4.0% is estimated.
3. Sites have been excluded from like-for-like comparison if they were not in Picton's ownership for the entire 2016 and 2017 period. Vacant units have been included but only represent roughly 0.2% of total consumption across the portfolio predominantly located in industrial sites. Offices provide the clearest like-for-like consumption due to the consistency of meter information and make up 95% of total like-for-like consumption.

GHG Emissions

The table below sets out the Group's direct and indirect greenhouse gas (GHG) emissions by sector.

Sector	Total direct emissions (tCO_2e)	Total indirect emissions (tCO_2e)	GHG emissions intensity ($tCO_2e/m^2/year$)
Industrial	3.05	20.14	–
Office	1,200.67	3,024.57	0.05
Retail and Leisure	47.46	260.04	0.01
Total	**1,251.18**	**3,304.75**	**0.02**

1. The above data covers 34 out of 34 sites where the landlord controls the supplies which in some cases include occupier consumption where the landlord controls the energy contract. Any data from occupier controlled contracts has been excluded and is outlined in the occupier consumption section.
2. Where data was unavailable, consumption was estimated by prorating the daily rate of consumption calculated from the available information. Of the total direct emissions 6.2% are estimated and 4.0% of indirect emissions are estimated.
3. We have used $tCO_2e /m^2/year$ as the most appropriate intensity measurement given its consistency across sites compared to other intensity measures such as number of employees.

The table below sets out the Group's like-for-like direct and indirect greenhouse gas emissions by sector.

	Direct emissions (tCO_2e)			Indirect emissions (tCO_2e)		
Sector	2017	2016	Change	2017	2016	Change
Industrial	**3**	3	-8%	**20**	90	-78%
Office	**978**	1,266	-23%	**2,452**	3,295	-26%
Retail and Leisure	**47**	137	-65%	**207**	495	-58%
Total	**1,028**	1,406	-27%	**2,679**	3,880	-31%

1. For direct emissions, the data covers 16 out of 21 sites and indirect emissions 28 out of 34, where the landlord controls the supplies. Some landlord supplies include tenant consumption where the landlord controls the energy contract. Any data from occupier controlled contracts has been excluded and is outlined in the occupier consumption section.
2. Where data was unavailable, consumption was estimated by prorating the daily rate of consumption calculated from the available information. Of the like-for-like emissions, 4.0% of total direct emissions was estimated and 3.8% of indirect emissions was estimated.
3. Sites have been excluded if they were not in Picton's ownership for the entire 2016 and 2017 period. Vacant units have been included but only represent roughly 0.2% of total consumption across the portfolio predominantly located in industrial sites. Offices provide the clearest like-for-like consumption due to the consistency of meter information and make up 95% of total like-for-like consumption.

Water

We have continued our methodology for water data collection in 2017, which was adopted in 2016. This provides the first year of reliable like-for-like comparisons; covering 13 of the 19 sites where we collect water data. Six sites were removed due to being acquired or disposed during the reporting year, with the remaining sites removed due to no landlord water supply.

Initiatives put in place to try to reduce water usage across our portfolio have resulted in a 20% reduction in like-for-like water consumption. Unfortunately, due to the timings of invoices, there is a high-level estimation level which currently sits at 38%. We are looking at ways we can improve on our data accuracy in this area.

The table below sets out the Group's water withdrawal by source.

Sector	Total water withdrawn by source (m^3)	Building water intensity (m^3/m^2/year)
Industrial	1,834	0.32
Office	47,941	0.56
Retail and Leisure	166	0.08
Total	**49,941**	**0.52**

1. The above data covers 19 out of 19 sites where the landlord controls the supplies which in some cases include tenant consumption where the landlord controls the water contract. Any data from occupier controlled contracts has been excluded and is outlined in the occupier consumption section. Where data was unavailable, consumption was estimated by prorating the daily rate of consumption calculated from the available information. Of the total water consumption 38% is estimated. This is due to an issue with water bills at one key site which has been resolved for future reporting.
2. Consumption data is based off invoice readings with initial readings taken from last year's report where possible, to mitigate double counting of data.
3. Caution should be taken when using the intensity indicators as occupier-obtained water consumption is not included in the above calculations and the whole property area (m^2) was used as the denominator.

The following table sets out the Group's like-for-like total water consumption by sector.

	Water withdrawn (m^3)		
Sector	2017	2016	Change
Industrial	**1,834**	1,808	1%
Office	**36,513**	46,212	-21%
Retail and Leisure	**34**	50	-31%
Total	**38,381**	**48,070**	**-20%**

1. The above data covers 13 out of 19 sites where the landlord controls the supplies.. Some landlord supplies include occupier consumption where the landlord controls the water contract. Any data from occupier controlled contracts has been excluded and is outlined in the occupier consumption section. Where data was unavailable, consumption was estimated by prorating the daily rate of consumption calculated from the available information. Of the total water consumption 38% is estimated. This is due to an issue with water bills at one key site which has been resolved for future reporting.
2. Consumption data is based off invoice readings with final readings taken from last year's report where possible, to mitigate double counting of data.
3. Sites have been excluded if they were not in Picton's ownership for the entire 2016 and 2017 period.

Waste

We continue to monitor our waste production and following on from the successful methodology change in 2015 we have managed to obtain complete waste data direct from suppliers. Therefore none of waste data has been estimated, with ten out of 14 sites included in the like-for-like comparison. The remaining sites have been excluded due to not having full coverage over both reporting years or no landlord waste collections.

We have migrated several of our sites to a new waste service provider which has reduced the amount of waste to landfill. This has resulted in a 53% drop in like-for-like comparisons with landfill waste only accounting for 7% of the total waste treatment. Waste production is significantly down on a like-for-like basis with a reduction of 20% across the portfolio. We continue to work with occupiers to implement measures were possible to encourage recycling and lowering the amount of waste we produce.

The following table sets out the Group's waste by disposal route.

Sector	Hazardous (kg)	Recycling (kg)	Composting (kg)	Recovery (kg)	Incineration (kg)	Landfill (kg)	Other (kg)	Total (kg)
Industrial	–	–	–	–	–	–	–	–
Office	–	113,910	3,900	57,265	35,588	44,421	–	255,084
Retail and Leisure	–	193,000	–	–	193,409	–	–	386,409
Total	**–**	**306,910**	**3,900**	**57,265**	**228,997**	**44,421**	**–**	**641,493**
Proportion of waste by disposal route (%)	0%	48%	1%	9%	35%	7%	0%	100%

1. The above data covers 14 out of 14 sites where the landlord controls the supplies which in some cases include occupier consumption where the landlord controls the waste contract. Any data from occupier controlled contracts has been excluded and is outlined in the occupier consumption section. Waste information is obtained directly from waste providers where it has been identified that there is a waste contract under Picton's name.
2. 0% of waste data was estimated.

The table below sets out the Group's like-for-like weight of waste by disposal route.

		2017	2016	Change
Recycling	Office	**99,544**	58,806	69%
	Retail and Leisure	**193,000**	265,000	-27%
		292,544	**323,806**	**-10%**
Composting	Office	**3,900**	3,800	3%
	Retail and Leisure	**–**	–	
		3,900	**3,800**	**3%**
Recovery	Office	**56,135**	40,639	38%
	Retail and Leisure	**–**	–	–
		56,135	**40,639**	**38%**
Incineration	Office	**35,588**	76,577	-54%
	Retail and Leisure	**193,409**	261,000	-26%
		228,997	**337,577**	**-32%**
Landfill	Office	**20,162**	42,583	-53%
	Retail and Leisure	**–**	–	–
		20,162	**42,583**	**-53%**
Total	**Office**	**215,329**	**222,405**	**-3%**
	Retail and Leisure	**386,409**	**526,000**	**-27%**
		601,738	**748,405**	**-20%**

1. The above data covers 10 of the 14 sites where the landlord controls the supplies. In some cases occupier waste consumption was included where the landlord controls the waste contract. Any data from occupier controlled contracts has been excluded and is outlined in the occupier consumption section. Waste information is obtained directly from waste providers where it has been identified that there is a waste contract under Picton's name.
2. 0% of waste data was estimated.
3. Sites have been excluded if they were not in Picton's ownership for the entire 2016 and 2017 period.

Building certification

Sector	Green building certification (%/m²)
Industrial	0%
Office	25%
Retail and Leisure	0%
Total	**5%**

1. The above data covers 51 out of 51 sites, excluding disposed sites. This means that data includes fully occupier controlled sites and sites which were acquired during the 2017 reporting year.
2. Calculations are based off total floor areas for each site which has a certification.
3. Angel Gate has ISO 14001 and Green Apple awards.
4. Metro Centre, Salford has a BREEAM Excellent rating.
5. Tower Wharf, Bristol has a BREEAM Excellent rating.

Portfolio EPC coverage

Sector	A	B	C	D	E	F	G	Exempt	Total
Industrial	–	2	48	60	24	1	1	1	137
Office	–	9	79	81	18	–	–	6	193
Retail and Leisure	1	4	27	25	16	2	2	–	77
Total	1	15	154	166	58	3	3	7	407
Proportion of EPCs by rating (%)	0%	4%	38%	40%	14%	1%	1%	2%	100%

1. The above data covers 51 out of 56 sites as disposed sites during 2017 have not been included.
2. Calculations are based on the number of units, therefore an EPC covering multiple units would be counted multiple times due to it being applicable to multiple occupiers.
3. Two F/G rated EPCs have not been lodged but are included in the F/G rating calculation as we know that is the correct EPC rating.

Business Travel

This is the third year we have reported on Picton Directors and employees expensed mileage via car, air and train. For a fair analysis, we report distances as the crow flies, resulting in an impartial assessment between journeys.

Due to the nature of our business and the importance of face to face meetings and conducting property inspections, business travel will continue to be a key part of our operations. However, we look to cut down on journeys were applicable, through combining site visits and removing non-essential journeys. We have seen a 17% reduction in mileage across all transport types. There has been a slightly smaller decline in emissions, but it is still positive to see a reduction in the emissions from our business travel.

The table below sets out the Scope 3 business travel emissions for Picton Directors and employees.

Transport type	Total distance 2017 (km)	Total distance 2016 (km)	Change (%)
Car	**12,115**	12,743	-5%
Air	**23,498**	24,525	-4%
Train	**25,015**	35,362	-29%
All transport	**60,629**	**72,629**	**-17%**

1. The above data covers 100% of Picton's business travel expenses for 2017.
2. If distances were not provided, they were calculated by using "as the crow flies" distances to try to ensure consistency between routes.

Transport type	Total emissions 2017 (tCO_2e)	Total emissions 2016 (tCO_2e)	Change (%)
Car	**2.21**	2.40	-8%
Air	**3.32**	3.61	-9%
Train	**1.17**	1.73	-48%
All transport	**6.70**	**7.74**	**-13%**

1. The above data covers 100% of Picton's business travel expenses for 2017.
2. If distances were not provided, they were calculated by using "as the crow flies" distances to try to ensure consistency between routes.

Austin Friars

This is the second year the Group has reported on electricity and water consumption data from our office premises at Austin Friars. While the emissions are a small proportion of our overall emissions, we feel it is important to provide a complete view of our emissions. Through tracking these office emissions and setting a benchmark, it will allow us to track our consumption and explore potential energy efficiency projects.

The tables below set out the total energy consumption and associated emissions from the Group's office premises, while also providing a like-for-like comparison with 2016 data.

Supply	2017 Consumption (kWh & m^3)	2016 Consumption (kWh & m^3)
Electricity	**145**	105
Water	**35,180**	29,343

Supply	Total emissions 2017 (tCO_2e)	Total emissions 2016 (tCO_2e)
Electricity	**0.15**	0.11
Water	**12.37**	12.09
Total	**12.52**	12.20

1. The above data covers 100% of Picton's occupied office consumption for 2017.
2. Data is based off invoiced consumption which has been estimated. Total consumption for the site is then apportioned based on floor area occupancy of each tenant in the building.

Occupier consumption

We recognise that occupier consumption is an important part of the energy consumption at sites where we do not have operational control. As such our occupier engagement programme is designed to work with occupiers to help them reduce their consumption, and in turn improve the transparency of our reporting. This is the second reporting year where we have collected occupier data, moving towards reporting whole building consumption and understanding the landlord-tenant split in energy consumption. As this is only the second year reporting occupier consumption, there is still a limited data set which we are looking to expand year on year. We have successfully collected waste data in a more reliable format and therefore have begun reporting on occupier waste data from 2017.

We have had a small improvement in occupier data collection percentages with 47% of occupier controlled floor area covered, compared to 43% in 2016. We continue to collect occupier data ahead of our GRESB submission, so this figure is expected to improve in future reporting. Like-for-like comparisons allow us to approach occupiers regarding their consumption if we see any abnormalities. There has been greater inconsistency with the water data collection, which is partly skewing like-for-like figures. We continue to look for new ways to collect more accurate occupier data.

The tables below set out occupier consumption data by property type.

	Absolute Occupier Data Electricity 2017 (kWh)	Absolute Occupier Data Electricity 2016 (kWh)	Change (%)	Absolute Occupier Data Natural Gas 2017 (kWh)	Absolute Occupier Data Natural Gas 2016 (kWh)	Change (%)
Industrial	**15,446,156**	15,629,875	-1%	**11,262,610**	8,817,928	28%
Office	**722,233**	696,095	4%	**15,882**	–	–
Retail and Leisure	**2,900,809**	2,173,670	33%	**3,336,836**	1,291,044	158%
Total Consumption	**19,069,198**	18,499,640	3%	**14,615,328**	10,108,972	45%

	Absolute Occupier Data Water 2017 (m^3)	Absolute Occupier Data Water 2016 (m^3)	Change (%)	Absolute Occupier Data Waste 2017 (tonnes)	Absolute Occupier Data Waste 2016 (tonnes)	Change (%)
Industrial	**17,114**	48,731	-65%	**717**	N/A	–
Office	**1,667**	–	–	**86**	N/A	–
Retail and Leisure	**12,749**	1,754	627%	**62**	N/A	–
Total Consumption	**31,530**	50,485	-38%	**865**		

1. The above data is based on the number of units due to not all occupiers providing consumption figures at each site. 2016 saw 23 out of 226 occupiers provide consumption data, covering 43% of occupier controlled demises. 2017 saw 27 out of 226 occupiers provide consumption data, covering 47% of occupier controlled demises.
2. Waste data has only been reported in 2017 due to inconsistencies in the data provided by occupiers during the 2016 data collection process.
3. As these areas are occupier controlled, we have no control as to whether consumption increases or decreases. However, we do work with occupiers where possible to help them reduce their energy consumption.

The table below sets out the like-for-like occupier consumption data for 2017 by property type.

	Occupier Data Electricity 2017 (kWh)	Occupier Data Electricity 2016 (kWh)	Change (%)	**Occupier Data Natural Gas 2017 (kWh)**	Occupier Data Natural Gas 2016 (kWh)	Change (%)	**Occupier Data Water 2017 (m^3)**	Occupier Data Water 2016 (m^3)	Change (%)
Industrial	**14,884,127**	13,640,483	9%	**9,832,254**	8,169,321	20%	**11,104**	40,554	-73%
Office	**–**	–	–	**–**	–	–	**–**	–	–
Retail and Leisure	**1,364,643**	2,166,744	-37%	**1,309,655**	1,291,044	1%	**1,586**	1,754	-10%
Total Consumption	**16,248,770**	15,807,227	3%	**11,141,909**	9,460,365	18%	**12,690**	42,308	-70%

1. The above data is based on the number of units due to not all occupiers providing consumption figures at each site. Like-for-like data includes information on 15 out of 226 occupiers with all remaining units being excluded due to not having a complete data set for both years.
2. As waste data has only been reported in 2017 due to inconsistencies in the data provided by occupiers during the 2016 data collection process, it has been excluded from the like-for-like analysis.
3. As these areas are occupier controlled, we have no control as to whether consumption increases or decreases. However, we do work with occupiers where possible to help them reduce their energy use.

Supplementary disclosures (unaudited)

Ongoing charges

The Ongoing Charges ratio is based on historical information and provides shareholders with an indication of the likely level of cost that will be incurred in managing the Group. The Association of Investment Companies (AIC) is the trade body for closed-ended investment companies. The AIC recommended methodology for calculating the Ongoing Charges ratio uses the annual recurring operational expenses as a percentage of the average net asset value over the period.

	2018 £000	2017 £000	2016 £000
Property expenses	**4,408**	5,524	4,848
Management expenses	**3,652**	3,636	2,901
Other operating expenses	**1,607**	1,446	1,510
Recurring operational expenses	**9,667**	10,606	9,259
Average Net Asset Value over the year	**470,252**	429,546	400,415
Ongoing Charges	**2.1%**	2.5%	2.3%
Ongoing Charges (excluding property expenses)	**1.1%**	1.2%	1.1%

Loan to value

The loan to value (LTV) is calculated by taking the Group's total borrowings, net of cash, as a percentage of the total portfolio value.

	2018 £000	2017 £000	2016 £000
Total borrowings	**214,040**	204,644	249,535
Less:			
Cash and cash equivalents	**(31,510)**	(33,883)	(22,759)
Total net borrowings	**182,530**	170,761	226,776
Investment property valuation	**683,800**	624,410	654,605
Loan to value	**26.7%**	27.4%	34.6%

Gearing

Using the method recommended by the AIC, Gearing is calculated by dividing the Group's total assets, less cash, by shareholders' funds.

	2018 £000	2017 £000	2016 £000
Total assets	**721,312**	664,611	686,814
Less:			
Cash and cash equivalents	**(31,510)**	(33,883)	(22,759)
	689,802	630,728	664,055
Total equity	**487,355**	441,925	417,132
Gearing	**41.5%**	42.7%	59.2%

PROPERTY PORTFOLIO

Properties valued in excess of £30 million

- Parkbury Industrial Estate, Radlett, Herts.
- River Way Industrial Estate, River Way, Harlow, Essex
- Angel Gate, City Road, London EC1
- Stanford House, Long Acre, London WC2

Properties valued between £25 million and £30 million

- 50 Farringdon Road, London EC1
- Tower Wharf, Cheese Lane, Bristol

Properties valued between £20 million and £25 million

- Belkin Unit, Express Business Park, Shipton Way, Rushden, Northants.
- 30 & 50 Pembroke Court, Chatham, Kent
- Colchester Business Park, The Crescent, Colchester, Essex

Properties valued between £15 million and £20 million

- B&Q, Queens Road, Sheffield
- Parc Tawe North Retail Park, Link Road, Swansea
- Metro, Salford Quays, Manchester
- Citylink, Addiscombe Road, Croydon
- Gloucester Retail Park, Eastern Avenue, Gloucester
- Lyon Business Park, Barking, Essex

Properties valued between £10 million and £15 million

- Unit 3220, Magna Park, Lutterworth, Leics.
- Angouleme Retail Park, George Street, Bury, Greater Manchester
- 180 West George Street, Glasgow
- Grantham Book Services, Trent Road, Grantham, Lincs.
- 401 Grafton Gate East, Milton Keynes, Bucks.
- The Business Centre, Molly Millars Lane, Wokingham, Berks.
- Sundon Business Park, Dencora Way, Luton, Beds.
- Datapoint, Cody Road, London E16
- Nonsuch Industrial Estate, Kiln Lane, Epsom, Surrey
- Vigo 250, Birtley Road, Washington, Tyne and Wear

Properties valued between £5 million and £10 million

- 62-68 Bridge Street, Peterborough
- Regency Wharf, Broad Street, Birmingham
- Trident House, Victoria Street, St Albans, Herts.
- Unit 1 & 2, Kettlestring Lane, York
- Crown & Mitre Complex, English Street, Carlisle, Cumbria
- Queens House, St Vincent Place, Glasgow
- Longcross Court, Newport Road, Cardiff
- Easter Court, Europa Boulevard, Warrington
- 53-57 Broadmead, Bristol
- Unit 1 & 2, Western Industrial Estate, Downmill Road, Bracknell, Berks.
- Premier Foods Unit, Haynes Way, Rugby, Warwickshire
- Scots Corner, High Street, Kings Heath, Birmingham
- 78-80 Briggate, Leeds
- Thistle Express, The Mall, Luton, Beds.
- 800 Pavilion Drive, Northampton Business Park, Northampton
- Sentinel House, Harvest Crescent, Fleet, Hants.

Properties valued under £5 million

- Atlas House, Third Avenue, Marlow, Bucks.
- 17-19 Fishergate, Preston, Lancs.
- Merchants House, Crook Street, Chester
- 18-28 Victoria Lane, Huddersfield, West Yorks.
- 72-78 Murraygate, Dundee
- 7-9 Warren Street, Stockport
- Abbey Business Park, Mill Road, Newtownabbey, Belfast
- Magnet Trade Centre, 6 Kingstreet Lane, Winnersh, Reading
- Waterside House, Kirkstall Road, Leeds
- 6-12 Parliament Row, Hanley, Staffs.

FIVE YEAR FINANCIAL SUMMARY

	2018	2017	2016	2015	2014
Income Statements					
Net property income	**38.5**	42.3	35.9	30.3	27.7
Management expenses	**(3.7)**	(3.6)	(2.9)	(2.6)	(2.1)
Other operating expenses	**(1.6)**	(1.4)	(1.5)	(1.2)	(1.1)
Exceptional costs	**(0.3)**	(0.2)	–	–	–
	32.9	37.1	31.5	26.5	24.5
Net finance costs	**(9.7)**	(10.8)	(11.4)	(10.9)	(10.9)
Income profit before tax	**23.2**	26.3	20.1	15.6	13.6
Tax	**(0.5)**	(0.5)	(0.2)	(0.3)	(0.4)
Income profit	**22.7**	25.8	19.9	15.3	13.2
Property gains and losses	**41.5**	17.0	44.9	53.6	24.1
Profit/loss after tax	**64.2**	42.8	64.8	68.9	37.3
Dividends paid	**18.5**	18.0	17.8	13.1	10.7

	2018	2017	2016	2015	2014
Balance Sheets					
Investment properties	**670.7**	615.2	646.0	532.9	417.6
Borrowings	**(214.0)**	(204.6)	(249.5)	(232.8)	(234.0)
Other assets and liabilities	**30.7**	31.3	20.6	69.9	30.5
Net assets	**487.4**	441.9	417.1	370.0	214.1
Net asset value per share (pence)	**90**	82	77	69	56
EPRA net asset value per share (pence)	**90**	82	77	69	56
Earnings per share (pence)	**11.9**	7.9	12.0	15.4	10.4
Dividends per share (pence)	**3.4**	3.3	3.3	3.0	3.0
Dividend cover (%)	**122**	144	112	117	124
Share price (pence)	**84.3**	83.8	69.8	71.8	56.8

All figures are in £ million unless otherwise stated.

Glossary

AIC	Association of Investment Companies.
AIFMD	Alternative Investment Fund Managers Directive.
Annual Rental Income	Cash rents passing at the Balance Sheet date.
Contracted rent	The contracted gross rent receivable which becomes payable after all the occupier incentives in the letting have expired.
DTR	Disclosure and Transparency Rules, issued by the United Kingdom Listing Authority.
Dividend cover	Income profit after tax divided by dividends paid.
Earnings per share (EPS)	Profit for the period attributable to equity shareholders divided by the average number of shares in issue during the period.
EPC	Energy Performance Certificate.
EPRA	European Public Real Estate Association, the industry body representing listed companies in the real estate sector.
Estimated rental value (ERV)	The external valuers' opinion as to the open market rent which, on the date of the valuation, could reasonably be expected to be obtained on a new letting or rent review of a property.
Fair value	The estimated amount for which a property should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after the proper marketing and where parties had each acted knowledgeably, prudently and without compulsion.
Fair value movement	An accounting adjustment to change the book value of an asset or liability to its fair value.
FRI lease	A lease which imposes full repairing and insuring obligations on the tenant, relieving the landlord from all liability for the cost of insurance and repairs.
Group	Picton Property Income Limited and its subsidiaries.
IASB	International Accounting Standards Board.
IFRS	International Financial Reporting Standards.
Property Income return	The ungeared income return of the portfolio as calculated by MSCI IPD.
Initial yield	Annual cash rents receivable (net of head rents and the cost of vacancy), as a percentage of gross property value, as provided by the Group's external valuers. Rents receivable following the expiry of rent-free periods are not included.
Lease incentives	Incentives offered to occupiers to enter into a lease. Typically this will be an initial rent-free period, or a cash contribution to fit-out. Under accounting rules the value of the lease incentives is amortised through the Income Statement on a straight-line basis until the lease expiry.
MSCI IPD	MSCI Investment Property Databank. An organisation supplying independent market indices and portfolio benchmarks to the property industry.
NAV	Net Asset Value is the equity attributable to shareholders calculated under IFRS.
Ongoing Charges ratio	Total operating expenses, excluding one-off costs, as a percentage of the average net asset value over the period, as defined by the AIC.
Over-rented	Space where the passing rent is above the ERV.
Rack-rented	Space where the passing rent is the same as the ERV.
Reversionary yield	The estimated rental value as a percentage of the gross property value.
Total property return	Combined ungeared income and capital return from the property portfolio.
Total return	Measures the performance of the Group based on its published results.
Total shareholder return	Measures the change in share price over the year plus dividends paid.
Weighted average debt maturity	Each tranche of Group debt is multiplied by the remaining period to its maturity and the result is divided by total Group debt in issue at the period end.
Weighted average interest rate	The Group loan interest per annum at the period end, divided by total Group debt in issue at the period end.
Weighted average lease term	The average lease term remaining to first break, or expiry, across the portfolio weighted by contracted rental income.

Financial calendar

Annual Results announced
5 June 2018

Annual Results posted to shareholders
27 June 2018

June 2018 NAV announcement
25 July 2018 (provisional)

Annual General Meeting
13 September 2018

2018 Half Year Results to be announced
November 2018 (provisional)

December 2018 NAV announcement
January 2019 (provisional)

Dividend Payment Dates
August
November
February
May

SHAREHOLDER INFORMATION

Directors
Nicholas Thompson
(Chairman)
Mark Batten
(appointed 1 October 2017)
Vic Holmes
Roger Lewis
Michael Morris
Robert Sinclair

Investment Manager
Picton Capital Limited
28 Austin Friars
London
EC2N 2QQ

T: 020 7628 4800
E: enquiries@picton.co.uk

Media
Tavistock Communications
1 Cornhill
London
EC3V 3ND

T: 020 7920 3150
E: jcarey@tavistock.co.uk

Tax Adviser
Deloitte LLP
Hill House
1 Little New Street
London
EC4A 3TR

Registered Office
PO Box 255
Trafalgar Court
Les Banques
St Peter Port
Guernsey
GY1 3QL

Registered Number: 43673

Registrar
Computershare Investor
Services (Guernsey) Limited
1st Floor, Tudor House
Le Bordage
St Peter Port
Guernsey
GY1 1BD

T: 0370 707 4040
E: info@computershare.co.je

Solicitors

As to English law
Norton Rose Fulbright LLP
3 More London Riverside
London
SE1 2AQ

As to English property law
DLA Piper UK LLP
Walker House
Exchange Flags
Liverpool
L2 3YL

As to Guernsey law
Carey Olsen
PO Box 98
Carey House
Les Banques
St Peter Port
Guernsey
GY1 4BZ

Shareholder Enquiries
All enquiries relating to holdings in Picton Property Income Limited, including notification of change of address, queries regarding dividend/interest payments or the loss of a certificate, should be addressed to the Company's registrars.

Administrator and Secretary
Northern Trust International
Fund Administration
Services (Guernsey) Limited
PO Box 255, Trafalgar Court
Les Banques
St Peter Port
Guernsey
GY1 3QL

T: 01481 745001
E: team_picton@ntrs.com

Corporate Brokers
JP Morgan
Securities Limited
25 Bank Street
London
E14 5JP

Stifel Nicolaus
Europe Limited
150 Cheapside
London
EC2V 6ET

Independent Auditor
KPMG Channel Islands
Limited
Glategny Court
Glategny Esplanade
St Peter Port
Guernsey
GY1 1WR

Property Valuers
CBRE Limited
Henrietta House
Henrietta Place
London
W1G 0NB

Website
The Company has a corporate website which holds, amongst other information, a copy of our latest annual report and accounts, a list of properties held by the Group and copies of all press announcements released over the last five years.

www.picton.co.uk

FSC
www.fsc.org
MIX
Paper from
responsible sources
FSC® C100528

Occupier focused

opportunity led

Picton property income limited
Trafalgar Court
Les Banques
St Peter Port
Guernsey
GY1 3QL

01481 745001
www.picton.co.uk