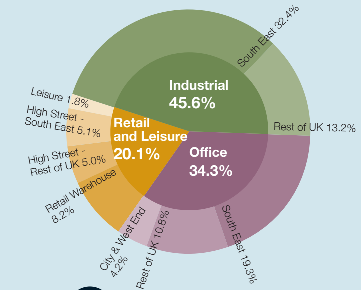
Annual Report 2019

Occupier focused, Opportunity led



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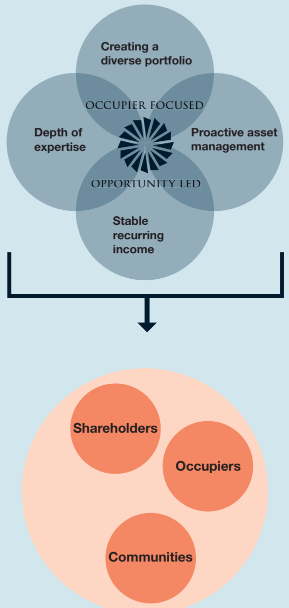

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Our values

Picton seeks to always demonstrate its Principled, Perceptive and Progressive company values.

Principled

We are professional, diligent and strategic.

Demonstrated through our transparent reporting, occupier focused approach, alignment with shareholders, delivery of our Picton Promise and commitment to sustainability and positive environmental initiatives.

Perceptive

We are insightful, thoughtful and intuitive.

Demonstrated through our long-term track record, our gearing strategy, diverse sector allocation and engagement with our occupiers.

Progressive

We are forward-thinking, enterprising, and continually advancing.

Demonstrated through our culture, work ethic and proactive asset management.

Occupier focused Opportunity led

£685.3m
PORTFOLIO VALUE

£37.7m
ANNUAL RENTAL INCOME

90%
OCCUPANCY

49
ASSETS

15 OFFICE ASSETS

350
OCCUPIERS

17 INDUSTRIAL ASSETS

4.4m
AREA SQUARE FEET

17 RETAIL AND LEISURE ASSETS

10.1%
TOTAL SHAREHOLDER RETURN

Welcome to our 2019 annual report

Our vision

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

What makes us different

We are an award winning Real Estate Investment Trust investing in UK commercial property. Our diversified property portfolio consists of 49 assets invested in the industrial, office, retail and leisure sectors, generating rental income from around 350 occupiers across a wide range of businesses.

We have outperformed the MSCI UK Quarterly Property Index over one, three, five and ten years, and, through growth, we have been able to achieve economies of scale, which have enhanced shareholder returns.

Why invest

1. We offer diversified exposure to the UK commercial property market
   p28 Read more in our Portfolio Review
2. We are total return driven with an income bias and have established a track record of outperformance
   p2 Read more in our Highlights pages
3. We actively manage our assets with an occupier focused, opportunity led approach
   p18 Read more in our Strategy in Action Case Studies
4. We operate a covered dividend policy, allowing us to invest back into the portfolio
   p28 Read more in our Portfolio Review
5. We are an internally managed business, aligned with shareholders' interests and focused entirely on Picton and its success
   p53 Read more in our Governance Report

2019 HIGHLIGHTS

NAV per share

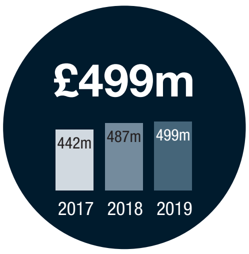
Positive financial results despite economic uncertainty

Profit after tax of £31 million

Increase in net assets of 2.5%, to £499 million, or 93p per share

Total return of 6.5%

Net assets

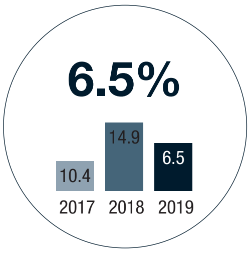


Conversion to UK REIT

Entered UK REIT regime on 1 October 2018

Tax savings for six-month period following conversion

Total return



Profit after tax

Strong dividend cover supported by earnings

Earnings per share of 5.7p

Increased EPRA earnings to £22.9 million, or 4.3p per share

Paid dividends of £18.9 million, or 3.5p per share

Dividend cover of 122%

Dividends per share

Improved balance sheet and operational flexibility

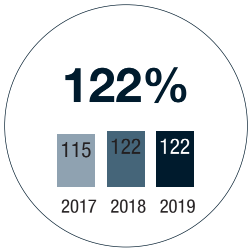
9% reduction in total debt outstanding to £194.7 million

Net saving of £1.1 million in annual finance costs

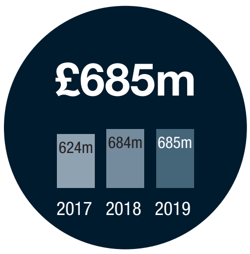
Further reduction in loan to value ratio to below 25%

Debt restructured to provide operational flexibility

Dividend cover



Property valuation



Total shareholder return

Outperforming property portfolio

Total property return of 7.5%, outperforming MSCI UK Quarterly Property Index of 4.6%

Portfolio outperformance against MSCI over one, three, five and ten years

Like-for-like valuation increase of 1.8%

Like-for-like rental value change of -0.2%

Occupancy of 90%

Two asset disposals for £12.0 million, 9.7% ahead of March 2018 valuations

£1.6 million invested in refurbishment projects

Earnings per share

EPRA MEASURES

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 recognise the key performance measures, as detailed above. Further disclosures and supporting calculations can be found on pages 130 to 132. 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 above. We have reported these for a number of years in order to provide a consistent comparison with similar companies. In the Additional 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, cost ratio, occupier retention rate and EPC ratings. The definition of these measures, and the rationale for their use, is set out in the Key Performance Indicators section.

EPRA NAV per share
93p
2018 90p

EPRA earnings
£22.9m
2018 £22.6m

EPRA earnings per share
4.3p
2018 4.2p

EPRA NNNAV per share
88p
2018 87p

EPRA cost ratio[1]
22.9%
2018 23.7%

EPRA cost ratio[2]
19.5%
2018 19.2%

EPRA net initial yield
4.9%
2018 5.5%

EPRA 'topped-up' net initial yield
5.3%
2018 5.9%

EPRA vacancy rate
10.3%
2018 4.2%

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

Picton at a glance

Corporate statistics

As at 31 March 2019

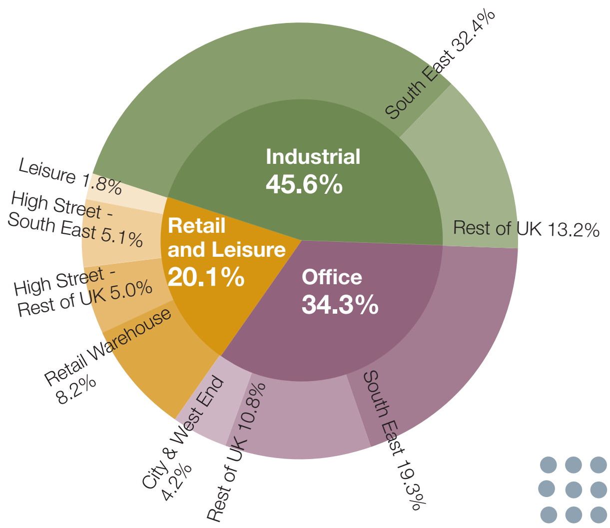
- **£499m** NET ASSETS
- **£480m** MARKET CAPITALISATION
- **£195m** BORROWINGS
- **3.9%** DIVIDEND YIELD
- **1.1%** COST RATIO
- **25%** LOAN TO VALUE

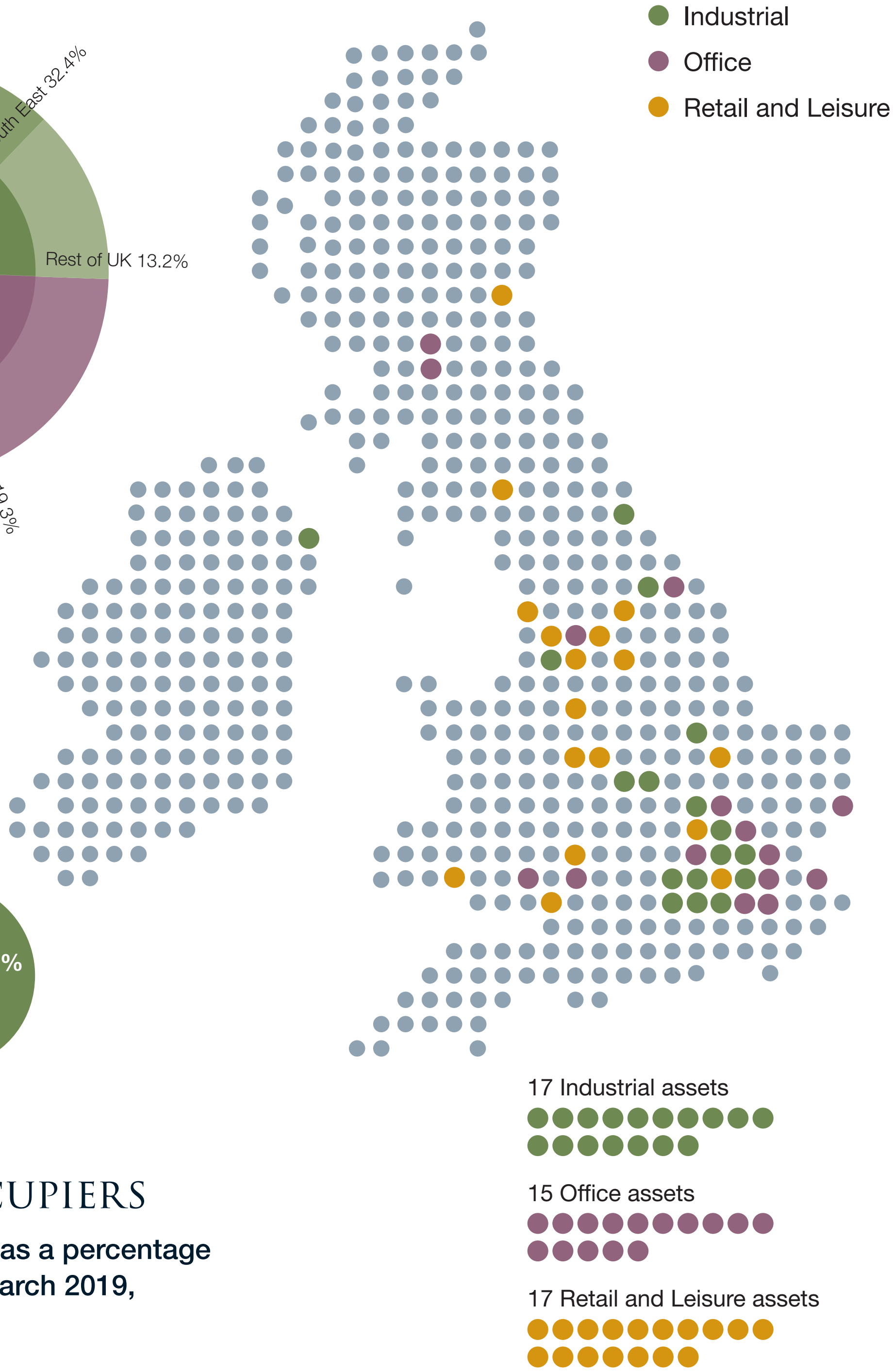
Portfolio statistics

As at 31 March 2019

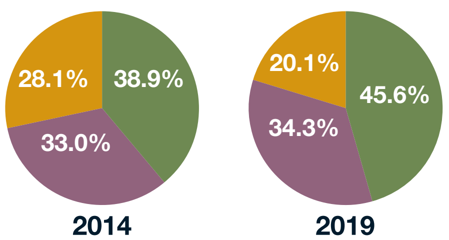
- **49** NUMBER OF ASSETS
- **4.4m** AREA SQUARE FEET
- **90%** OCCUPANCY
- **£685m** PROPERTY VALUE
- **5.0%** NET INITIAL YIELD
- **6.3%** REVERSIONARY YIELD

Portfolio allocation



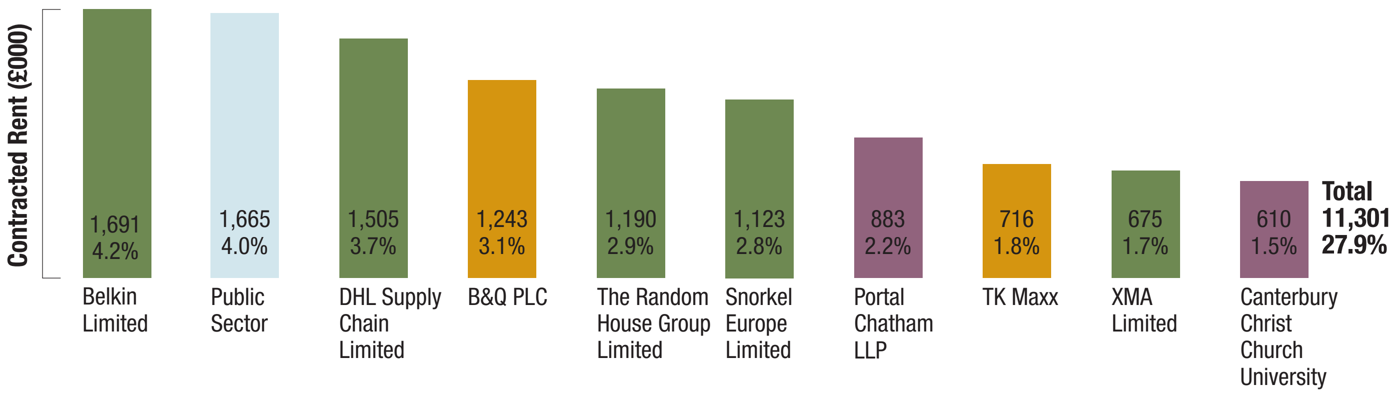


Our evolving portfolio



Our top ten occupiers

The largest occupiers, based as a percentage of contracted rent, as at 31 March 2019, are as follows:



Chairman's statement

Nicholas Thompson

For the year ended 31 March 2019, I am pleased to report Picton delivered a profit after tax of £31 million, demonstrating further progress despite a more challenging economic backdrop. Our net assets rose by 2.5% to £499 million, equating to 93 pence per share. EPRA earnings were £23 million or 4.3 pence per share, reflecting a modest improvement against last year.

This has been a significant year for the Company as Picton became a UK REIT and changed its listing status from an investment to a commercial company.

Performance

We delivered a total return of 6.5% and, while lower than last year, this reflects weaker growth in the commercial property market generally.

At the portfolio level, we continued our long-term track record of outperformance against the MSCI UK Quarterly Property Index over one, three, five and ten years. The ungeared return from the property portfolio was 7.5% compared to the Index of 4.6%.

Strategy

Our vison remains to be one of the consistently best performing diversified UK focused property companies listed on the London Stock Exchange. Our strategic aims, as set out further in the Report, are in place to help us meet this ambition.

We continue to favour an unconstrained approach to our portfolio, enabling us to enter or exit sectors, subsectors or assets as market conditions change. We also recognise the benefit of having a diverse occupier base and corresponding diversity of income.

Further recognition of our achievements this year were award wins from MSCI/IPF - Best Listed Fund and at the Investment Company of the Year Awards and Investment Trust Awards, amongst others. While the investment company structure has many advantages, particularly for real estate, our decision to be a commercial company, reflecting our internalised structure, has delivered several benefits. We have been able to streamline the way we operate and put in place new reporting lines to increase accountability and improve efficiency.

Property portfolio

Our property portfolio continues to remain biased towards the industrial, warehouse and logistics sector and this undoubtedly drove performance during the year. Conversely, while our retail exposure is limited, with no exposure to shopping centres, it has been a drag on performance and difficult to remain insulated from the disruption that is happening in the wider market. In many instances, retail business models are stretched and the continued growth of online retailing is leading to a re-evaluation of physical property needs and is adversely affecting pricing.

We had a number of key lease events during the year, which meant our occupancy at the year end was lower than 12 months ago. This was not unexpected and remains a key area of focus in the forthcoming year. The fact that we were able to deliver positive growth in net assets despite this reflects the defensive nature of the portfolio.

£31m

TOTAL PROFIT

£499m

NET ASSETS

93p

NAV PER SHARE

4.3p

EPRA EARNINGS PER SHARE

We have exciting projects planned over the coming year which will further improve the quality of the portfolio. These asset management initiatives include upgrading and repositioning space, conversion to higher value uses and enhancing the external fabric to help maintain and attract new occupiers. Whilst the capital outlay for these initiatives is approximately £15 million, they are expected to deliver higher occupancy, rental income and capital values.

REIT conversion

Our transition to a UK REIT in October 2018 was successfully completed and in February 2019 the Company paid its first dividend in the form of a Property Income Distribution, or PID.

One of the reasons we became a REIT was the forthcoming changes to the tax treatment of offshore companies and our results show the benefit of lower taxation since October. This will have a further positive impact in next year's results when over a full year. Over the longer term we expect that, as a UK REIT, we will have a more diversified and potentially greater international representation in our shareholder register. This, in turn, should be positive for both liquidity and share price rating.

Dividends

Dividends paid during the year were 2% higher than in the preceding year, with dividend cover of 122%. Given market conditions, the Board believes it is sensible to maintain the current dividend rate until we have crystalised a further increase in earnings.

Governance and Board composition

As part of our transition to a REIT and change in listing status, there have been a number of changes at Board level. Michael Morris has become Chief Executive and Andrew Dewhirst has joined the Board as Finance Director. Maria Bentley joined the Board in October as a non-executive director and Chair of the Remuneration Committee.

We are now focused on the next stage of Board succession planning, as both Roger Lewis and I intend to stand down, now that REIT conversion is complete. We expect this will be achieved within the next 12 months, ensuring a seamless transfer and maintaining corporate knowledge at Board level. Maria Bentley has additionally become Chair of the Nomination Committee and Mark Batten has become the Senior Independent Director. We have appointed external consultants to undertake a thorough search process which we intend to conclude during the course of the year.

Additionally, we have also undertaken an external evaluation of the Board, which has been a helpful exercise in defining the qualities that we are looking for and have been able to incorporate this feedback into the process.

Capital structure

Our strategy over preceding years to reduce our gearing has proved to be prescient. We are cognisant that in the short-term we need to remain cautious with our use of debt, while at the same time ensuring that we are able to take advantage of opportunities should they arise.

We were able to reduce our loan to value ratio (LTV) over the year from 27% to below 25%. In July, we reduced our overall borrowings through the early repayment of some of our more expensive debt, due for maturity in 2022. This was principally funded from the proceeds of asset sales but also through the use of our lower cost revolving credit facilities, which has had a positive effect on earnings and contributed to the lower LTV.

With regard to our planned expenditure, the Company is likely to commit to many of these initiatives over the next 12 months with funding provided from a combination of existing debt facilities, selective asset sales or new equity, dependent upon market conditions.

Outlook

The uncertainty around Brexit looks set to continue for some time and parts of the property market are likely to remain challenging until there is clarity. By its very nature uncertainty leads to delayed decision making; the reduced investment transaction volumes and lower returns are a reflection of this.

We believe the current portfolio and modest gearing means that Picton is in a good position. With the potential rental value of the portfolio some £9 million ahead of the current passing rent, there is significant upside to be captured through leasing our vacant space, lease restructuring and proactive asset management. We also continue to seek new investment opportunities which will further enhance our portfolio.

Now we are a UK REIT, we need to take advantage of this structure. With our opportunistic approach we will continue to look at ways to grow Picton, though always with a focus on performance and the economies of scale that can be achieved through growth. Our desire is to continue to build on our long-term track record and to ensure that Picton, with its new Board, is best placed to achieve this.

Nicholas Thompson
Chairman

Strategic report

Our marketplace

Economic backdrop

The UK economy grew by 1.4% in 2018, the lowest annual growth since 2012. This slowdown in economic activity reflects the continued uncertainty surrounding Brexit, a theme which was prevalent throughout 2018. With the UK Government extending Article 50 beyond the original 29 March 2019 Brexit date, this is likely to continue in the short-term.

Putting the UK in context of the G7 Major Advanced Economies, this compares to an average GDP growth of 2.1% per annum for the group, ranking the UK in fifth place behind the United States, Canada, Germany and France.

In the 2019 Spring Statement, the Office of Budget Responsibility downgraded the forecast for 2019 GDP growth to 1.2% per annum. However UK GDP growth for the first quarter of 2019 is estimated at 0.5%, an increase on the 0.2% recorded for the fourth quarter of 2018.

Aside from Brexit, 2018 was a year notable for retailer woes and Company Voluntary Arrangements (CVAs). The growing proportion of consumers choosing to shop online, coupled with the impact of business rates and the rising UK Living Wage, left profit margins squeezed for retailers operating from physical stores.

“ There has been a complete reversal in the hierarchy of equivalent yields. ”

On a more positive note, in March 2019 the unemployment rate stood at 3.8%, the lowest level since 1974. In nominal terms, average total weekly earnings increased by 3.3% in the year to March 2019. Significantly, this is above inflation for the first time since 2015. In March 2019 RPI and CPI inflation stood at 2.4% and 1.9% respectively, having slowed since the end of last year.

This, coupled with low interest rates, is helpful to the economy and in particular consumer spending. The Office for National Statistics reported an uptick in retail sales in March, with a quarter-on-quarter increase of 1.6% in the first quarter of 2019.

UK property market

According to the MSCI UK Quarterly Property Index, commercial property delivered a total return of 4.6% for the year ended March 2019.

The reduction relative to last year was driven by capital growth of only 0.1% and an income return of 4.4%. This compares to 5.3% capital growth and 4.6% income return for the year to March 2018.

Critically, all these market averages do not illustrate the polarisation between sectors and subsectors. In the last 18 months there has been a complete reversal in the hierarchy of equivalent yields for the office, industrial and retail sectors, reflecting underlying occupational conditions.

Industrial was the top performing sector for the year to March 2019, achieving a total return of 13.8%, comprising 9.1% capital growth and 4.3% income return. Industrial ERV growth for the period was 4.2%, with a range of 2.7% to 7.0% within subsectors. Capital growth ranged from 6.5% to 14.1% within subsectors. Equivalent yields for industrial property now stand at 5.3%.

The office sector produced a total return of 5.9% for the year to March 2019, comprising 2.0% capital growth and 3.8% income return, with the South East and regional office market total returns outperforming central and outer London. All office annual ERV growth was 1.0%, ranging from -0.8% to 3.2% within subsectors. The range of capital growth by subsector was from 0.0% to 6.0%. Equivalent yields for office property now stand at 5.6%.

The retail sector produced a negative total return of -2.6% for the year to March 2019. This comprised capital growth of -7.3% an income return of 5.0%. Rental values fell -3.2% over the period and were negative across all subsectors, ranging from -8.3% to -0.1%. Retail subsector capital growth ranged from -16.5% to 0.5%. Equivalent yields for retail property now stand at 5.8%.

It is unsurprising that there has been a reduction in investment activity in this time of political uncertainty. According to Property Data, the total investment volume for the year to March 2019 was £59.5 billion, a 9.6% decrease on the £65.8 billion recorded in the year to March 2018. The volume of investment by overseas investors in the year to March 2019 was £27.3 billion, accounting for 46.0% of all transactions. Illustrating the liquidity issues within the retail sector, the volume of investment transactions in this sector was just £5.3 billion, down 34.3% on the year to March 2018.

4.6%

MSCI TOTAL PROPERTY RETURN

5.9%

MSCI OFFICE TOTAL RETURN

-2.6%

MSCI RETAIL TOTAL RETURN

13.8%

MSCI INDUSTRIAL TOTAL RETURN

Market drivers and impacts

Market driver	Impact
Political uncertainty and the outcome of Brexit With the withdrawal agreement unsupported post the original Brexit date, there is prolonged uncertainty as to the shape of the future relationship the UK will have with the European Union.	The impact of Brexit and surrounding uncertainty varies from sector to sector, for example: • Offices, particularly in central London, are exposed to EU migration and financial sector relocations. • Logistics operators, supermarkets, restaurants and other food retailers are vulnerable to border delays and associated operational costs. • EU migration resulting in workforce shortages has the potential to impact most sectors, particularly construction, agriculture, healthcare, retail and leisure. • Political and economic uncertainty has the propensity to delay decision making and affects both consumer and business confidence.
Property cycles and real estate market fundamentals In theory, periods of high occupier demand coupled with a supply shortage lead to sustained higher rental growth and the reverse applies when the demand supply balance shifts in the opposite direction; when the market reacts with speculative development and supply increases, rental growth begins to slow.	• With each sector at a different phase of the cycle, diversified real estate portfolios are subjected to a range of risk and return profiles. • At subsector level, individual markets are affected by differing supply and demand levels. For example, consensus forecasts currently predict outperformance of regional offices over London offices, which have stronger ties to the EU and global markets. • Now a decade on from the Global Financial Crisis (GFC), following a period of sustained growth, the UK commercial real estate market has entered a period of lower returns, with the oversupply and low demand for retail property offsetting office and industrial sector growth.
Technological advances These have the potential to impact the demand, use, construction and operation of UK commercial property. This may include online purchasing and delivery, cloud storage, co-working, smart buildings, augmented reality, 5G, drones, autonomous vehicles, and 3D printing.	• Industrial property is an increasing contributor to economic growth, housing data centres and enabling logistics operators to reach consumers with heightened expectations for shorter delivery times. Supply chains are evolving, with industrial property a crucial element of omnichannel retail delivery. • Office occupiers are seeking flexibility and the ability to adapt space to meet changing requirements. • A building's connectivity and technology credentials are ever more critical. • The impact of remote or co-working may reduce office floor space requirements.
Ethical consumerism and environmental and social responsibility have entered the mainstream The environmental impact of developing, running and occupying buildings is shaping decision making. Corporations are held accountable for their impact. Employee wellbeing is becoming increasingly important.	• Advances in legislation and regulation surrounding carbon emissions, building refurbishment, waste management and energy performance affect the market at large. • Increasing popularity of eco-installations on buildings; solar panels, living walls, green roofs, electric car charge points. • Provisions for employee wellbeing are often included in company location decision making. Buildings fitted with bike racks and changing facilities, with good natural light and other amenities have a competitive edge.

Industrial market trends

The industrial sector has benefited from the structural shift in consumer behaviour in some retail categories away from physical stores to online retailing, increasing demand for warehouse space from both traditional and 'pure-play' online retailers like Amazon and third party logistics operators.

There has been limited speculative development in recent years, a trend which has only recently started to abate within larger lot sizes.

Even with the recent increase in speculative development, continued robust demand is readily absorbing new supply, keeping availability levels below the long-term average. This has pushed industrial rents up to record high levels.

What this means for Picton

The Picton portfolio is overweight in industrial property versus MSCI, with 32.4% of the portfolio invested in London and South East industrial and 13.2% invested in rest of UK industrial versus the index at 15.8% and 8.7% respectively. These relative high weightings have contributed significantly to the portfolio's overall outperformance.

Capital growth of the Picton industrial portfolio was 11.0%, above MSCI industrial capital growth of 9.1% and significantly above the MSCI All Property average capital growth of 0.1%.

ERV growth on the Picton industrial portfolio was 4.3%, marginally above MSCI industrial ERV growth of 4.2%.

Our response to these trends

Picton's occupier focused approach has enabled us to capitalise on strong demand for industrial property and grow ERVs through new lettings, regears and rent reviews.

With a structural shift towards online retail and the increasing importance of industrial property to economic growth, Picton will strategically maintain its overweight position in the sector, applying an opportunity led approach to expand this element of the portfolio when appropriate.

Picton is in a favourable position to take advantage of strong investor sentiment and high liquidity within the industrial sector, with the potential ability to capitalise on recent high returns whilst maintaining an overweight position.

17.1%

INDUSTRIAL PORTFOLIO TOTAL RETURN

Office market trends

Regional office markets, which are typically less affected by international factors, such as Brexit uncertainty and EU migration, than London, have recently seen an increase in occupier take up and investment activity.

Office occupiers are continuing to seek increased flexibility when taking new office space and agreeing lease terms. The rise of co-working and flexible office space has spread from central London into the regions, which recorded an increase in take up from serviced office providers during 2018. Occupier needs are evolving to include facilities for cycling to work; bike storage, showers and changing rooms.

Improvements in infrastructure are being made; the nearing completion of Crossrail is already benefiting selected office markets across London and the South East, a trend which is set to continue as the new rail link opens. Looking further into the future, the first phase of HS2 will provide a fast link between London and Birmingham by 2026, extending to Manchester by 2032.

What this means for Picton

Picton is underweight in central London offices and overweight in South East and regional offices versus the MCSI UK Commercial Property Index, a position which is favourable during this time of political and economic uncertainty.

Capital growth on the Picton office portfolio was 0.1% for the year to March 2019, which was below MSCI at 2.0%. ERV growth on the Picton office portfolio was -0.4%, below MSCI office ERV growth of 1.0%.

This underperformance is partly attributable to a number of regional offices with vacant space, where refurbishment projects will provide improvements in yield and rental growth upon completion.

Our response to these trends

With our occupier focused approach, Picton will continue to actively manage the office portfolio, aiming to capitalise on rental growth, particularly within the regions, and engage with existing and potential occupiers to grow occupancy and income in the portfolio.

With corporate appetite continuing to grow for serviced and flexible office space, Picton has introduced a 'plug and play' offering to the portfolio, initially at Angel Gate in Islington, which provides occupiers with a fully fitted and furnished option without some of the disadvantages that traditionally come with the co-working concept.

When undertaking refurbishments, Picton will provide quality space which meets occupier needs. When strategically considering the future of the office portfolio, due diligence and research will include a focus on UK wide infrastructure improvement projects, to ensure that the office portfolio is positioned in locations likely to see best growth and benefit from continuing improvements, in the most desirable cities and leading office markets.

Retail and leisure market trends

In many retail categories, consumers are increasingly choosing to shop online in favour of visiting physical stores.

The rise of restaurant food delivery companies has the potential to affect leisure occupiers' requirements. Retailers with profit margins hit by falling sales, rising wages and business rates are seeking to reduce costs through rent negotiations, store closures and CVAs.

Rising vacancy in the retail sector is leading to an oversupply of retail units, putting downward pressure on rents.

What this means for Picton

Capital growth within the Picton retail portfolio was -12.8% and leisure -7.9% for the year to March 2019. High street retail properties within the portfolio were particularly hard hit by current market conditions, recording negative capital growth. MSCI retail capital growth was -7.3% for the year to March 2019.

ERV growth on the Picton retail and leisure portfolio was -7.4%, also below MSCI retail ERV growth, which was recorded at -3.2%. Again, high street retail properties particularly impacted the return from the portfolio.

The Picton retail portfolio saw an increase in vacancy over the year, rising from 3% in March 2018 to 23% in March 2019. Three quarters of this retail vacancy is due to Stanford House in London, which is currently undergoing full refurbishment following lease expiries during the year.

Our response to these trends

Picton is occupier focused, always striving to engage with occupiers to provide support and create open dialogue within its occupier community.

Active asset management has enabled Picton to quickly address issues within the retail portfolio, offer solutions and capitalise on opportunities to maximise portfolio income in this challenging time for the sector. For example at Parc Tawe in Swansea, where we upsized Lidl into the former Homebase unit.

Picton is underweight in retail versus MSCI and will strategically maintain this position, with the portfolio weighted 11.1% to high street retail, 8.2% to retail warehouses and 0.0% to shopping centres versus MSCI at 14.9%, 13.1% and 6.9% respectively.

5.7%

OFFICE PORTFOLIO TOTAL RETURN

-7.4%

RETAIL PORTFOLIO TOTAL RETURN

Our business model

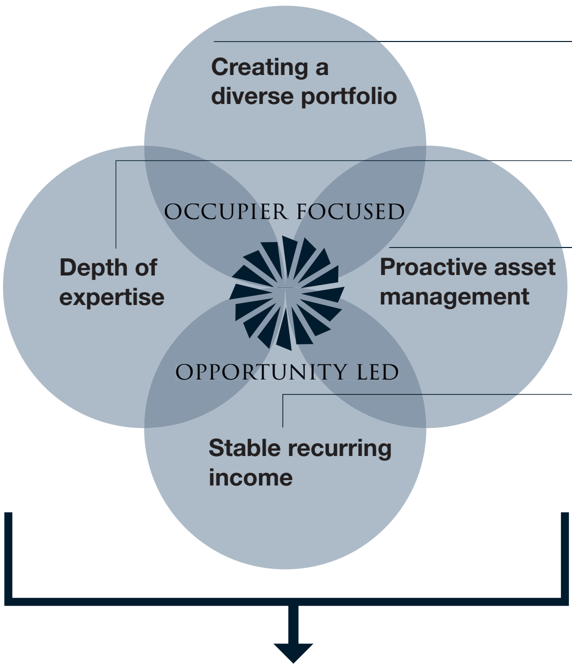
We invest in a diversified UK commercial property portfolio in order to generate attractive returns for our shareholders. We take a proactive approach to asset management and invest in assets where we believe there are opportunities to enhance income and/or value.

Our vision

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

Our strategy

To achieve our vision, we aim to own and manage a portfolio of properties that outperforms the MSCI UK Quarterly Property Index and provides a stable income stream. We seek to adapt our capital structure as necessary to achieve enhanced returns including the effective use of debt.



We have established a diversified UK property portfolio and while income focused, we will consider opportunities where we can enhance either value or income.

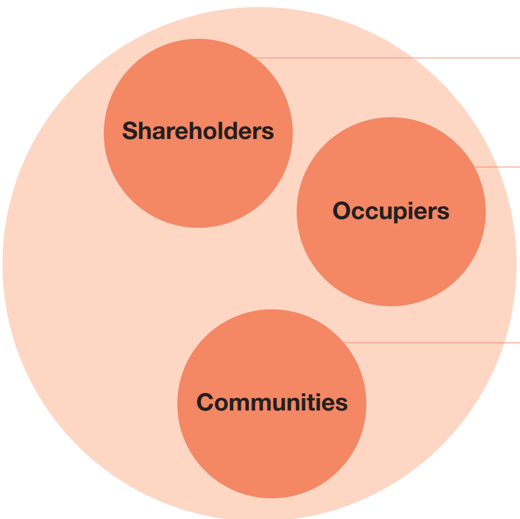
Our dedicated team have a breadth of experience across the UK commercial property market.

Our occupier focused, opportunity led approach to asset management ensures we create space that meets our occupiers' needs in order to maintain high levels of occupancy across the portfolio.

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 generates surplus cash, allowing us to reinvest back into the portfolio.

Delivering value

Our business model and strategic approach ensures we are able to deliver value to shareholders, occupiers and other stakeholders.



Our conversion to a REIT structure has improved our operational efficiency as we benefit from an established tax exempt regime which enhances shareholder returns.

We engage regularly with our occupiers to ensure we understand and meet their needs. As a responsible landlord we are committed to working with our occupiers to reduce the overall environmental impact of our properties.

Through investing in our properties and ensuring high occupancy rates we aim to have a positive impact on the local communities where we own assets. We seek to make a difference through our charitable giving policy and support local communities through our occupier matched funding initiative.

“ 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.”

Our strategic objectives

The following strategic objectives are designed to meet our strategy and vision:

- **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 the space 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

p16 Read more in our Strategy in Action pages

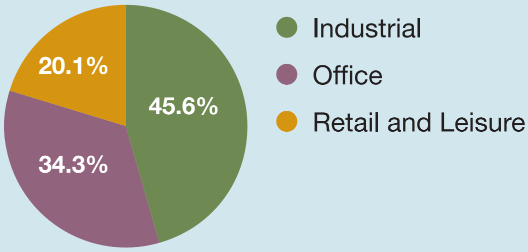
Picton as a REIT

As a UK REIT we are part of an internationally recognised structure, helping to attract a wider investor base and benefit from increased liquidity in shares. We also benefit from an established tax exempt regime which will enable us to enhance shareholder returns.

We have a consistent track record of outperformance and although we are now a UK REIT, our approach to commercial property investment remains the same.

Experienced people

Our team have in depth knowledge of the UK real estate market and are all aligned with shareholders’ interests and focused entirely on Picton and its success.



Balanced diverse portfolio

Our unconstrained approach ensures diversified exposure to the UK market, both by geography and sector.

Efficient capital structure

Our efficient capital structure, with relatively low gearing and immediate access to funds through our revolving credit facilities, enables us to be proactive when the right opportunities arise.

Our strategy in action

Picton aims to be one of the consistently best performing diversified UK focused property companies listed on the London Stock Exchange. To achieve this we will own and manage a portfolio of properties in order to outperform the MSCI UK Quarterly Property Index and provide a stable income stream. We will adapt our capital structure as necessary, including the effective use of debt, to achieve enhanced returns.

Be occupier focused and opportunity led

Progress this year
- During the year we have undertaken many asset management initiatives including short-term lease extensions, surrenders and re-gears.
- We have progressed a number of refurbishment projects to undertake in 2019/20, aimed at attracting and retaining occupiers and providing space they need.
- We have redefined our Picton Promise focusing on the key themes of Action, Support, Sustainability, Technology and Community.

Priorities for the upcoming year
Our priority is to continue with this approach and look to extend income and enhance occupancy. We will be communicating our Picton Promise with existing and potential occupiers, providing a further point of difference in the market place.

Connected KPIs
C D I J K

Associated risks
2 3 5

Buy, manage and sell effectively

Progress this year
- We completed the sale of two office properties, to local authority purchasers, capturing the value created through our asset management and achieving sale prices ahead of valuation.

Priorities for the upcoming year
Transaction volumes are currently lower than previous years, but there are still potential opportunities and mispricing in the market. While we continue to favour the industrial sector, there are likely to be opportunities in other sectors. We will remain disciplined in our allocation of capital in light of current sector risks.

Connected KPIs
C D G

Associated risks
2 3 4

Focus on both income and total return

Progress this year
- We have delivered a total return for the year of 6.5%, and our portfolio has outperformed the MSCI UK Quarterly Property Index over one, three, five and ten years, on both an income and total return basis.
- We have reduced risk through the repayment of debt and by removing restrictive conditions around sector exposure in one of our debt facilities.

Priorities for the upcoming year
We are focused on our lease expiry profile and are already discussing extensions on significant lease expiries over the coming 12 to 24 months. We have a number of transactions in the pipeline that will enhance income or value.

Connected KPIs
A C D F

Associated risks
1 2 3 4 5

p26 Read more on KPIs

p43 Read more on Risks

Work with our occupiers

Progress this year
- We have completed major refurbishment projects at 180 West George Street, Glasgow and at Marlow.
- We have been working with occupiers in financial difficulties to mitigate void costs and achieve an enhanced income position in the medium term.

Priorities for the upcoming year
Our priorities for the year include:
- a number of key refurbishment projects which will enhance occupancy
- continuing to improve service delivery with our managing agents and other partners
- rolling out our Picton Promise initiatives

Connected KPIs
I J K

Associated risks
5

Have a flexible and efficient capital structure

Progress this year
- We made an early repayment of £33 million under one of our long-term loan facilities, utilising sale proceeds, and thereby reducing our loan to value ratio to below 25%.
- We also increased the flexibility of the facility by removing conditions specifying sector and geographic weightings.

Priorities for the upcoming year
We will continue to review our capital structure so that it is appropriate for changing market conditions and that we can take advantage of opportunities which may arise. In particular we will review our revolving credit facilities which mature in 2021.

Connected KPIs
A F

Associated risks
1 8 9 10

Ensure we run an effective and efficient operational model

Progress this year
- Conversion to a REIT has provided the main efficiencies this year, reducing our current and future tax liabilities and our offshore administration costs.

Priorities for the upcoming year
Continued focus on cost base, supplier performance and effective operation of the new management committees.

Connected KPIs
A E

Associated risks
6 7

Have the right culture

Progress this year
- We have established new management committees with other members of the team to provide more engagement below director level.
- We have in place Teamship guidelines and values setting out how the team should work together and conduct themselves.
- The new Responsibility Committee is working with a local charity to provide volunteering opportunities.

Priorities for the upcoming year
Ensure effective running of committees, onboarding of new staff and improving communication and collaboration through the team.

Connected KPIs
–

Associated risks
3 4 5 6 7

Align all staff with shareholders' interests

Progress this year
- All staff remain aligned with shareholders through the deferred element of the annual bonus and through their participation in the Long-term Incentive Plan.

Priorities for the upcoming year
Continued focus on KPIs.

Connected KPIs
B C H

Associated risks
6

STRATEGY IN ACTION

RADLETT

Parkbury Industrial Estate comprises modern units of varying sizes between 4,000 sq ft and 74,000 sq ft, strategically located alongside the M25 and close to the M1.

STRATEGY IN ACTION

NORTHAMPTON

800 Pavilion Drive is a 51,000 sq ft office building located on Northampton Business Park with 223 car parking spaces on a site of two acres.

- Industrial
- Office
- Retail

Enhancing value and income

We continually look to capture rental growth, thereby enhancing income, and where possible look to create value through restructuring leases. In some instances, if we believe a position has been maximised, we will look to recycle capital for better uses.

Radlett

We have seen good demand for units on the estate over the year, with continued rental growth and units letting on average within two months of becoming vacant.

During the year we surrendered a lease of a unit securing a full dilapidations payment from the outgoing occupier. We then re-let the unit in its existing condition securing a minimum five-year term at an initial rent of £0.1 million per annum, 34% ahead of the previous passing rent and 13% ahead of ERV. The adjoining unit, which became vacant on a lease expiry, was pre-let on an Agreement to Lease prior to being refurbished, securing a minimum five-year term at an initial rent of £0.1 million per annum, 43% ahead of the previous passing rent and 9% ahead of ERV. The refurbishment was fully covered by the dilapidations claim.

Furthermore, two leases were renewed, one for ten years and the other for five, at a combined rent of £0.3 million per annum, 39% ahead of the previous passing rent and 10% ahead of ERV. One rent review was settled, increasing the passing rent by 42% to £0.1 million per annum, 10% ahead of ERV.

SOUTH EAST MULTI-LET INDUSTRIAL ESTATE

NUMBER OF OCCUPIERS
20

SQUARE FEET
336,700

INCREASE IN ERV
8.0%

INCREASE IN VALUE
16%

Northampton

In 2013 we put in place a ten-year lease at 800 Pavilion Drive with a break option in 2018. Recognising our ongoing relationship with the occupier we were confident that they would not action the break clause in 2018. We held the asset during this period capturing the upside as the regional office market recovered.

By waiting for the break to pass and securing a five-year term certain, we were able to capture a 54% valuation uplift relative to the valuation prior to the break notice. The sale, to a local authority purchaser, was completed at a 13% premium to the preceding valuation.

EAST MIDLANDS OFFICE

NUMBER OF OCCUPIERS
1

SQUARE FEET
51,000

PREMIUM TO VALUATION
13%

Portfolio value

£414m
2012

£685m
2019

STRATEGY IN ACTION

Marlow

Atlas House is a 25,400 sq ft office building located on the established Globe Business Park, with good access to both the M4 and M40.

STRATEGY IN ACTION

Glasgow

180 West George Street is a Grade A headquarters building, located in the heart of Glasgow's central business district.

- Industrial
- Office
- Retail

Investing in our properties

We believe it is important to continue to invest in our assets, to mitigate the impact of depreciation, improve their attractiveness in the market place and enhance letting prospects.

Capital investment

£4.3m
2012

£1.6m
2019

Marlow

At Atlas House in Marlow, we have been able to substantially reposition the building through refurbishment, following an occupier downsizing last summer. High quality space has been created, which we expect to let approximately 40% ahead of the previous passing rent. In addition, we have comprehensively refurbished the common areas to include occupier amenity space, showers and an enclosed garden for the sole use of the building's occupiers.

The refurbishment has just completed and is available to lease. The space presents very well against the competition and we believe will attract an occupier quickly.

THAMES
VALLEY OFFICE

NUMBER OF OCCUPIERS

3

SQUARE FEET

25,400

Glasgow

180 West George Street offers contemporary, open plan office space with occupier amenities including bicycle storage, electric car charging and shower facilities.

Following a comprehensive refurbishment, which completed just before the start of the year, the building provides some of the best quality space available in Glasgow's central business district. Working with our occupiers, further works were completed during the period, including new office entrances and the installation of a building system monitoring platform, Asset IQ. This ensures we are running all of the systems optimally to save electricity and gas in line with our sustainability aims, and this will also result in reduced running costs for the building, to the benefit of our occupiers.

We let the fourth floor to Peninsula Business Services, securing a minimum five-year term at an initial rent of £0.2 million per annum, which is 15% ahead of the previous passing rent and 1% ahead of ERV. In another transaction, we moved an occupier's break option out by a year, securing £0.2 million of income.

CENTRAL GLASGOW
OFFICE

NUMBER OF OCCUPIERS

5

SQUARE FEET

52,100

STRATEGY IN ACTION

FARRINGDON

50 Farringdon Road is a 31,000 sq ft office building located in the heart of EC1 adjacent to Farringdon Crossrail station.

STRATEGY IN ACTION

SWANSEA

Parc Tawe North comprises eight units of a combined 116,700 sq ft retail warehouse park. The property is located on the edge of the city centre in an established retail area.

- Industrial
- Office
- Retail

Working with our occupiers

Working with our occupiers is fundamental to what we do and assists us in identifying asset management opportunities, especially when occupiers need to expand and contract. Knowing what our occupiers' business needs are allows us to work with them to restructure leases, increase lease lengths, and potentially enhance rents by, for example, surrendering leases where the passing rent is below the market level.

Occupancy

91%
2012

90%
2019

London

At 50 Farringdon Road, we engaged with our largest occupier who occupied a 7,800 sq ft suite on a lease with a break in December 2021. They required additional space to facilitate business expansion and we agreed to upsize them by 50% into the final available suite in the building, resulting in their occupation of the entire first floor.

We entered into a coterminous lease of the new suite, generating income of £0.2 million per annum, 5% ahead of ERV and, at the same time, we varied their existing lease securing five-year income on the whole floor.

This transaction was a good example of our 'rightsizing' promise in action and the building is now fully leased.

CENTRAL LONDON OFFICE

NUMBER OF OCCUPIERS
5

SQUARE FEET
31,000

Swansea

Homebase, which entered into a Company Voluntary Arrangement (CVA) in August 2018, had proposed to reduce the passing rent on their unit by 90%. Recognising that better terms could be agreed elsewhere, we chose to serve notice to secure vacant possession of the unit. At the same time, we negotiated the release of a restrictive covenant to allow additional food retailing on the park.

Working with another one of our occupiers, Lidl, who occupied a 10,000 sq ft unit on a lease expiring in 2023, we entered into an agreement whereby Lidl agreed to take the entire 35,500 sq ft previously occupied by Homebase. Following enabling works by us, Lidl will take a 20-year lease, with a break after 15 years, at an annual rent of £0.4 million, in line with ERV. The lease is subject to five yearly RPI based rent reviews capped at 2% per annum.

Having secured an anchor occupier for the largest unit on the park, we are pursuing the second stage of our strategy by improving the external areas and focusing on letting the remaining space.

Through this approach we have significantly mitigated the negative impact of the Homebase CVA.

WELSH RETAIL WAREHOUSE PARK

NUMBER OF OCCUPIERS
6

SQUARE FEET
116,700

Chief executive's review

Michael Morris

The economic uncertainty as a result of the Brexit process has been increasingly apparent over the last 12 months. It has not been helpful to the real estate sector, nor more widely to the occupational markets. Despite this, overall the property market held up well, with the MSCI UK Quarterly Property Index showing a total return of 4.6%.

The industrial sector has been the most resilient and the retail sector the least, suffering a marked deterioration as retailers struggle with rising costs and the impact of online competition. The CVA and pre-pack administration processes have become more widespread, enabling retailers to relinquish lease obligations, which have, in turn, accelerated the downward movement in rental and capital values.

Against this backdrop our portfolio performed well, as we continued to manage our assets effectively. We remain cautious in our use of debt, and with more limited transactional activity, we continue to evaluate ways in which we can invest in our assets, enhance the accommodation and in turn the income and valuation potential.

Occupier focused and opportunity led

Our occupier focused approach remains at the forefront of what we do. Enhancing occupancy and retention, thereby mitigating void risk, is key. Through this process we are continually looking at options to improve our income profile and extend it where possible.

We have also spent time redefining our Picton Promise for occupiers, focused on key commitments including Action, Support, Sustainability, Technology and Community, all of which we believe have relevance and importance to our occupiers in this evolving working environment. We look forward to seeing the impact of this as it is rolled out during 2019.

Buy, manage and sell effectively

Transactional activity during the year was muted, reflecting the slowdown in investment activity and the availability of suitable opportunities. With a desire to maintain a prudent approach to gearing, no acquisitions were made during the period. In the wider market, it has been clear that a number of open ended funds had selling pressure and in the retail sector, in particular, there has been limited investor appetite.

We were opportunistic in making two disposals, coincidentally both to local authority purchasers, which reflected a combined 10% premium to their valuation at March 2018 and more than 45% to their valuation at March 2017, capturing the upside from earlier asset management initiatives.

While no acquisitions were made in the year, we think there may well be greater buying opportunities as we move through 2019 and into 2020. As ever stock selection remains key and identifying intrinsic value is paramount.

Focus on income and total return

We delivered a positive income return and capital growth from the portfolio during the year. Our conservative use of debt also had a positive impact.

7.5%

TOTAL PROPERTY RETURN

5.6%

PROPERTY INCOME RETURN

5.7p

EARNINGS PER SHARE

Cash flow remains hugely important and this is reflected in our income focus. An additional £1.1 million of other income was secured in the year in addition to rental income. This primarily came through asset management events where we chose to surrender leases ahead of expiry, in most instances to enable refurbishment and upgrading of space.

Despite our diversified occupier base and low exposure to the retail sector we were not immune to occupier failures. In one notable example the Homebase unit in Swansea has been successfully re-let and is further detailed in this report.

Creating space occupiers need

We continue to invest in our assets, improving the quality of space and ensuring that it meets occupier demand. The timing of lease events was such that there were only a handful of key refurbishment projects undertaken during the year. Additional work was done to plan schemes for this coming year and beyond. In this market, it is more important than ever to have the right space that will attract high-quality occupiers and minimise vacancies.

The last 12 months have seen the marked deterioration of trading conditions for retailers and the well documented difficulties for long-established companies such as Debenhams, Homebase, New Look and House of Fraser to name but a few. These have impacted either directly or indirectly on all owners of commercial real estate operating in this sector.

Our occupancy has reduced during the year and now stands at 90%. This is, we expect, a short-term position and is driven by the timing of lease events. The major void, accounting for over a third of total portfolio vacancy, is a property in Covent Garden, a well known and busy location. This became vacant during the year ahead of a planned refurbishment and re-leasing programme. We are fortunate that because this is a Grade II listed asset, there is no empty rates liability. We are actively managing this to achieve an optimum outcome and already have leasing interest.

Managing our capital structure through the cycle

Debt was repaid during the year, partly using asset sale proceeds, which reduced overall borrowings by some £19 million. We have drawn down from our revolving credit facilities during

"We continue to evaluate ways in which we can invest in our assets, enhance the accommodation and in turn the income and valuation potential."

the year, which proved a useful way of managing our cash flow position, ensuring an efficient use of the balance sheet and allowing us to adopt a more flexible approach to debt levels as market conditions change.

Effective and efficient operational model

We were able to have a positive impact on earnings through corporate efficiencies, such as our REIT conversion, which is expected to save more than £0.7 million in tax per annum relative to last year. This also needs to be viewed in the context of future tax changes which will impact offshore companies – if we had not converted, our tax liabilities would have been much greater. The full benefit of this change will be fully reflected in next year's results.

Culture and alignment

We are fortunate to have a strong team at Picton and our culture is key in ensuring the team works well. We are guided by our shared vision and values and all of our staff are aligned with shareholders through our deferred bonus scheme and also our Long-term Incentive Plan. The 2016 LTIP awards will vest this year and staff will benefit from the success that we have delivered for shareholders over the preceding three years.

Outlook

Our focus will be on growing occupancy and income. We are aiming to create further value through investing in our assets and restructuring leases, either to capture higher rents or to provide greater income security. We expect this to underpin our progressive dividend policy and ensure we continue to be well placed to deliver on our vision of consistent outperformance.

Michael Morris
Chief Executive

KEY PERFORMANCE INDICATORS

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, are appropriate to use alongside certain EPRA measures and others that are relevant to our Company. This year we have added two new non-financial key performance indicators, retention rate and EPC ratings, with comparatives for the previous year.

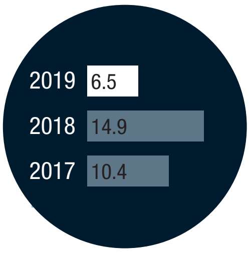
Key performance indicators are also used to determine remuneration as set out in the Remuneration Report.

Remuneration link

EPRA
Linking our performance to EPRA best practices recommendations.

Total return (%)

A



Why we use this indicator

The total return is the key measure of the overall performance of the Group. It is the change in the Group's net asset value, calculated in accordance with IFRS, over the year, plus dividends paid.

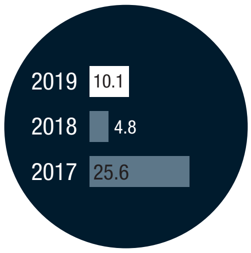
The Group's total return is used to assess whether our vision to be one of the consistently best performing UK focused property companies listed on the London Stock Exchange is being achieved, and is a measure used to determine the annual bonus.

Our performance in 2019

Modest valuation gains resulted in a positive return for the year.

Total shareholder return (%)

B



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.

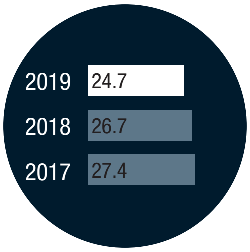
Our total shareholder return relative to a comparator group is a performance metric used in the Long-term Incentive Plan.

Our performance in 2019

The total shareholder return for 2019 is one of the highest in our peer group.

Loan to value ratio (%)

F



Why we use this indicator

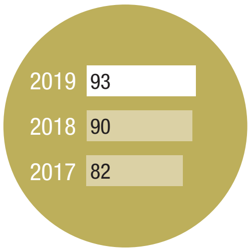
The loan to value ratio is total Group borrowings, net of cash, as a percentage of the total portfolio value. This is a recognised measure of the Company's level of borrowings and is a measure of financing risk. See the Supplementary Disclosures section for further details.

Our performance in 2019

The loan to value ratio has continued to reduce following the repayment of debt over the year.

EPRA net asset value per share (pence)

G



Why we use this indicator

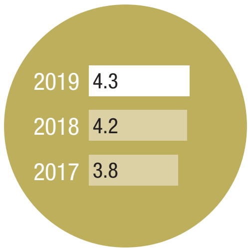
The net asset value per share, calculated in accordance with EPRA, measures the value of shareholders' equity in the business.

Our performance in 2019

The EPRA NAV per share has grown by 2.5% over the year.

EPRA earnings per share (pence)

H



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.

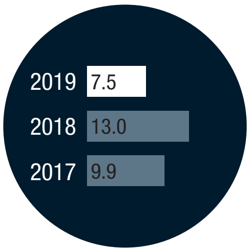
The growth in EPRA earnings per share is also a performance measure used for the annual bonus and the Long-term Incentive Plan.

Our performance in 2019

EPRA earnings per share has marginally increased this year due to the reduction in our finance costs following the repayment of debt and tax savings following conversion to a REIT.

Total property return (%)

C



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.

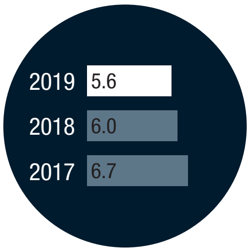
Our total property return relative to the MSCI UK Quarterly Property Index is a performance condition for both the annual bonus and the Long-term Incentive Plan.

Our performance in 2019

We have outperformed the MSCI UK Quarterly Property Index, delivering a return of 7.5% compared to the MSCI UK Quarterly Property Index return of 4.6% for the year, and we have also outperformed on a three, five and ten year basis.

Property income return (%)

D



Why we use this indicator

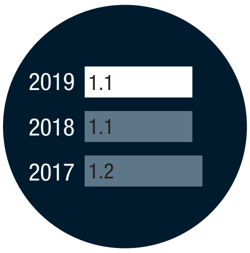
The property income return, as calculated by MSCI, is the ungeared income return of the portfolio. With our portfolio biased towards income generation, this is an important indicator.

Our performance in 2019

The income return for the year of 5.6% was ahead of the MSCI UK Quarterly Property Index of 4.4%, and we have also outperformed on a three, five and ten year basis.

Cost ratio (%)

E



Why we use this indicator

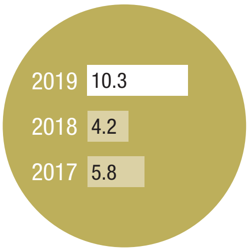
The cost ratio, recurring administration expenses as a proportion of the average net asset value, shows how efficiently the business is being run, and the extent to which economies of scale are being achieved. See the Supplementary Disclosures section for further details.

Our performance in 2019

The cost ratio has remained at 1.1% this year with administrative expenses largely unchanged from 2018.

EPRA vacancy rate (%)

I



Why we use this indicator

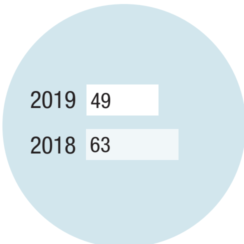
The vacancy rate measures the amount of vacant space in the portfolio at the end of each financial period, and over the long-term, is an indication of the success of asset management initiatives undertaken.

Our performance in 2019

The EPRA vacancy rate has increased over the year as a result of lease expiries, most notably at our Covent Garden asset. The vacancy rate is above the MSCI IRIS Benchmark vacancy rate of 7.1%.

Retention rate (%)

J



Why we use this indicator

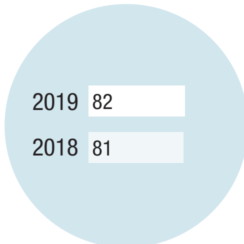
This provides us with a measure of asset suitability and occupier satisfaction over the year.

Our performance in 2019

Retention was lower in 2019, reflecting the timing of lease expiries. We continue to regear leases early and ahead of lease expiry and in a portfolio like this retention rates will vary from year to year.

EPC ratings (%)

K



Why we use this indicator

Energy Performance Certificates (EPC) indicate how energy efficient a building is by assigning a rating from 'A' (very efficient) to 'G' (inefficient). A higher EPC rating is likely to lead to lower occupational costs for occupiers.

Our performance in 2019

The proportion of EPC ratings between A to D have increased on the prior year and now make up 82% of the total portfolio. Where we have upgraded space we have sought to enhance EPC ratings as appropriate.

Have a flexible and efficient capital structure

Ensure we run an effective and efficient operational model

Have the right culture

Align all staff with shareholders' interests

Portfolio review

Our asset allocation, with 46% in industrial, 34% in office and 20% in retail and leisure, combined with proactive active management, has enabled us to again outperform the MSCI UK Quarterly Property Index on a total return basis over one, three, five and ten years.

Our portfolio now comprises 49 assets, with around 350 occupiers and is valued at £685.3 million with a net initial yield of 5.0% and reversionary yield of 6.3%. Overall the like-for-like valuation was up 1.8%, with the industrial sector up 11%, offices delivering growth of 0.2% and retail and leisure declining 12%.

Our portfolio has become increasingly polarised with our industrial assets performing better, in part reflecting our allocation to South East multi-let estates which account for over 70% of our industrial exposure. Conversely, our retail assets have underperformed, primarily due to the specific timing of lease events and the impact of certain retailer failures.

“ We have completed 24 lettings, securing over £1.3 million of income, 1.7% ahead of the March 2018 ERV.”

The overall passing rent is £37.7 million, a decrease from the prior year of 6.8% on a like-for-like basis. Part of this however was due to the surrender of 11 leases, where we received a combined premium in excess of £0.7 million, and where the previous passing rent was on average 13% below the estimated rental value (ERV).

The ERV of the portfolio remains at £46.8 million, with the positive growth in the industrial sector of 4.3% to £18.7 million being offset by negative growth in the retail sector of 7.4% to £10.0 million and the office portfolio ERV remaining constant at £18.1 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 industrial and office sector occupational markets have remained resilient, conversely retail demand has weakened considerably resulting in oversupply and significant decreases in ERVs.

We have completed 24 lettings, securing over £1.3 million of income, 1.7% ahead of the March 2018 ERV. We completed 17 lease renewals and re-gears retaining over £1.9 million of income,

£47m

ESTIMATED RENTAL VALUE

90%

OCCUPANCY

£14m

AVERAGE LOT SIZE

1.6% ahead of the March 2018 ERV. No acquisitions were made during the year and two assets were sold for £12.0 million, 9.7% ahead of the March 2018 valuation. Both buildings were sold to local authorities. The Merchants House, Chester, sale was due to concerns of a potential Compulsory Purchase Order being put in place and at 800 Pavilion Drive, Northampton, the occupier had not actioned their break, giving us the opportunity to sell the building for a premium to valuation and de-risk a future potential void in a weak occupational market. The net effect of these transactions is that the average lot size of the portfolio has increased by 4.3% to £14 million.

Our focus remains on proactively managing the existing portfolio, where there are numerous opportunities to create further value through extending income, refurbishing buildings and leasing vacant space, helping us to capture the £9.1 million of reversionary potential.

The reinvestment into the portfolio has been ongoing through the year and will continue into next year, with value accretive refurbishment of vacant space and modernisation schemes identified at ten properties, with smaller refurbishment projects happening elsewhere. All of the projects have the simple aim of creating best in class space to attract or retain occupiers and increase ERVs.

The industrial portfolio, accounting for 46% of the total portfolio by value, continues to perform strongly, and with a number of large lease events over the next 12 to 24 months, we are actively engaged with occupiers discussing regears. We do not see any signs of the rental growth slowing and this will be a key driver of performance, alongside extending income over the next year.

The office sector continues to evolve with businesses wanting best in class space for their staff with flexibility to expand and contract.

“Our focus remains on proactively managing the existing portfolio, where there are numerous opportunities to create further value.”

46%

INDUSTRIAL ASSET ALLOCATION

34%

OFFICE ASSET ALLOCATION

20%

RETAIL AND LEISURE ASSET ALLOCATION

We continue to invest into our offices, and recently completed the refurbishment of Atlas House in Marlow, creating high quality office and amenity space and an enclosed garden for our occupiers.

Occupancy has reduced by 6% over the year to 90%, which is a result of active management surrenders, lease events towards the end of the year and occupier failures. Our largest void is Stanford House on Long Acre in Covent Garden, accounting for over a third of the total vacancy rate. This is a flagship store and it will be comprehensively refurbished during the year to provide best in class retail, office and residential accommodation. We already have occupational interest in the retail space.

While occupancy has reduced, particularly over the last quarter, we have a strong refurbishment pipeline and have good occupier interest. We anticipate occupancy remaining around 90% during the year and then increasing from the end of the year into 2020.

“ We have a strong refurbishment pipeline and have good occupier interest.”

Occupier failures, while in the short-term will decrease occupancy and increase void costs, can unlock opportunities to add value. There were eight failures across the portfolio with a combined passing rent and ERV of £1.2 million. Three of the properties have been re-let, two are under offer, two properties remain with the administrator to mitigate void costs and we have occupational interest in the remaining property.

In line with our occupier focused opportunity led approach, we continue to proactively engage with our occupiers which we believe assists occupier retention and adds demonstrable value.

Top ten assets

Our largest assets as at 31 March 2019, ranked by capital value, represent 50% of the total portfolio valuation.

- Industrial
- Office
- Retail and Leisure

1

Parkbury Industrial Estate Radlett, Herts.

Acquisition date **03/2014**
Property type **Industrial**
Tenure **Freehold**
Approx area (sq. ft) **336,700**
No of occupiers **20**
Occupancy rate (%) **93**

2

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**

3

Angel Gate, City Road, London EC1

Acquisition date **10/2005**
Property type **Office**
Tenure **Freehold**
Approx area (sq. ft) **64,500**
No of occupiers **30**
Occupancy rate (%) **93**

4

Stanford House, Long Acre, London WC2

Acquisition date **05/2010**
Property type **Retail**
Tenure **Freehold**
Approx area (sq. ft) **19,700**
No of occupiers **0**
Occupancy rate (%) **0**

5

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 (%) **100**

6

Tower Wharf, Cheese Lane, Bristol

Acquisition date **08/2017**
Property type **Office**
Tenure **Freehold**
Approx area (sq. ft) **70,800**
No of occupiers **5**
Occupancy rate (%) **72**

7

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**

8

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**

9

Colchester Business Park, Colchester

Acquisition date **10/2005**
Property type **Office**
Tenure **Leasehold**
Approx area (sq. ft) **150,700**
No of occupiers **24**
Occupancy rate (%) **99**

10

Lyon Business Park, Barking, Essex

Acquisition date **09/2013**
Property type **Industrial**
Tenure **Freehold**
Approx area (sq. ft) **99,400**
No of occupiers **8**
Occupancy rate (%) **96**

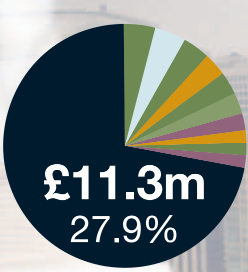
OUR TOP TEN OCCUPIERS

The largest occupiers, based as a percentage of contracted rent, as at 31 March 2019, are summarised as follows:

- Industrial
- Office
- Retail

£40.4m

TOTAL CONTRACTED RENT



TOP 10 OCCUPIERS

£1.7m
4.2%

BELKIN LIMITED

£1.7m
4.0%

PUBLIC SECTOR

£1.5m
3.7%

DHL SUPPLY CHAIN LIMITED

£1.2m
3.1%

B&Q PLC

£1.2m
2.9%

THE RANDOM HOUSE GROUP LIMITED

£1.1m
2.8%

SNORKEL EUROPE LIMITED

£0.9m
2.2%

PORTAL CHATHAM LLP

£0.7m
1.8%

TK MAXX

£0.7m
1.7%

XMA LIMITED

£0.6m
1.5%

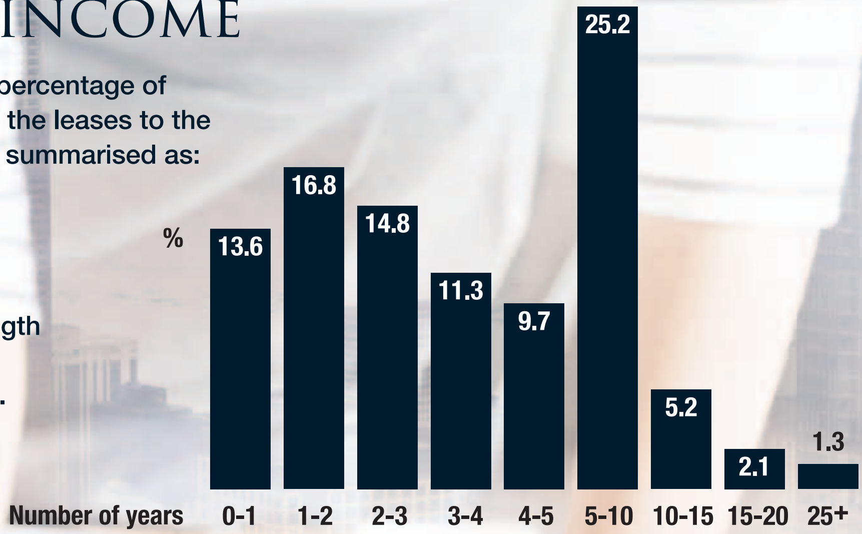
CANTERBURY CHRIST CHURCH UNIVERSITY

Longevity of income

As at 31 March 2019, expressed as a percentage of contracted rent, the average length of the leases to the first termination was 5.1 years. This is summarised as:

5.1 years

The average length of the leases to first termination.



Retention rates and occupancy

Over the year total ERV at risk due to lease expiries or break options totalled £6.9 million, compared to £3.1 million for the year to March 2018.

Excluding asset disposals, we retained 49% of total ERV at risk in the year to March 2019. This comprised 27% on lease expiries and 22% on break options. It is worth noting that despite a total of £3.5 million of ERV vacating during the year, half relates to Stanford House in London's Covent Garden, a property which is currently undergoing full refurbishment.

In addition to units at risk due to lease expiries or break options during the year, a further £1.8 million of ERV was retained by either removing future breaks or extending future lease expiries ahead of the lease event.

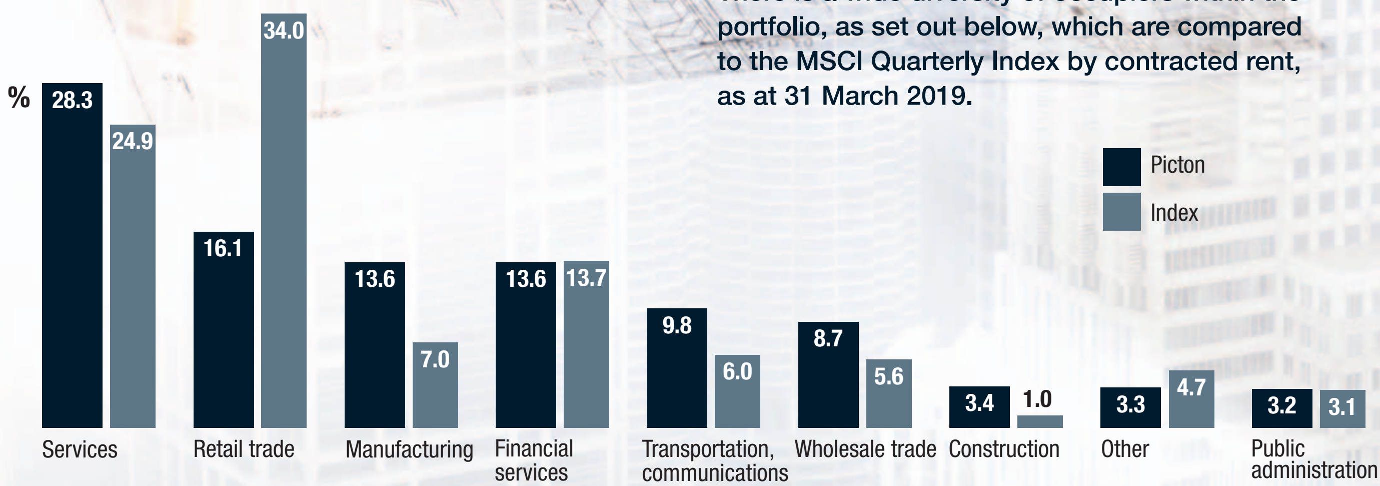
Occupancy has reduced during the year, primarily reflecting the timing of lease events, some challenges in the retail sector and some specific asset management surrenders we have initiated.

Occupancy has decreased from 96% to 90%, which is behind the MSCI IRIS Benchmark of 92.9% at March 2019. On a look through basis we have 60% of our total void in offices, 32% in retail, primarily at a flagship store in Covent Garden, and only 8% of our void is in industrial, reflecting the stronger occupational market.

OCCUPANCY 2018

Income concentration

There is a wide diversity of occupiers within the portfolio, as set out below, which are compared to the MSCI Quarterly Index by contracted rent, as at 31 March 2019.



Source: MSCI IRIS Report March 2019

INDUSTRIAL PORTFOLIO REVIEW

The industrial portfolio again delivered the strongest sector performance of the year. This was a result of tight supply, limited development and continued occupational demand resulting in further rental growth, especially in smaller units in the South East.

Through asset management activity we have been able to capture rental growth in this market. This, combined with continued strength in the investment market, has resulted in another strong year for our portfolio.

On a like-for-like basis, our industrial portfolio value increased by £30.9 million or 11% to £312.8 million, and the annual rental income increased by £0.4 million or 2.6% to £16.0 million. The portfolio has an average weighted lease length of 4.5 years and £2.7 million of reversionary potential to £18.7 million per annum.

Occupational demand remains strong, especially in London and the South East. We have seen rental growth of 4.3% across the portfolio and are experiencing demand across all of our estates. Occupancy is 98% with only seven vacant units out of 133, four of which are under offer. Our six distribution units, totalling 1.3 million sq ft, remained fully let during the period.

Portfolio activity

Our largest single uplift on a rent review was on the distribution unit in Grantham, where we achieved a 19% uplift or £0.2 million per annum, 9% ahead of ERV, the new passing rent being £1.2 million per annum.

At Parkbury in Radlett, our largest estate, we surrendered a lease of a unit securing a full dilapidations payment. We then re-let the unit in less than two months in its existing condition securing a minimum five-year term at an initial rent of £0.1 million per annum. The adjoining unit became vacant on lease expiry and was pre-let securing a minimum five-year term at an initial rent of £0.1 million per annum. We currently have three vacant units, one of which is under offer.

At Datapoint in London E16, following the completion of two rent reviews, we achieved a 57% uplift in rent. The uplift was £65,000 per annum. We have agreed to surrender a lease on the estate later in the year, as there is very strong demand and we believe we can move the rental tone on considerably with a new letting.

At Nonsuch Industrial Estate in Epsom, working with our occupiers, we chose to surrender two leases so we can move occupiers around on the estate and satisfy demand from occupiers who require double units. This active management strategy is ongoing. Three units were let during the period, for a combined £71,000 per annum, in line with ERV. Four rent reviews were settled, the passing rent increasing to a combined £0.1 million per annum, 5% ahead of ERV. We currently have two vacant units, one of which is under offer.

At units in Bracknell and York, both of which had lease events in 2020, we put in place two reversionary leases for a further eight and ten years respectively, extending income and securing a combined £0.3 million rent per annum, which is subject to review next year.

At Dencora Way in Luton, we renewed three leases for a further five years, subject to break, at a combined rent of £0.2 million per annum, 37% ahead of the previous passing rent and in line with ERV.

We extended the lease of Haynes Way, Rugby until the summer, due to Brexit related storage requirements, securing a one off payment of £0.4 million. This is one of the few cross-docked 100,000 sq ft units available in the 'Golden Triangle' and we expect to secure an occupier quickly post refurbishment.

As part of our office campus at Colchester Business Park, we own a 30,000 sq ft industrial unit. We achieved a 32% uplift in rent following completion of a rent review. The uplift was £47,000 per annum, 36% ahead of ERV, the new passing rent being £0.2 million per annum.

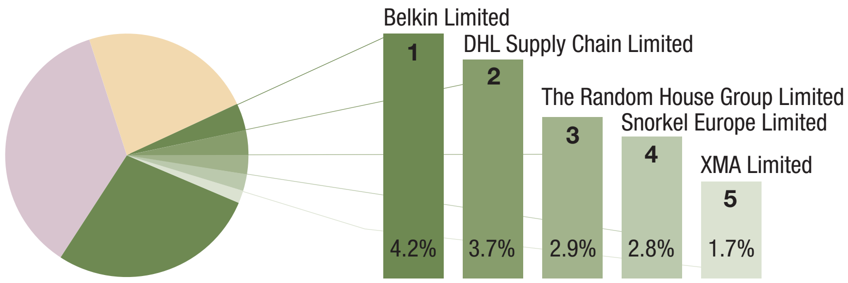
Our outlook

Demand remains strong across the country, which is translating into strong rental growth especially in Greater London and the South East where we have 95% of our multi-let estates by value. We believe this demand will be maintained in the short-term, especially on the multi-let estates, where there is a lack of supply and a limited development pipeline.

Looking forward, active management will facilitate the capturing of rental growth as we continue to work proactively with our occupiers to facilitate their business needs. Occupancy will reduce slightly through the middle of the year, primarily due to the Rugby unit mentioned above.

We have 25 lease events in the coming year, the overall ERV for these units is higher than the current passing rent of £1.9 million. This provides us with the opportunity to grow income further.

	2019	2018
VALUE	£312.8m	£281.9m
SQUARE FEET	2,731,000	2,731,000
ANNUAL RENT	£16.0m	£15.6m
ESTIMATED RENTAL VALUE	£18.7m	£18.0m
OCCUPANCY	98%	99%



% of total portfolio

LARGEST OCCUPIERS

NUMBER OF ASSETS

17 2019

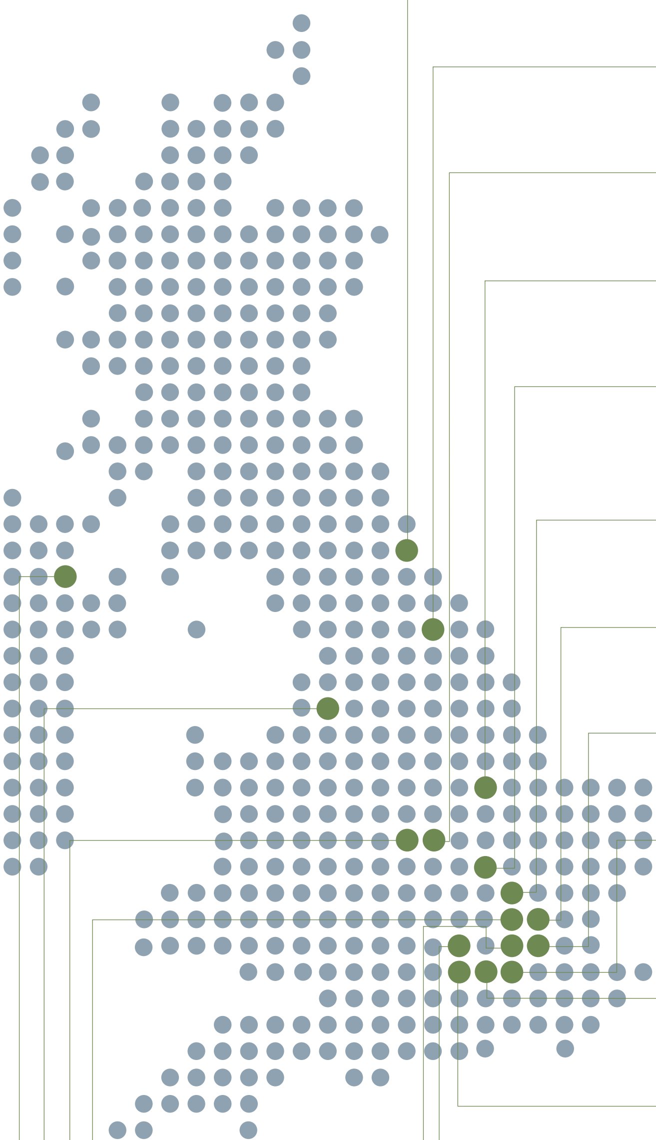
17 2018

BELKIN, RUSHDEN

TASTE OF SICILY, RADLETT

FRANKE COFFEE, RADLETT

RIVER WAY, HARLOW



Vigo 250
Birtley Road, Washington, Tyne and Wear
246,800 sq ft Freehold

Units 1 & 2, Kettlestring Lane
York
157,800 sq ft Freehold

Unit 3220, Magna Park
Lutterworth, Leics.
160,900 sq ft Leasehold

Grantham Book Services
Trent Road, Grantham, Lincs.
336,100 sq ft Leasehold

Belkin Unit
Express Business Park, Shipton Way, Rushden, Northants.
312,900 sq ft Leasehold

Sundon Business Park
Dencora Way, Luton, Beds.
127,800 sq ft Leasehold

River Way Industrial Estate
River Way, Harlow, Essex
454,800 sq ft Freehold

Lyon Business Park
Barking, Essex
99,400 sq ft Freehold

Units 1 & 2, Western Industrial Estate
Downmill Road, Bracknell, Berks.
41,200 sq ft Freehold

The Business Centre
Molly Millars Lane, Wokingham, Berks.
100,800 sq ft Freehold

Nonsuch Industrial Estate
Kiln Lane, Epsom, Surrey
41,700 sq ft Leasehold

Magnet Trade Centre
6 Kingstreet Lane, Winnersh, Reading
13,700 sq ft Freehold

Datapoint
Cody Road, London E16
54,900 sq ft Leasehold

Parkbury Industrial Estate
Radlett, Herts.
336,700 sq ft Freehold

Swiftbox
Haynes Way, Rugby, Warwickshire
101,800 sq ft Freehold

Easter Court
Europa Boulevard, Warrington
81,500 sq ft Freehold

Abbey Business Park
Mill Road, Newtonabbey, Belfast
61,700 sq ft Freehold

Office portfolio review

On a like-for-like basis, our office portfolio value increased by £0.4 million or 0.2% to £235.0 million, and the annual rental income on a like-for-like basis remained constant at £14.2 million. The portfolio has an average weighted lease length of 3.4 years and £3.9 million of reversionary potential to £18.1 million per annum.

Occupational demand has been stronger in the regions than in London where rental growth was slightly negative. The ERV has remained constant over the year and occupancy is at 88% with key voids at Tower Wharf in Bristol, 180 West George Street in Glasgow and Metro in Salford. There were six active management surrenders over the year with a combined ERV of £0.9 million per annum, which is 28% ahead of the previous passing rent.

Portfolio activity

Our most significant letting was at 180 West George Street, Glasgow, where we let a floor generating income of £0.2 million per annum, 1% ahead of ERV. During the period we received a floor back on lease expiry, which is being refurbished. Working with an occupier, we moved their break option out by a year, securing £0.2 million per annum, to allow them to finalise their business strategy which may mean they remain in the building as opposed to having vacated on the earlier break. We currently have two floors available, providing grade A space in Glasgow's central business district.

We have had success in London and the final suite was let at 50 Farringdon Road to an existing occupier for £0.2 million per annum, 5% ahead of ERV and the building is now fully let. We agreed with the same occupier to move the break option in their existing lease, securing five-year term certain on both suites. The transaction is a good example of our occupier focused approach, which enabled us to work with our existing occupier and retain them in the building.

In a back-to-back transaction, we surrendered a lease at Trident House in St. Albans that had a break in September 2019, whilst securing a new occupier on a five-year lease at a rent of £0.1 million per annum in line with ERV. We renewed a lease for a further five years at a rent of £45,000 per annum, 40% ahead of the previous passing rent and 12% ahead of ERV.

We chose to accept an early surrender of a suite at Tower Wharf in Bristol, which expired in September 2019, to enable early refurbishment. The occupier paid Picton 50% of all outgoings to the expiry date plus 100% of our dilapidations claim. The suite is now being marketed and we expect to secure a 40% uplift on the previous passing rent.

At Colchester Business Park, we surrendered three leases, upsizing one occupier into a larger unit to satisfy their business requirements, which demonstrates our commitment to working with our occupiers. Four units were let during the period, for a combined £76,000 per annum, 3% ahead of ERV. One rent review was settled, increasing the annual rent roll by £0.1 million per annum, 5% ahead of ERV. The property is currently 99% let.

Our outlook

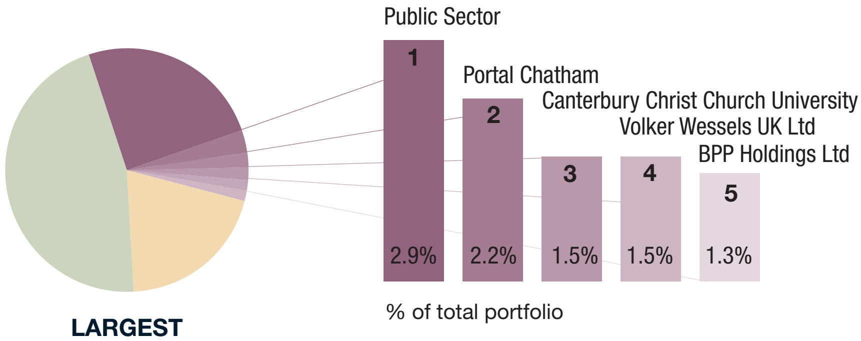
The position is largely unchanged from last year, with a slightly weaker occupational market in London and good demand in the regions, although this is micro-location specific with occupiers looking for high specification buildings. While we have seen some impact and business caution from Brexit, this has been to date limited in the occupational market.

While we see the continued rise of co-working providers within the traditional office sector, by offering flexibility through our 'rightsizing' approach, good quality contemporary space and occupier amenities, our buildings remain attractive to businesses who want control of their own space.

Looking forward, we will continue to upgrade our buildings through the installation of occupier amenity space, good connectivity, healthy living ideas such as cycle provision and showers and with a committed focus to continually improve the sustainability credentials of our properties, which is important to us and our occupiers. The office accommodation at our retail property in Covent Garden accounts for the largest office void, which will be comprehensively refurbished this year to offer best in class space over three floors of this listed building. The second largest void is at Tower Wharf in Bristol, where we surrendered a floor, and already have interest.

We have significant reversionary potential from enhancing occupancy, with the majority of the void in Grade A buildings. Additionally, we have 35 lease events in the coming year, the overall ERV for these units is higher than the current passing rent of £2.7 million.

	2019	2018
VALUE	£235.0m	£245.5m
SQUARE FEET	856,000	928,000
ANNUAL RENT	£14.2m	£15.0m
ESTIMATED RENTAL VALUE	£18.1m	£19.1m
OCCUPANCY	88%	92%



LARGEST OCCUPIERS

NUMBER OF ASSETS

15 2019

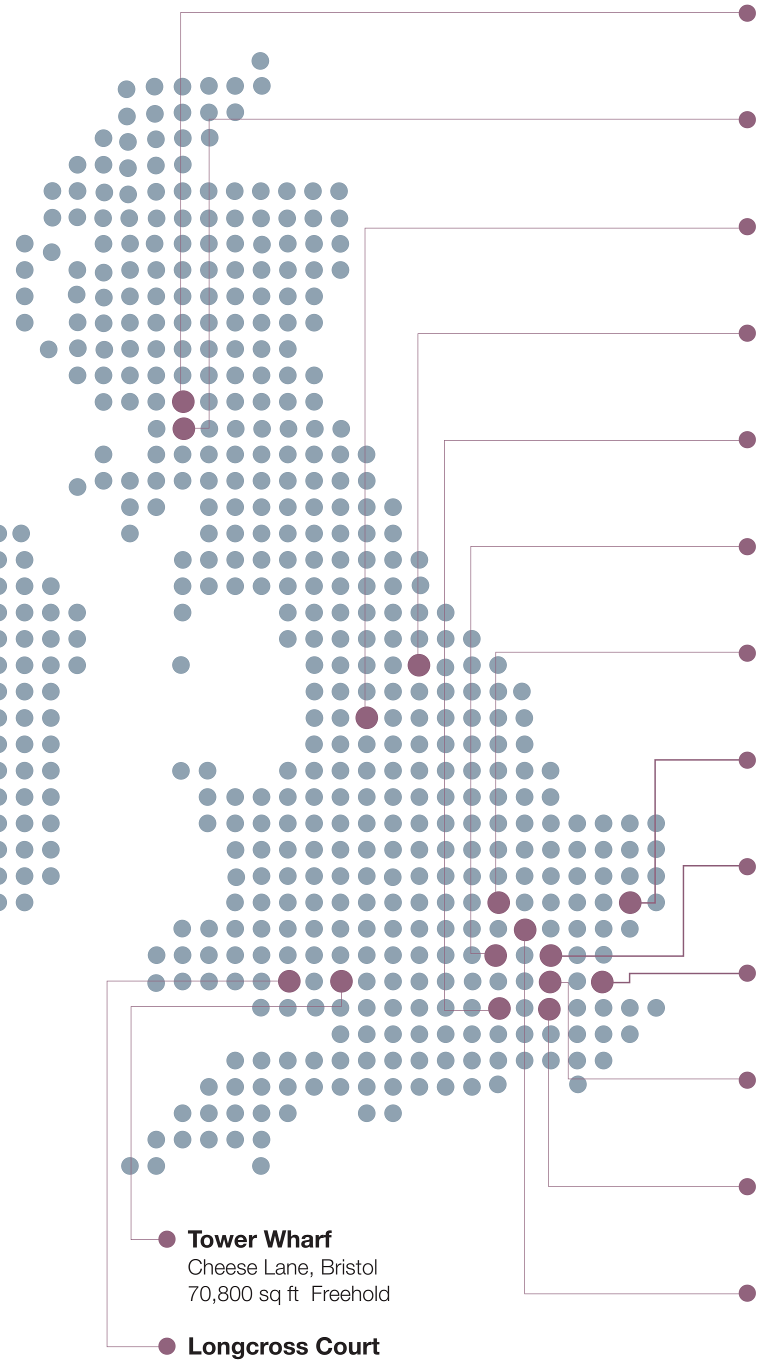
17 2018

ANGEL GATE, LONDON

50 FARRINGDON ROAD, LONDON

METRO, MANCHESTER

180 WEST GEORGE STREET, GLASGOW



180 West George Street
Glasgow
52,100 sq ft Freehold

Queen's House
St Vincent Place, Glasgow
49,400 sq ft Freehold

Metro
Salford Quays, Manchester
71,000 sq ft Freehold

Waterside House
Kirkstall Road, Leeds
25,200 sq ft Freehold

Sentinel House
Harvest Crescent, Fleet, Hants.
33,500 sq ft Freehold

Atlas House
Third Avenue, Marlow, Bucks.
25,400 sq ft Freehold

401 Grafton Gate East
Milton Keynes, Bucks.
57,100 sq ft Freehold

Colchester Business Park
The Crescent, Colchester, Essex
150,700 sq ft Leasehold

50 Farringdon Road
London EC1
31,000 sq ft Leasehold

30 & 50 Pembroke Court
Chatham, Kent
86,300 sq ft Leasehold

Angel Gate
City Road, London EC1
64,500 sq ft Freehold

Citylink
Addiscombe Road, Croydon
48,200 sq ft Freehold

Trident House
Victoria Street, St Albans, Herts.
19,000 sq ft Freehold

Tower Wharf
Cheese Lane, Bristol
70,800 sq ft Freehold

Longcross Court
Newport Road, Cardiff
72,100 sq ft Freehold

RETAIL AND LEISURE PORTFOLIO REVIEW

The retail and leisure portfolio is the smallest component by value accounting for 20% of our portfolio. It delivered the weakest sector performance, which was a result of ongoing challenges in this sector, adverse sentiment and weakening rental levels.

Our retail and leisure portfolio value decreased by £18.9 million or 12.1% to £137.5 million, and the annual rental income decreased by £3.2 million or 30% to £7.5 million. 39% of the decrease in annual rental income relates to Stanford House in Covent Garden which will be comprehensively refurbished this year as detailed below. The portfolio has an average weighted lease length of 9.2 years and £2.5 million of reversionary potential to £10.0 million per annum.

Occupational demand is weak, especially outside London and the South East. We have seen negative rental growth of 7.4% across the portfolio and increasing incentives. Occupancy is 77% with 74% of the void at Stanford House, 12% retail warehouse and 14% high street shops and leisure. Excluding the office element at Stanford House, occupancy is 85%.

Portfolio activity

It has been a difficult year in the retail sector. We have had some success, but we also had retail failures with six properties being affected either through a Company Voluntary Arrangement (CVA) or administration / liquidation. This has provided opportunity in some cases, as outlined below, but in others it means we have a letting void with associated costs which has meant our overall occupancy is lower than expected.

At our property in Fishergate, Preston we pre-let the ground floor to JD Sports on a new ten-year lease, subject to a break, at a rent of £0.2 million. We intend on putting the property back into repair using the dilapidations monies and already have strong interest in the first floor from another retailer.

At Angouleme Retail Park in Bury, we agreed to remove TK Maxx's 2020 break option in return for six months rent free, securing £0.3 million per annum, 13% ahead of ERV, for a further four years. We have two available units on the park following the expiry of long leases, one of which is under offer, and we are planning a refurbishment this year to reposition the park and help re-lease the remaining unit.

A good example of our proactive asset management resulting in a positive outcome after a retail failure is Homebase, which entered into a CVA in August 2018. Homebase had proposed to reduce the passing rent by 90% if they remained in occupation at Parc Tawe in Swansea. Rather than agree, we chose to serve a notice to secure vacant possession. At the same time, we negotiated the release of a restrictive covenant to allow additional food retailing on the park.

This allowed us to enter into an Agreement to Lease with one of our existing occupiers Lidl, to take the entire unit, previously occupied by Homebase. Following enabling works by Picton, Lidl will take a 20-year lease, with a break after 15 years, at an annual rent of £0.4 million, in line with ERV. The lease is subject to five yearly RPI based rent reviews capped at 2% per annum. Lidl will continue to trade from its existing unit, paying £0.1 million per annum, until the enabling works and fit out have been completed towards the end of the year.

During the year we secured vacant possession of Stanford House and will be undertaking a comprehensive refurbishment of both the retail and offices elements, the project is due to complete in December.

At Regency Wharf in Birmingham, which is currently a leisure scheme, we are exploring the option to convert the vacant accommodation to office use, where we expect to significantly increase both the income and current ERV. This project will be ongoing throughout the coming year.

Our outlook

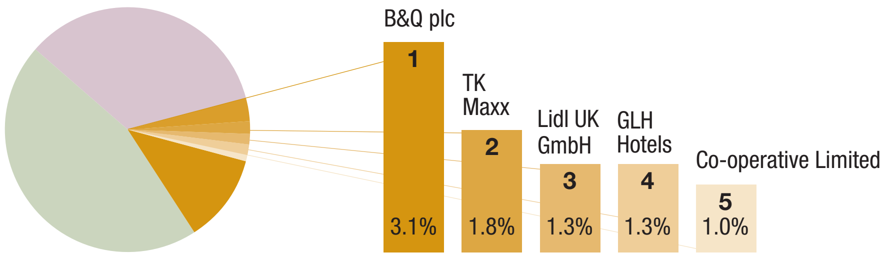
The retail and leisure market is undergoing a structural change impacted by online competition, with a number of retailers struggling in this evolving market. This has resulted in oversupply in most markets, with occupiers requiring space being able to demand lower rents and higher incentives.

As demonstrated above, we have been proactive in attracting new retailers, retaining existing ones and finding opportunities through change of use.

We are also undertaking repositioning exercises at retail warehouse parks in Bury and Swansea in order to attract new occupiers to the two vacant retail warehouse units; one of these is under offer.

Looking ahead, we have seven lease events in the coming year, the overall ERV for these units is higher than the current passing rent of £0.5 million. The biggest short-term opportunity is the refurbishment and re-letting of Stanford House.

	2019	2018
VALUE	£137.5m	£156.4m
SQUARE FEET	829,000	829,000
ANNUAL RENT	£7.5m	£10.7m
ESTIMATED RENTAL VALUE	£10.0m	£10.8m
OCCUPANCY	77%	97%



% of total portfolio

LARGEST OCCUPIERS

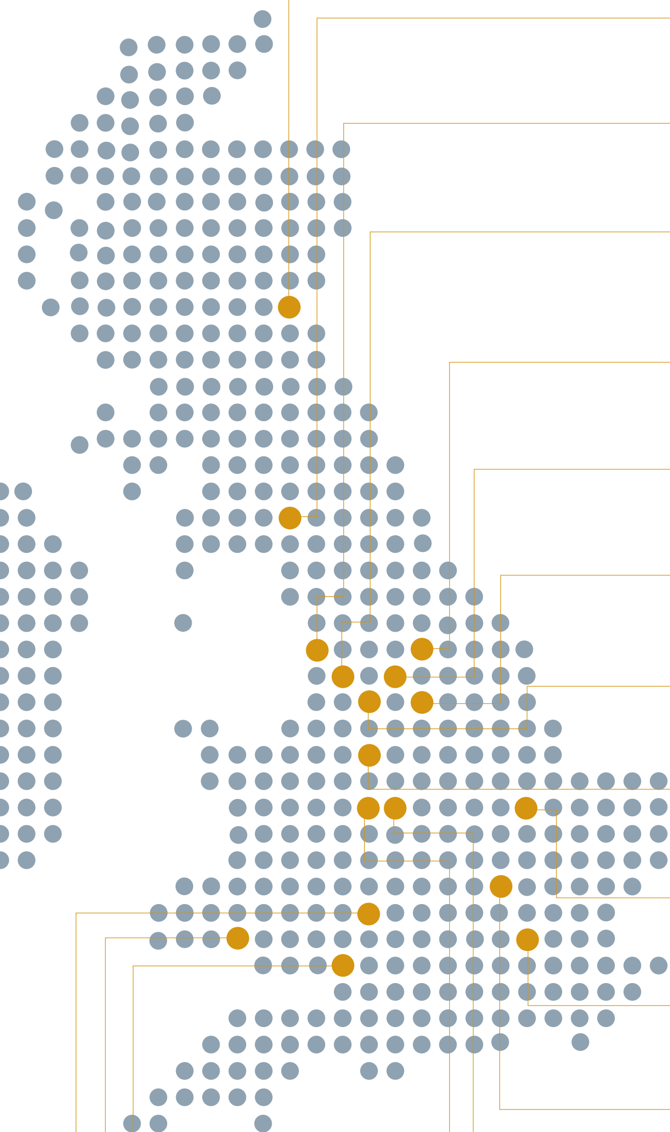
NUMBER OF ASSETS

STANFORD HOUSE, LONDON

BRIGGATE, LEEDS

PARC TAWE, SWANSEA

GLOUCESTER RETAIL PARK



72-78 Murraygate
Dundee
9,700 sq ft Freehold

Crown & Mitre Complex
English Street, Carlisle, Cumbria
23,800 sq ft Freehold

17-19 Fishergate
Preston, Lancs.
59,900 sq ft Freehold

Angouleme Retail Park
George Street, Bury, Greater Manchester
76,200 sq ft Freehold/Leasehold

78-80 Briggate
Leeds
7,700 sq ft Freehold

18-28 Victoria Lane
Huddersfield, West Yorks.
14,600 sq ft Leasehold

Queens Road
Sheffield
105,600 sq ft Freehold

7-9 Warren Street
Stockport
8,700 sq ft Freehold

6-12 Parliament Row
Hanley, Staffs.
17,300 sq ft Freehold

62-68 Bridge Street
Peterborough
88,700 sq ft Freehold

Stanford House
Long Acre, London WC2
19,600 sq ft Freehold

Thistle Express
The Mall, Luton, Beds.
81,600 sq ft Leasehold

Regency Wharf
Broad Street, Birmingham
44,300 sq ft Leasehold

Scots Corner
High Street, Kings Heath, Birmingham
30,000 sq ft Freehold

53-57 Broadmead
Bristol
10,400 sq ft Leasehold

Parc Tawe North Retail Park
Link Road, Swansea
116,700 sq ft Leasehold

Gloucester Retail Park
Eastern Avenue, Gloucester
113,900 sq ft Freehold

Financial review

Andrew Dewhirst

In the context of more difficult market conditions, our results for the year were positive. The total profit recorded was £31.0 million, compared to £64.2 million for 2018, but this is largely due to lower valuation movements over the year. Our EPRA earnings increased to £22.9 million from £22.6 million, and we maintained a high dividend cover. Earnings per share were 5.7 pence overall (4.3 pence on an EPRA basis), and the total return based on these results was 6.5% for the year.

Net asset value

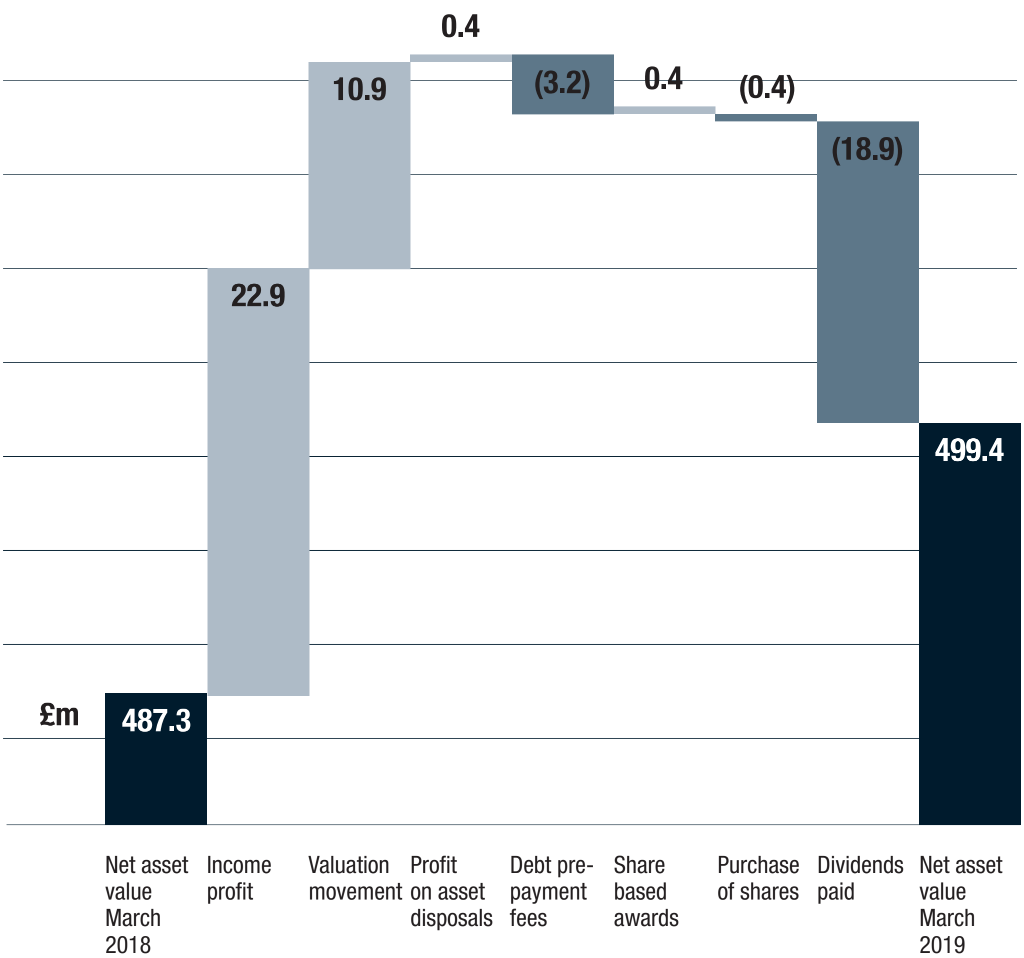
The net assets of the Group increased to £499.4 million, which was a rise of 2.5% over the year. The chart below shows the components of this increase over the year. The EPRA net asset value rose from 90 pence to 93 pence.

£31m

TOTAL PROFIT

5.7p

EARNINGS PER SHARE



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).

	2019	2018	2017
Net asset value – EPRA and IFRS (£m)	499.4	487.3	441.9
Fair value of debt (£m)	(24.8)	(21.1)	(24.5)
EPRA triple net asset value (£m)	474.6	466.2	417.4
Net asset value per share (pence)	93	90	82
EPRA net asset value per share (pence)	93	90	82
EPRA triple net asset value per share (pence)	88	87	77

£48m

TOTAL REVENUE

3.5p

ANNUAL DIVIDEND PER SHARE

£685m

PROPERTY VALUE

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 Supplementary Disclosures section which starts on page 130.

Income statement

Total revenue from the property portfolio for the year was £47.7 million. On a like-for-like basis, rental income decreased by 0.4% compared to the previous year, on an EPRA basis. The reasons for the small decline have been discussed within the portfolio review section, but is mainly due to the timing of lease expiries and asset management surrender activity.

Administrative expenses for the year were £5.8 million, broadly in line with the £5.6 million in 2018, and include the one-off costs of REIT conversion. This year we have re-presented such operating costs of the business, previously, as an investment company, we distinguished management expenses (incurred through Picton Capital, the investment management subsidiary) and other operating costs.

As discussed below, during the year we made an early repayment of a tranche of one of our fixed rate loan facilities. As a result, interest payable has reduced this year, to £9.1 million, and there will be ongoing annual savings of around £1 million.

Realised and unrealised gains on the portfolio were £11.3 million for the year, significantly lower than the overall gains of £41.5 million reported last year. This is very much a reflection of the commercial property market, and particularly the sentiment in the retail sector, where there have been well publicised issues of retail failures.

The Company converted to a UK REIT on 1 October 2018. From that date profits from our property rental business are exempt from UK tax. For the first half of the year however Picton was still subject to UK taxation as a non-resident landlord, and we have included a tax provision of £0.5 million for that period. This gives an indication of the likely savings that the Group will benefit from now it has joined the REIT regime.

Dividends

Dividends paid during the year were £18.9 million, 2% higher than the preceding year. Dividend cover for the full year was in line with last year at 122%.

Investment properties

The appraised value of our investment property portfolio was £685.3 million at 31 March 2019, up from £683.8 million a year previously. This year we have not made any acquisitions, but have disposed of two regional office buildings, for net proceeds of £11.3 million, realising a combined gain of £0.4 million compared to last year's valuation. A further £1.6 million of capital expenditure was invested back into the existing portfolio. The overall revaluation gain was £10.9 million, representing a 1.8% like-for-like increase in the valuation of the portfolio.

At 31 March 2019 the portfolio comprised 49 assets, with an average lot size of £14.0 million.

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

“ Dividends paid during the year were £18.9 million, 2% higher than the preceding year. ”

Borrowings

During the year we repaid a £33.7 million tranche of our Canada Life facility, originally due for repayment in 2022. This was financed partly through proceeds from asset sales and also from drawing down under one of our lower cost revolving credit facilities. In the short-term we expect this will save over £1 million per annum in finance costs, but we have also removed a number of restrictive covenants from the facility, which has increased the flexibility we have under this loan. This refinancing included a prepayment fee of £3.2 million.

Total borrowings are now £194.7 million at 31 March 2019, with the loan to value ratio having reduced to 24.7% from 26.7%. The weighted average interest rate on our borrowings has reduced slightly to 4.0% from 4.1%, while the average loan duration is now 9.8 years.

Our other senior loan facility with Aviva reduced by the regular amortisation of £1.2 million in the year.

The Group remained fully compliant with its loan covenants throughout the year.

Our two revolving credit facilities remain in place until 2021. During the year we made a drawdown of £15.5 million so now have drawn £26 million in total, leaving £25 million undrawn. The current interest rate payable on these loans is around 2.6%.

Loan arrangement costs are capitalised and are amortised over the terms of the respective loans. At 31 March 2019, the unamortised balance of these costs across all facilities were £2.7 million.

The fair value of our borrowings at 31 March 2019 was £219.5 million, higher than the book amount. Lending margins have remained broadly in line with the previous year, but gilt rates have fallen in comparison.

A summary of our borrowings is set out below:

24.7%

LOAN TO VALUE

£194.7m

TOTAL BORROWINGS

9.8 years

AVERAGE LOAN DURATION

	2019	2018	2017
Fixed rate loans (£m)	168.7	203.5	204.6
Drawn revolving facilities (£m)	26.0	10.5	-
Total borrowings (£m)	194.7	214.0	204.6
Borrowings net of cash (£m)	169.5	182.5	170.8
Undrawn facilities (£m)	25.0	40.5	53.0
Loan to value ratio (%)	24.7	26.7	27.4
Weighted average interest rate (%)	4.0	4.1	4.2
Average duration (years)	9.8	10.3	11.7

Cash flow and liquidity

The cash flow from our operating activities was £25.3 million this year, closely in line with the 2018 figure. Proceeds from asset sales were used to finance the net reduction in borrowings. Dividend payments of £18.9 million were made in the year. Our cash balance at the year end stood at £25.2 million.

Share capital

There were no changes in share capital during the year.

The Company’s Employee Benefit Trust acquired a further 472,000 shares during the year, at a cost of £0.4 million, to satisfy the potential future vesting of awards made under the Long-term Incentive Plan, and now holds a total of 1,542,000 shares. 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

Managing risk

The Board recognises that there are risks and uncertainties that could have a material impact on the Group's 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 Executive Committee is responsible for implementing strategy within the agreed risk management policy, as well as identifying and assessing risk in day-to-day operational matters. The management committees support the Executive Committee in these matters. The small number of employees and relatively flat management structure allow risks to be quickly identified and assessed. 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. This 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 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	→

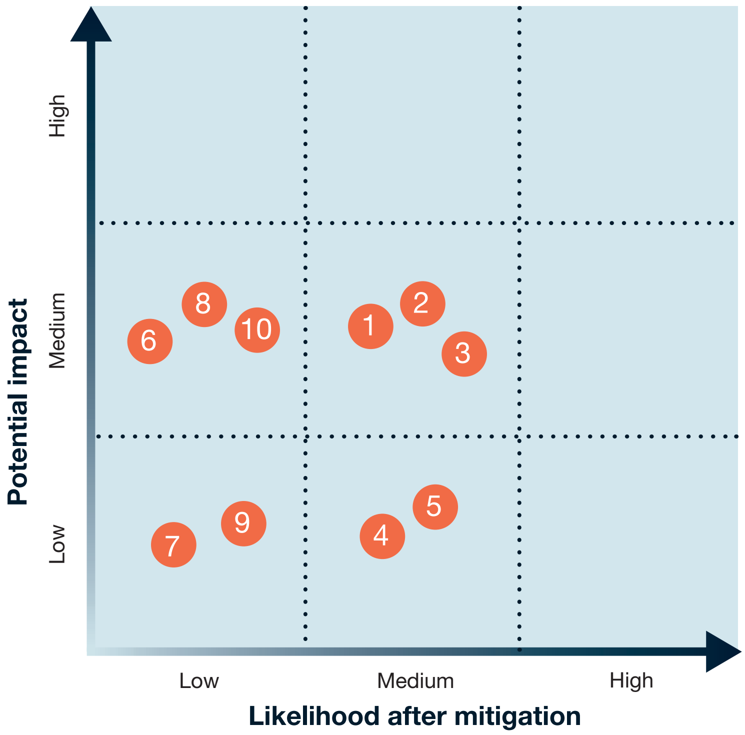
Risk management framework

Board
- Has overall responsibility for risk management
- Determines business model
- Considers risk appetite

Executive Committee
- Implements strategy and risk policy
- Identifies and assesses risks
- Carries out risk mitigation

Audit and Risk Committee
- Recommends risk management policy
- Considers principal risks
- Reviews detailed risk matrix
- Reviews internal controls and oversees testing of such controls

Management Committees
- Reviews specific transaction risks
- Considers impact of forthcoming legislation



CORPORATE STRATEGY

	Risk and impact	Mitigation	Risk trend	Strategic objectives	Connected KPIs
1 **Macroeconomic**	Economic uncertainty, arising from political events or otherwise, brings risks to the property market generally and to occupiers' businesses. This can result in lower shareholder returns, lower asset liquidity and increased occupier failure.	The Board considers economic conditions and market uncertainty when setting strategy and in making investment decisions.			A B C D
2 **Property market**	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 shareholder 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.		£	A B C D

PROPERTY

	Risk and impact	Mitigation	Risk trend	Strategic objectives	Connected KPIs
3 **Portfolio strategy**	Running an inappropriate portfolio strategy, as a result of poor sector or geographical allocations, or holding obsolete assets, leading to lower shareholder returns.	The Group maintains a diversified portfolio in order to minimise exposure to any one geographical area or market sector.		£	C D I
4 **Property investment**	Investment decisions may be flawed as a result of incorrect assumptions, poor research or incomplete due diligence, leading to financial loss.	The Executive Committee must approve all investment transactions over a threshold level, and significant transactions require Board approval. A formal appraisal and due diligence process is carried out for all potential purchases.		£	C D
5 **Asset management**	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.	Management prepare business plans for each asset which are reviewed regularly. The Executive Committee must approve all investment transactions over a threshold level, and significant transactions require Board approval. Management maintain close contact with occupiers and have oversight of the Group's Property Manager.			C D H I

Brexit

Since the result of the referendum in June 2016 to leave the EU there has been increased economic and political uncertainty. This has been heightened in the last few months as the original leaving date of 29 March 2019 has passed and there is now an extension to 31 October 2019 in which to agree the terms of withdrawal.

We have considered in our Viability Statement the potential impact of various scenarios on the business including the impact of Brexit.

Picton has a diverse portfolio spread across the UK, with around 350 occupiers in a wide range of businesses. The cash flow arising from our occupiers underpins our business model. Although there are geographical and sectoral variations, we are continuing to see demand for our properties and are continuing to let space on average at ERV. We have limited exposure to financial services occupiers, or central London offices, both potentially adversely impacted by a disruptive Brexit. To date we have not seen a significant impact from Brexit on our operational activity.

Operational

	Risk and impact	Mitigation	Risk trend	Strategic objectives	Connected KPIs
6 **Operational failure**	Damage to 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' interests. The Group's Property Manager is required to ensure compliance with current health and safety legislation, with oversight by management. All financial reports are subject to senior management and Board review prior to release.	→		A B H
7 **Regulatory and legal changes**	Failure to properly anticipate legal, fiscal or regulatory changes which could lead to financial loss or loss of REIT status.	The Board and senior management receive regular updates in relevant laws and regulations. The Group is a member of the BPF and EPRA, and management attend industry briefings.	→		H E

Financial

	Risk and impact	Mitigation	Risk trend	Strategic objectives	Connected KPIs
8 **Loan covenants**	A significant fall in property valuations or rental income could lead to a breach of financial covenants, leaving insufficient long-term funding.	The Group's property assets are valued quarterly by an independent valuer with oversight by the Property Valuation Committee. Market commentary is provided regularly by the independent valuer. 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.	→		B C F G
9 **Interest rates**	An adverse movement in interest rates could lead to increased 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.	↑		H
10 **Gearing**	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 lower investment returns.	The Board regularly reviews its gearing strategy and debt maturity profile, at least annually, in the light of changing market conditions.	→		A H

Uncertainty, potentially arising from Brexit, is leading to lower investment volumes generally. However the value of the Picton portfolio has continued to rise consistently since the referendum result, albeit that there are significant variations between sectors. We have considered the impact of any future decline in property values. We have considerable headroom within our lending covenants, with values having to fall by on average more than 40% before these are reached.

p15 Read about our Strategic objectives

p26 Read about our KPIs

Being responsible

The Board is responsible for setting the guiding principles of the Group including leading on environmental, social and corporate governance. We aim to be transparent in our approach to performance reporting, to ensure stakeholder engagement, and seek to embed sustainability within our day-to-day business activities.

Stakeholder engagement

We value the contributions made by the whole Picton team. We have a strong and open company culture, with values that were co-created by our employees. We aim to have a positive business environment consistent with our values, with equal opportunities for all. Unlike many similar businesses, all of our employees share in the success of Picton through participation in the Long-term Incentive Plan and Deferred Bonus Plan.

We run a regular programme of communication and shareholder engagement including one-to-one meetings with large shareholders as well as group meetings at the time of results announcements. All directors normally attend the Annual General Meeting and are available to meet with shareholders.

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 to engage with our occupiers on sustainability. In this way we can constantly strive to reduce our environmental impact.

We are committed to improving the impact of our buildings on local communities, whether providing space to local businesses, improvement of local areas or minimising the environmental impact of buildings themselves. We also support local communities through our occupier led charitable matched giving initiative.

OUR STAKEHOLDERS

Our people | **Our shareholders** | **Our occupiers** | **Local communities**

The Picton promise

At Picton, we are always seeking to improve our occupiers' experience, which is why we created the Picton Promise: five key commitments that underpin every aspect of the occupier experience we provide.

ACTION

Our personal, hands on approach and attention to detail ensures you experience excellent customer service. You can always speak to a dedicated Picton team member and be assured we respond promptly to your enquiries and act on feedback as quickly and effectively as possible.

TECHNOLOGY

We are committed to improving the digital infrastructure of our portfolio and work with all our occupiers to enable transparency and informed decision making, ensuring your connectivity requirements are met.

COMMUNITY

We want you to feel part of something. We run regular occupier meetings and facilitate introductions across our occupier community. We also support different regional charities to help drive social change at a local level and we offer each of our occupiers charitable matched giving for their community fundraising efforts.

SUSTAINABILITY

We believe strongly in sustainability as an integral part of our business model and strategy. We have in place a framework for conducting business in a way that makes a positive contribution to society and our stakeholders, whilst minimising the negative impact on the environment.

SUPPORT

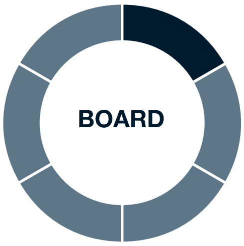
We are committed to providing flexible business focused solutions to enable you to run your business. We are proactive in helping you to 'rightsize' your business space, helping support your changing needs.

Our people

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 the Picton team. At the date of this Report, the number of men and women employed by the Group were:



■ 5 women

■ 10 men

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 our 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, local communities and the environment

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 and have raised over £12 million for over 1,900 diverse local, national and international projects.

For the year ended 31 March 2019 the Group made charitable donations totalling £10,000.

Our new Responsibility Committee encourages our employees to play a positive role in community activities and is working with a local children's charity to provide team volunteering opportunities. As well as offering our employees individual charitable fundraising through the process of matched giving, we additionally now offer our occupiers charitable matched giving, to support charitable activities undertaken in their local communities.

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.

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

Our sustainability reporting is for the year ended 31 December 2018, with comparatives for the year ended 31 December 2017. This year we will prepare a separate report setting out a full breakdown of our ESG strategy and performance during the year. The 2019 Sustainability Report will be available on our website during June 2019. Here we report on the key environmental initiatives that we have undertaken during the year.

This year we can report a further reduction of our carbon footprint. Our Scope 1 and 2 GHG emissions for 2018 were 3,971 tCO_2e, a reduction of 12.9% compared to 2017 in absolute terms. We have continued our work to obtain more reliable Scope 3 emissions by working with our occupiers to collect non landlord-controlled data. There have been two disposals during 2018 with no new acquisitions; Tower Wharf, Bristol, acquired in 2017, now has a full reporting year's worth of data.

Local communities

PLAN BEE™

The Funding Network

Read more in our Sustainability Report

Targets

We have set a number of targets, both short and long-term, across a range of ESG measures, so that we are able to track our progress in these areas. These are set out fully, together with our progress against them, in the 2019 Sustainability Report.

Energy and GHG Emissions

2018 saw an 8.2% reduction in tCO_2/m^2 compared to 2017 which has increased our total reduction to 28.4% against our 2016 baseline. The decarbonisation of the national grid has assisted in these large reduction figures although we have also seen a 6.8% reduction in kWh/m^2 since 2016. While our performance against our waste target has seen a 20.6% reduction against our 2016 baseline, 2018 saw an increase in landfill waste. We are looking to correct this in 2019 by switching to a waste provider with greater recycling options, and that will be able to provide more accurate data.

We are targeting high energy intensity sites through a series of energy audits and occupier engagement campaigns. We are developing a refurbishment checklist to ensure all refurbishments are carried out to the same high standard dependent on the property's ambition level. Due to the nature of our business a limited amount of the energy use is within our control, which means occupier engagement is key. To address this issue, we will be holding occupier workshops to assess how we can assist our occupiers in reducing their energy consumption. The workshops will be a targeted approach on the highest consuming sites, but to ensure we are assisting all our occupiers, we have developed an occupier satisfaction survey. The survey will look at general satisfaction, as well as energy performance of the property and energy efficiency measures, where we can work with our occupiers in joint ventures.

Environmental initiatives

We have now installed Asset IQ at two high end office locations. Asset IQ is a tool which analyses each meter's usage to identify inefficiencies in plant and equipment run hours. 50 Farringdon Road has seen an increase in absolute consumption during 2018 due to increased occupancy rates. 180 West George Street, where Asset IQ has been newly installed, has seen a 22% reduction in its energy use. We continue to look for more opportunities were Asset IQ can be installed. We have conducted energy reduction projects at Atlas House, including upgrades to the building management system. Accuracy of data is key to our reporting and in line with improving this area of reporting, we have reduced our estimated consumption to 1.4%. During 2019 we plan to roll out a series of ESG audits at key large consuming sites to assist with our energy reduction targets and occupier engagement.

Our 50kWp solar panel array at 401 Grafton Gate has been operational for three years. Each year the panels have increased their output with 2018 seeing a 5.2% increase by generating 46,340 kWh. The energy production continues to be fed back to the occupiers, providing them with lower electricity costs. The panels have produced a total of 132,465 kWh, which has saved 59.60 tCO_2e; the equivalent of 3,585 incandescent lamps switched to LEDs.

We have installed two bee hives with a population of 20,000 bees at Queen's House in Scotland. Honeybees are essential for pollinating trees, plants and flowers with one third of UK's food being pollinated by bees. With Scotland seeing a decline in honeybees, urban roof tops can provide bountiful foraging opportunities for bee colonies. Picton worked with Plan Bee who are a bee hive management company to organise the necessary pre-assessment checks required for installing the bee hives. Plan Bee presented to the occupiers in Queen's House on the life of the bees, including a hands-on experience to learn more about the important role bees play in our environment. Occupiers were able to sample some honey and take away a jar. Due to the success of the project we have already started risk assessments at a further site.

Our EPC risk project has mitigated the risk posed under the Minimum Energy Efficiency Standards (MEES) that came into force from April 2018. During 2018 we began updating our expiring EPCs with a majority of 2019 EPCs already addressed. This process has highlighted properties where potential improvements could be made, and these sites will have strategies put in place during 2019. We have 98% of units with a valid EPC, with action plans in place for the remaining assets.

Picton recognises the importance of being transparent on 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. We now have also reported to GRESB for the second year running, seeing a 53% increase in our score. We believe that through initiatives implemented during 2018 that we should see further improvements in both our GRESB and EPRA scores.

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

Reporting against EPRA sustainability best practice

The following EPRA sustainability measures are reported in the 2019 Sustainability Report:

Energy

Sustainability performance measures
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 measures
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 measures
Total water consumption
Like-for-like total water consumption
Building water intensity

Waste

Sustainability performance measures
Total weight of waste by disposal route
Like-for-like total weight of waste by disposal route

Business travel

Sustainability performance measures
Total business travel emissions

Governance

Sustainability performance measures
Composition of highest governing body
Process for nominating and selecting the highest governing body
Process for managing conflicts of interest

Social

Sustainability performance measures
Employee gender diversity
Employee training and development
Employee performance appraisals
New hires and turnover
Employee health and safety
Asset health and safety assessments
Asset health and safety compliance

Read more in our Sustainability Report

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. In our 2019 Sustainability Report we detail our GHG emissions for the last five years, showing how our reporting has evolved since 2014.

		2018		2017		2016	
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	1,219	0.006	1,251	0.006	1,503	0.007
Electricity, heat, steam and cooling purchased for own use	2	2,752	0.015	3,305	0.015	4,655	0.022
Business travel	3	7	N/A	7	N/A	8	N/A
Occupier data	3	5,274	0.003	9,566	0.005	9,536	N/A
Office premises	3	10	N/A	13	N/A	12	N/A
Landlord water and treatment	3	55	0.001	53	0.001	61	0.000
Landlord waste	3	21	0.000	21	0.000	24	0.001
Total		**9,337**	**0.021**	14,216	0.032	15,799	0.036

Scope 1

Scope 1 emissions account for 1,219 tCO_2e of our total emissions, which is a decrease of 3% from 2017. This is due to the implementation of energy efficiency measures, an increase in data quality and the disposal of sites in 2017 and 2018. Excluding the impact of acquisitions and disposals, like-for-like scope 1 emissions have decreased by 7% due to building management system upgrades implemented at Atlas House during late 2017.

Scope 2

Scope 2 emissions account for 2,752 tCO_2e, which is a decrease of 17% from 2017. Scope 2 emissions have seen the greatest impact from the decarbonisation of the national grid. With Scope 2 emissions being the largest contributor to our emissions which we can directly control, it is positive to also see a 19.7% decrease in like-for-like emissions. This is largely thanks to energy efficiency projects at Atlas House and 180 West George Street. We hope to see further improvements in 2019 when the projects will have had a full reporting year to realise their benefits.

Scope 3

Scope 3 emissions account for 5,523 tCO_2e, which is a 42.8% decrease from 2017. For 2018, we have collected 44.5% of our occupier-controlled spaces by area which is a small decrease on 2017. Due to the variance in occupier data that we receive it is difficult to read too much into the large decrease in Scope 3 emissions, with Scope 1 and 2 emissions remaining our priority for improvement measures. We have seen increases in water and waste figures which we will look at improving on during 2019 as we switch to single suppliers to improve reliability of data.

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.


Taste of Sicily
FRAGILE
ALTO

Governance

Chairman's introduction

Nicholas Thompson

Dear Shareholder
I am pleased to introduce our 2019 Corporate Governance Report. This year we are reporting against the UK Corporate Governance Code 2016.

Board composition

Both Robert Sinclair and Vic Holmes retired from the Board on 30 September 2018, following the Company moving its management and control to the UK. I would like to express my sincere thanks for their important contributions to the success of the business over many years.

I am very pleased that Maria Bentley agreed to join the Board as a non-executive director, from 1 October. Maria has taken over from Vic as Chair of the Remuneration Committee, and, with her previous experience, will bring a fresh perspective to the Board.

As I set out last year, in line with our change from an investment company to a commercial company, we have moved to a more traditional board structure with both executive and non-executive directors. From 1 October therefore, Michael Morris has become the Chief Executive of Picton, and has been joined on the Board by Andrew Dewhirst, who has assumed the role of the Group's Finance Director.

In line with the UK Corporate Governance Code 2018, the Board comprises 50% independent non-executive directors.

" With the conversion to a UK REIT now complete, it is my intention to step down from the Board."

Succession planning

The Board has been focused on succession planning to ensure both refreshment and sustainable corporate performance, while mindful of the conversion to a UK REIT and the need to maintain continuity and knowledge at Board level throughout that transition.

I have now served on the Board, and as Chairman, since 2005. With the conversion to a UK REIT now complete, it is my intention to step down from the Board once a suitable successor has been identified and is in post. We have commenced the process of seeking a new Chairman, and this is discussed further in the Nomination Committee Report. Maria has taken over as Chair of the Nomination Committee while this process is taking place.

Roger Lewis has now served on the Board for nine years. Roger will also step down from the Board in the near future, once my successor has been appointed, so that the changes can take place in an orderly and coordinated manner.

Governance

Following our conversion to a UK REIT and a commercial company, we have established a new internal governance structure more in keeping with our status as a UK managed business. The Board committees are unchanged, but we have set up a new Executive Committee, headed by Michael Morris and also comprising other members of senior management. The Executive Committee is responsible for the day-to-day running of the business within the strategy agreed by the Board.

As support to the Executive Committee, we have established two further management committees – the Transaction and Finance Committee, and the Responsibility Committee, to assist in running the business. These committees include other members of staff so that there is greater engagement and wider experience below the senior management level. The remit of these two committees is set out later in this Governance section, and I would highlight that the new Responsibility Committee has as part of its remit to consider employee wellbeing.

Our people and culture

The Board seeks to maintain and promote an environment consistent with the culture and values of the business, where our employees are able to maximise their potential. We are proud to have in place a strong company culture, guided by our vision as a company and our values, co-created by our employees. We promote an inclusive working environment with equal opportunities for all. We encourage our employees to take part in community activities, and are working with a local charity to provide volunteering opportunities for the team.

The Board works in an open and transparent manner with constructive discussion and challenge. This open and approachable culture is encouraged throughout the business. The Company holds regular team meetings and activities throughout the year. The Picton team is professional in its dealings with other stakeholders and third parties and have a code of business conduct that we expect our suppliers to follow. We have in place the Picton Teamship rules which all employees are expected to abide by, and these set out how employees should conduct themselves in the workplace.

We have agreed that Maria Bentley will be our designated non-executive director with responsibility for engagement with employees. Her role will be to feed back to the Board on the views of all employees.

“ I am pleased to report that we have appointed Mark Batten as Senior Independent Director.”

Board evaluation

During the year we had an external evaluation of the Board carried out by BoardAlpha. An external evaluation is carried out every three years alongside our own internal review annually. The review made a number of recommendations, and these have been considered by the Board. One outcome that I am pleased to report is that we have appointed Mark Batten as Senior Independent Director. Another important issue raised was that of succession planning, which I have discussed above and is detailed further in the Nomination Committee Report.

Finally, I hold regular one-to-one meetings with each of the non-executive directors and conduct the annual and half-year reviews with the Chief Executive.

Nicholas Thompson
Chairman

Board of directors

Nicholas Thompson
CHAIRMAN

Appointed to the Board
September 2005

Responsible for ensuring the Board is effective in setting and implementing the Company's direction and strategy including reviewing and evaluating the performance of the CEO.

Key strengths and skills
- Chartered Surveyor with 44 years' experience, 36 of which are in property investment management
- Clear vision and strong influencing skills

Principal external commitments
- Chairman of MSCI Real Estate UK Advisory Group
- Director of the Lend Lease Retail Partnership
- Independent Director of the Association of Real Estate Funds

Previous experience and appointments
- Director and Head of Fund and Investment Management, Prudential Property Investment Management
- Fellow of the Royal Institution of Chartered Surveyors.

Roger Lewis
CHAIR OF THE PROPERTY VALUATION COMMITTEE

Appointed to the Board
March 2010

Responsible for overseeing the review of the quarterly valuation process and making recommendations to the Board as appropriate.

Key strengths and skills
- Over 40 years' experience in residential and commercial property
- Public company experience
- Corporate finance experience

Principal external commitments
- Non-executive Director of two Jersey based subsidiaries of the Berkeley Group
- Director, Cambian Global Timberland Limited

Previous experience and appointments
- Chairman and Director, Berkeley Group Holdings PLC
- Group Chief Executive Office, Crest Nicholson Group PLC

Mark Batten
CHAIR OF AUDIT AND RISK COMMITTEE
SENIOR INDEPENDENT DIRECTOR

Appointed to the Board
October 2017

Responsible for financial reporting and accounting policies, audit strategy and the evaluation of internal controls and risk management systems.

Key strengths and skills
- Chartered Accountant and restructuring specialist
- Extensive experience in banking, insurance, real estate, debt structuring and restructuring
- Broad real estate knowledge, covering most subsectors

Principal external commitments
- Board member and Chairman of the Audit Committee, Assured Guaranty Europe
- Board member, Armour re (UK)
- Board member and Chairman of the Finance Committee, The Royal Brompton and Harefield Foundation Trust
- Senior adviser to UK Government Investments

Previous experience and appointments
- Partner, PricewaterhouseCoopers LLP
- Non-executive Director, L&F Indemnity

Maria Bentley
CHAIR OF REMUNERATION COMMITTEE
CHAIR OF NOMINATION COMMITTEE

Appointed to the Board
October 2018

Responsible for leading on the recommendation of remuneration policies and levels, for effective succession planning and employee engagement.

Key strengths and skills
- Business head leading change across global teams
- Expertise in human resources
- Extensive experience in financial services

Principal external commitments
- Non-executive Director, Nomura Europe Holdings plc and Nomura International plc
- Member of Audit, Remuneration, Nomination & Governance and Financial Conduct Committees, Nomura International plc
- Non-executive Director of BlueBay Asset Management LLP and Chair of Remuneration Committee

Previous experience and appointments
- Senior Managing Director and Global Head of HR, Wholesale and Head of HR EMEA at Nomura International plc
- Group Managing Director and Global Head of HR, UBS Investment Bank
- Managing Director, Global Head of HR for Equities and Fixed Income, Goldman Sachs International

Michael Morris
CHIEF EXECUTIVE

Appointed to the Board
October 2015

Responsible for overall strategic direction and execution of the Group's business model.

Key strengths and skills
- Successful track record of driving investment strategy and delivering results for shareholders
- Proven leadership skills
- In depth understanding of real estate equity capital markets

Principal external commitments
None

Previous experience and appointments
- 25 years wide ranging commercial real estate market experience
- Senior Director and Fund Manager at ING Real Estate Investment Management
- Member of the Investment Property Forum

Andrew Dewhirst
FINANCE DIRECTOR

Appointed to the Board
October 2018

Responsible for strategic financial planning and reporting for the Group.

Key strengths and skills
- Chartered accountant with extensive experience in financial planning and reporting
- In depth knowledge of financial services, capital markets and real estate funds
- Expertise in debt and equity financing

Principal external commitments
None

Previous experience and appointments
- Director of Client Accounting at ING Real Estate Investment Management
- Director at Hermes Administration Services
- Associate member of the Institute of Chartered Accountants in England and Wales

Our team

With extensive experience across real estate management and financial services, our team have an in depth knowledge and understanding of the UK commercial property market.

Fraser D'Arcy
INVESTMENT DIRECTOR
Fraser has 19 years' of investment experience and is responsible for delivering the investment strategy and all transactional activity within the portfolio to enable the effective recycling of capital. He is a member of the Executive Committee and the Transaction and Finance Committee.

Louisa McAleenan
RESEARCH ANALYST
Louisa has over ten years' experience of real estate research and is responsible for all aspects of research and analysis, contributing to the direction of the Group's investment strategy and is a member of the Responsibility Committee.

Michael Morris
CHIEF EXECUTIVE
Michael has 25 years' experience within the UK commercial property sector and is responsible for the strategic direction and effective execution of the Group's business model.

Sarah Newland
OFFICE MANAGER
Sarah joined in 2014 and is responsible for the day–to-day management of the office and oversees administrative aspects of the Company.

Jay Cable
HEAD OF ASSET MANAGEMENT
A Chartered Surveyor with over 18 years' of real estate experience, Jay has worked with the Group since its launch in 2005. He is responsible for the proactive asset management of the portfolio and overseeing its strategic direction, and is a member of the Executive Committee and the Transaction and Finance Committee.

Melissa Ricardo
TEAM SECRETARY
Melissa joined in 2017 and provides administrative and communications support to the team.

Matthew Barker
ASSET MANAGER
Matthew is a Chartered Surveyor with over seven years' experience within the real estate sector and is responsible for the asset management and performance of the property portfolio.

James Forman
FINANCIAL CONTROLLER
James has worked with the Group since its launch in 2005 and has 19 years' experience in the real estate sector. He is responsible for all the accounting and financial reporting for the Group and is a member of the Transaction and Finance Committee.

Andrew Dewhirst
FINANCE DIRECTOR
Responsible for the financial strategy and reporting for the Group, Andrew has over 30 years' experience within financial services and real estate sectors.

Tim Hamlin
SENIOR ASSET MANAGER
Tim is a Chartered Surveyor with over ten years' of real estate experience and is responsible for creating and implementing asset level business plans in line with the portfolio's strategic direction and is a member of the Responsibility Committee.

Lucy Stearman
ASSISTANT ACCOUNTANT
Lucy has over seven years' experience within financial services and joined the Group in April 2019 to assist with the accounting and financial reporting.

Corporate governance report

Leadership

THE BOARD

CHAIRMAN
Nicholas Thompson

Comprises
Chairman, 2 executive directors and 3 non-executive directors

Responsibilities
- Direction and control of the business
- Overall long-term success
- Sets and implements strategy
- Establishes the culture and values of the business
- Considers succession planning
- Promotes wider stakeholder relationships

BOARD COMMITTEES

Audit and Risk

CHAIR
Mark Batten

Comprises
3 non-executive directors

Responsibilities
- Oversees financial reporting
- Monitors risk management
- Reviews system of internal controls
- Evaluates external auditor

Nomination

CHAIR
Maria Bentley

Comprises
4 non-executive directors

Responsibilities
- Recommends Board appointments
- Considers succession planning
- Board evaluation
- Board composition and diversity

Property Valuation

CHAIR
Roger Lewis

Comprises
4 non-executive directors

Responsibilities
- Oversees the independent valuation process
- Recommends the appointment and remuneration of the valuer
- Ensures compliance with applicable standards

Remuneration

CHAIR
Maria Bentley

Comprises
4 non-executive directors

Responsibilities
- Determines remuneration policy
- Sets remuneration of executive directors
- Reviews remuneration of whole workforce
- Approves bonus and LTIP awards

MANAGEMENT COMMITTEES

Executive Committee

CHAIR
Michael Morris

Comprises
2 executive directors and 2 senior executives

Responsibilities
- Implementation of strategy
- Manages operations
- Day-to-day management of the business
- Employee remuneration and development

Transaction and Finance

CHAIR
Michael Morris

Comprises
2 executive directors and senior management

Responsibilities
- Reviews and recommends investment transactions
- Monitors portfolio costs
- Reviews compliance with lending covenants

Responsibility

CHAIR
Andrew Dewhirst

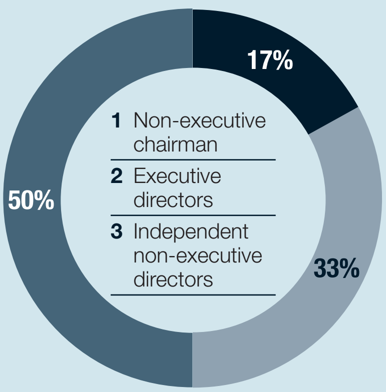
Comprises
1 executive director and senior management

Responsibilities
- Determines CSR policy
- Monitors compliance with relevant standards and legislation
- Approves CSR reporting
- Employee wellbeing

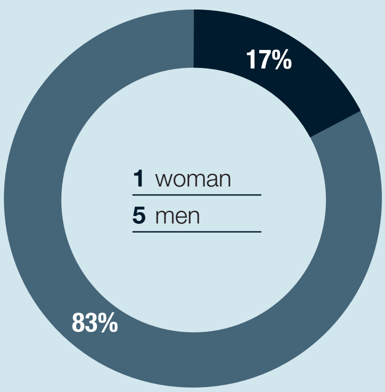
Division of responsibilities

Role	Responsibilities
CHAIRMAN **Nicholas Thompson** 	• Leads the Board • Responsible for overall Board effectiveness • Promotes Company culture and values • Sets the agenda and tone of Board discussions • Ensures that all directors receive full and timely information to enable effective decision making • Promotes open debate at meetings • Ensures effective communication with stakeholders • Builds relationships between executive and non-executive directors
CHIEF EXECUTIVE **Michael Morris** 	• Develops and recommends strategy to the Board • Responsible for the implementation of strategy set by the Board • Manages the business on a day-to-day basis • Manages communication with shareholders and ensures that their views are represented to the Board
FINANCE DIRECTOR **Andrew Dewhirst** 	• Supports the Chief Executive in the formulation of strategy • Manages the financial operations of the Group • Develops and maintains the system of financial controls within the Group • Recommends the risk management framework to the Board
NON-EXECUTIVE DIRECTORS **Roger Lewis** **Maria Bentley** **Mark Batten** (SENIOR INDEPENDENT DIRECTOR)   	• Bring independent judgement and scrutiny to the decisions of the Board • Bring a range of skills and experience to the deliberations of the Board • Monitor business progress against agreed strategy • Review the risk management framework and the integrity of financial information • Determines the remuneration policy for the Group and approves performance targets in line with strategy

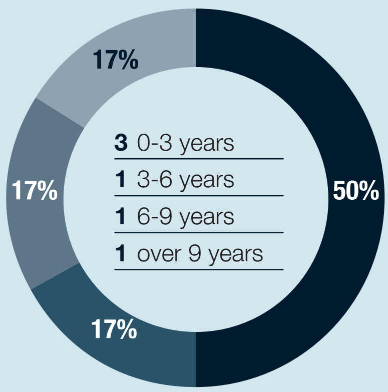
Composition of board



ROLE



DIVERSITY



TENURE

The role of the Board

The Board is responsible for the long-term success of the business. It provides leadership and direction, with due regard to the views of all of the stakeholders in the business. The Board operates in an open and transparent way, and seeks to engage with its shareholders, employees, occupiers and local communities.

The Board has full responsibility for the direction and control of the business, and sets and implements strategy, within a framework of strong internal controls and risk management. It establishes the culture and values of the Group.

The Board has a schedule of matters reserved for its attention. This includes all acquisitions and significant disposals, significant leasing transactions, dividend policy, gearing and major expenditure.

The Board has collectively a range of skills and experience that are complementary and relevant to the business. These are set out in the biographies of the individual directors on pages 56 and 57.

Board meetings

The Board has a regular schedule of meetings. Until 31 December 2018 the Board met quarterly. After that date the Board has moved to having two meetings each quarter; the first of which will focus on operational matters, and the second will principally cover strategic issues and longer-term planning. External advisers are invited to attend Board meetings on a regular basis. The Board also meet on an adhoc basis when required outside the regular scheduled meetings.

Board changes

During the year there have been a number of changes in the composition of the Board, which were anticipated and set out in last year's Annual Report.

On 30 September 2018 both Robert Sinclair and Vic Holmes stepped down from the Board, ahead of the Company's transfer of its management and control to the UK. On 1 October 2018 Maria Bentley was appointed to the Board as a non-executive director, and on the same day Andrew Dewhirst was also appointed. Michael Morris and Andrew Dewhirst are the executive directors, completing the transition from an investment company to a commercial company with a traditional board structure comprising both executive and non-executive directors.

The Nomination Committee report sets out the recruitment and selection process that was followed for Maria's appointment.

Composition

The Board comprises the Chairman, two executive directors and three independent non-executive directors.

All of the Directors will stand for re-election at the forthcoming Annual General Meeting.

As at 31 March 2019 the Board comprised 50% independent non-executive directors.

Attendance at board and committee meetings

	Date appointed	Board	Audit and Risk	Remuneration	Property Valuation	Nomination
Nicholas Thompson	15.09.2005	5/5	1/1	5/5	3/4	4/4
Michael Morris	01.10.2015	5/5	-	-	-	-
Andrew Dewhirst	01.10.2018	3/3	-	-	-	-
Mark Batten	01.10.2017	5/5	2/2	5/5	3/4	4/4
Maria Bentley	01.10.2018	3/3	1/1	2/2	2/2	2/2
Roger Lewis	31.03.2010	5/5	1/1	5/5	4/4	4/4
Robert Sinclair	-	1/2	2/2	2/3	1/2	1/2
Vic Holmes	-	2/2	1/1	3/3	2/2	2/2
Total number of meetings		**5**	**2**	**5**	**4**	**4**

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.

Board Committees

The Board has established four Committees: Audit and Risk, Remuneration, Property Valuation and Nomination. These are comprised entirely of non-executive directors and operate within defined terms of reference. The terms of reference are available on the Company's website.

Non-executive directors

Excluding the Chairman, the Board includes three independent non-executive directors. The non-executive directors bring a variety of skills and business experience to the Board. Their role is to bring independent judgement and scrutiny to the recommendations of the Executive. Each of the non-executive directors are considered to be independent in character and judgement.

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. 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.

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 senior management would be excluded from that discussion.

Shareholder engagement

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. Through the Chief Executive, a regular programme of shareholder engagement is undertaken during the year. As well as one-to-one meetings with large shareholders the Company offers group meetings at the annual and half-year stage. The outcome of these meetings is communicated to the rest of the Board.

Employee engagement

We recognise that our employees are integral to the business, and we aim to provide a working environment where they are able to maximise their potential. Under its previous structure, with a distinct Investment Manager, the Board would meet in Guernsey with the result that engagement with the rest of the Picton team would be limited, although informal contact did take place on occasion. Now that Picton is entirely managed in the UK, the Board wishes to strengthen the relationship with all of the employees, and in this regard has agreed that Maria Bentley will be the designated non-executive director with responsibility for engagement with employees. Her role will be to ensure that they have a forum in which to air their views and that these are fed back to the Board.

Board evaluation

The Board has a policy of undertaking an external evaluation every three years, with internal evaluations in the other years. This year an external review was carried out by BoardAlpha, and the key findings of their evaluation are as follows:

- Whilst in a period of transition, the Board appears to have all of the necessary skills, expertise and commitment to be effective in overseeing the management of the Company and safeguarding shareholders' interests.
- The Board has addressed and effectively dealt with several major strategic issues since 2014.
- A key issue for the Board is succession planning, given the tenure of the Chairman and one of the other non-executive directors.
- Consideration should be given to the appointment of a Senior Independent Director.
- The Board should review its company secretarial arrangements.
- In accordance with the new Corporate Governance code, the Chairman should seek regular engagement with shareholders to understand their views on governance and strategy.

The Board has reviewed the findings of the evaluation, and has addressed the majority of the recommendations as appropriate. In respect of succession planning and a Senior Independent Director, these matters are discussed further in the Nomination Committee Report.

BoardAlpha have no other connection with the Group.

Conflicts of interest

Directors are required to notify the Company of any potential conflicts of interest that they may have. Any conflicts are recorded and reviewed by the Board at each meeting. No conflicts have been recorded during the year.

Audit and risk committee report

Mark batten

The Audit and Risk Committee is chaired by Mark Batten. The other members of the Committee are Roger Lewis and Maria Bentley.

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, independence and non-audit services;
- Internal audit and the programme of controls testing; and
- Reporting responsibilities.

Nicholas Thompson has stepped down from the Committee in accordance with the UK Corporate Governance Code 2018. Meetings of the Audit and Risk Committee are attended by the Group's Finance Director and other members of the finance team, and the external auditor. The external auditor is given the opportunity to discuss matters without management presence.

Activity

The Audit and Risk Committee met twice during the year ended 31 March 2019 and considered the following matters:

- External audit strategy and plan;
- Audit and accounting issues of significance;
- Changes to accounting standards and their impact;
- The Annual and Interim Reports of the Group;
- Reports from the external auditor;
- Review of internal controls testing;
- 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 2019 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 Picton staff, 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 2019 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 2019 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 performance of the Company against its strategy and receives regular reports from management covering all business 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 2018, prepared in accordance with International Standard on Assurance Engagements 3402, in respect of property management accounting services provided to Picton Property Income 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:

	2019 £000	2018 £000
Audit fees	115	108
Interim review fees	15	14
Non-audit fees	27	27
	157	149

The non-audit fees include £15,000 for additional controls testing, £7,000 for liquidation fees and £5,000 for taxation services, carried out by KPMG Channel Islands Limited.

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 annual 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.

Audit tenure

KPMG Channel Islands Limited has been appointed as the Company's external auditor since 2009. Following professional guidelines, the audit partner rotates after five years. The current audit partner is in her second year of appointment. The Audit and Risk Committee is aware that the tenure of the auditor is approaching ten years. Therefore the Audit and Risk Committee intends to undertake an audit tender process in the coming year, in line with best practice.

Mark Batten
Chair of the Audit and Risk Committee

Nomination committee report

Maria Bentley

The Nomination Committee is chaired by Maria Bentley. The other members of the Committee are Roger Lewis, Mark Batten and Nicholas Thompson.

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.

Nicholas Thompson stood down as Chair of the Committee in March 2019 so that the process to find a new Chair would be led by one of the other members of the Committee. Maria Bentley agreed to take over as Chair of the Committee from that date. This report covers the work of the Committee over the year including the appointment and induction of Maria Bentley as a non-executive director, and these sections of the report were prepared by the previous Chair.

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.

Activity

The Committee met four times during the year ended 31 March 2019 and considered the following matters:

- Future composition of the Board;
- Succession planning;
- The selection process for the appointment of a new director to replace Vic Holmes;
- 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; and
- Consideration of the final shortlist of candidates and a final recommendation.

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

Appointment of new non-executive director

During the year the Committee focused on the selection and appointment of a new non-executive director to replace Vic Holmes, who retired from the Board on 30 September 2018. The Committee appointed independent executive search consultants JCA Group and provided them with a detailed description of the role and the capabilities required for it. The consultants prepared a list of potential candidates, which was assessed by the Committee for suitability to the role. A short list of three candidates were interviewed initially by the Chairman, and subsequently by two other directors. The whole Committee then considered the feedback from this process before recommending to the Board that Maria Bentley be appointed.

JCA Group have no other connection with the Group.

Board composition and succession

Following the change to a commercial company which took place on 1 October 2018, Andrew Dewhirst was appointed to the Board as an executive director. Following this appointment the Board comprises the Chairman, two executive directors and three further independent non-executive directors.

The Committee has further considered succession planning for the Board, particularly following the publication of the new Corporate Governance Code. Nicholas Thompson has served as Chairman since 2005, and intends to step down from the Board once a suitable successor has been appointed. This process has commenced, with the appointment of JCA Group as external search consultants.

Roger Lewis joined the Board on 31 March 2010 and has now served for nine years. He will also step down from the Board within the next 12 months, but the Committee wishes to ensure that a new appointment takes place after reflecting on the skills of the new Chairman, and with an appropriate handover period.

Re-election of directors

The provisions of the UK Corporate Governance Code 2018 recommend that all directors be subject to annual re-election at the Annual General Meeting. The Board intends to follow this recommendation at this year's Annual General Meeting.

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. All candidates are considered on merit but having regard to the right blend of skills, experience and knowledge at Board and executive level, and amongst our employees generally.

Induction

The induction process for Maria Bentley was led by the Chairman and supported by the other directors and members of senior management. The process commenced shortly after the appointment was confirmed, and comprised a number of one-to-one meetings with the other non-executive directors (including Vic Holmes, the previous Chair of the Remuneration Committee), the Chief Executive, the Finance Director and the Head of Asset Management, and also attendance, as an observer, at the Board meeting held in September 2018 and at relevant industry events. Additionally, reading and reference material was provided that was specific to the Group and its business.

Maria Bentley
Chair of the Nomination Committee

Property valuation committee report

Roger Lewis

The Property Valuation Committee is chaired by Roger Lewis. The other members of the Committee are Nicholas Thompson, Mark Batten and Maria Bentley.

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 management;
- Significant issues that should be raised with management;
- Material and unexplained movements in the valuation;
- 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.

Activity

The Committee met four times during the year ended 31 March 2019. Members of the Property Valuation Committee, together with management, 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 net asset statements.

The Committee reviewed the performance of the valuer and recommended that the appointment be continued for a further 12 months.

Roger Lewis
Chair of the Property Valuation Committee

CBRE

CBRE Limited
Henrietta House
Henrietta Place
London W1G 0NB

Switchboard 020 7182 2000
Fax 020 7182 2001

Direct Dial 020 7182 2897
Email Nick.knight@cbre.com

Our ref ValAdv/NJK/JB/PS
Your ref

The Directors
Picton Property Income Limited
1st Floor
28 Austin Friars
London
EC2N 2QQ

10 April 2019

Dear Sirs

PICTON PROPERTY PORTFOLIO - VALUATION AS AT 31 MARCH 2019

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 2019, for accounting purposes. Our valuations have been prepared on the basis of 'Fair Value' in accordance with the RICS Valuation – Global Standards 2017. 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 10 April 2019, we are of the opinion that the aggregate values of the properties we value in the Picton investment property portfolio, as at 31 March 2019, is £685,335,000 (SIX HUNDRED AND EIGHTY FIVE MILLION THREE HUNDRED AND THIRTY FIVE THOUSAND POUNDS), exclusive of VAT.

Our opinion of Fair 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 Ltd (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 the 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

NJ Knight

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

Remuneration report

Maria bentley

The Remuneration Committee is chaired by Maria Bentley. The other members of the Committee are Nicholas Thompson, Mark Batten and Roger Lewis.

Terms of reference

The Committee's terms of reference are available on the Company's website. The principal functions of the Committee as set out in the terms of reference include the following matters:

- Review the ongoing appropriateness and relevance of the Directors' Remuneration Policy;
- Determine the remuneration of the Chairman, executive directors and such members of the executive management as it is designated to consider;
- Review the design of all share incentive plans for approval by the Board; and
- Appoint and set the terms of reference for any remuneration consultants.

Annual statement

Dear Shareholders

Introduction

On behalf of the Board, I am pleased to introduce the Remuneration Committee report for the year ended 31 March 2019.

This is my first report as Chair of the Remuneration Committee, having taken over the role from Vic Holmes, who retired from the Board at the end of September 2018. This has been a period of considerable change for Picton, in particular the appointment of executive directors to the Board for the first time in October 2018, with a number of ramifications for remuneration which have required careful consideration by the Committee. Our new Remuneration Policy was approved by shareholders last year, with 95% of votes in favour, and we are now reporting on its application for the first time. I should highlight that whilst Picton has only had executive directors since October 2018 and the new Policy has therefore only technically applied to these individuals' remuneration for part of this financial year, we have applied it in respect of their variable remuneration awards for the full financial year.

This report comprises three sections:

- This annual statement;
- Summary of the Directors' Remuneration policy; and
- The Annual Report on Remuneration for the year ended 31 March 2019.

Other attendees at Committee meetings during the year were Michael Morris and Andrew Dewhirst. Neither participated in discussions relating to their own remuneration.

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

Group performance and alignment

We have set out on pages 26 to 27 the key performance indicators (KPIs) that we currently use to monitor the success of the business. In order to appropriately align executive remuneration with business performance we incorporate KPIs within our incentive schemes. In both 2018/19 and 2019/20 the KPIs that we are using to determine variable remuneration are:

- Total return
- Total property return
- Total shareholder return
- Growth in EPRA earnings per share

The precise application of these measures to both the annual bonus and the Long-term Incentive Plan is set out later in the Report.

Annual bonus awards for 2018/19

The executive directors were set a number of challenging targets for this year, comprising a combination of financial measures and corporate objectives. This is the first year that such targets have been formally linked to remuneration in a transparent manner.

The three financial measures were total return, total property return, and growth in EPRA earnings per share. The actual outcomes are set out in the Annual Remuneration report, but the overall result was that the directors earned an estimated 60% of the maximum award available under these financial measures.

The corporate objectives were set to ensure that specific key strategic targets were reached. The most significant of these were the conversion to a UK REIT and at the same time the change in listing status. The other objectives set related to leading the business and making progress against the new strategic aims which were set out in last year's Annual Report. The Committee considered that the executive directors had made significant progress in many areas, including successfully concluding both the REIT conversion and listing change projects. More detail is provided later in this Report, but overall the Committee considered that an outcome of 92% of the maximum award was merited.

The Committee considered the formulaic bonus outcome in the context of the Group's overall performance for the year. Performance has been discussed earlier in the Report but particular points considered by the Committee included:

- The return from the property portfolio has exceeded the MSCI UK Quarterly Property Index for the year, and our long-term record of outperformance has been maintained over three, five and ten years.
- The Group's profit for the year was £31 million, giving a total return of 6.5%. Although this is lower than the previous year, compared to the MSCI UK Quarterly Property Index return of 4.6%, this represents a very creditable outcome.
- We have experienced reduced returns from an uncertain property market but our total return exceeds the average of our peer group.
- EPRA earnings per share have increased again and over the last three years have risen by nearly 5% per annum on average.

The Committee concluded that it was satisfied the formulaic bonus outcome was a fair reflection of overall Group performance during the past financial year.

Long-term Incentive Plan awards (performance period to 31 March 2019)

The first awards made under the Long-term Incentive Plan (LTIP), in early 2017 when the Plan was established, were based on three performance conditions measured over the three year period ending on 31 March 2019. The LTIP provides the link between the long-term success of the Company and the remuneration of the whole team. The Committee has assessed the extent to which these three performance conditions have been met.

The three equally weighted performance conditions were total shareholder return, total property return and growth in EPRA earnings per share. The actual outcomes for these conditions are set out in the Annual Remuneration Report, and give rise to an overall award of 83% of the maximum granted.

Salary increases for 2019/20

In considering salary increases for 2019/20, the Committee received an independent benchmarking report covering each of the roles within the Picton team. The Committee also considered publically available comparative data, and other market intelligence. As a result and in order to maintain a competitive package the Committee determined that there would be an overall average rise for the workforce as a whole of 6.3% in base salaries with effect from 1 April 2019. Rises for the two executive directors were in line with or below the average for the rest of the workforce.

Remuneration policy

The Remuneration Policy was approved by shareholders in 2018 and we are not proposing any changes to the policy this year.

Implementation of policy

Broadly our remuneration structure will remain unchanged for the year to 31 March 2020 although there are some minor developments:

- In respect of the LTIP we intend to introduce a further two-year holding period for future awards made to the executive directors. The total vesting and holding period will therefore be five years, which is in accordance with the new 2018 Corporate Governance Code.
- We have agreed an increased LTIP award for the Finance Director for this year of 120%, from 110%, as a result of the additional duties carried out in respect of REIT conversion.
- Ahead of our first full year as a commercial company, we have reviewed the performance conditions for both the annual bonus and the LTIP. For the annual bonus we intend to increase the proportion determined by financial metrics from 54% to 60%.

The bonus deferral policy for executive directors will continue, with 50% of any annual bonus award being deferred into Picton shares for a period of two years before vesting. The executive directors are expected to build up a shareholding of 200% of base salary under our shareholding guidelines.

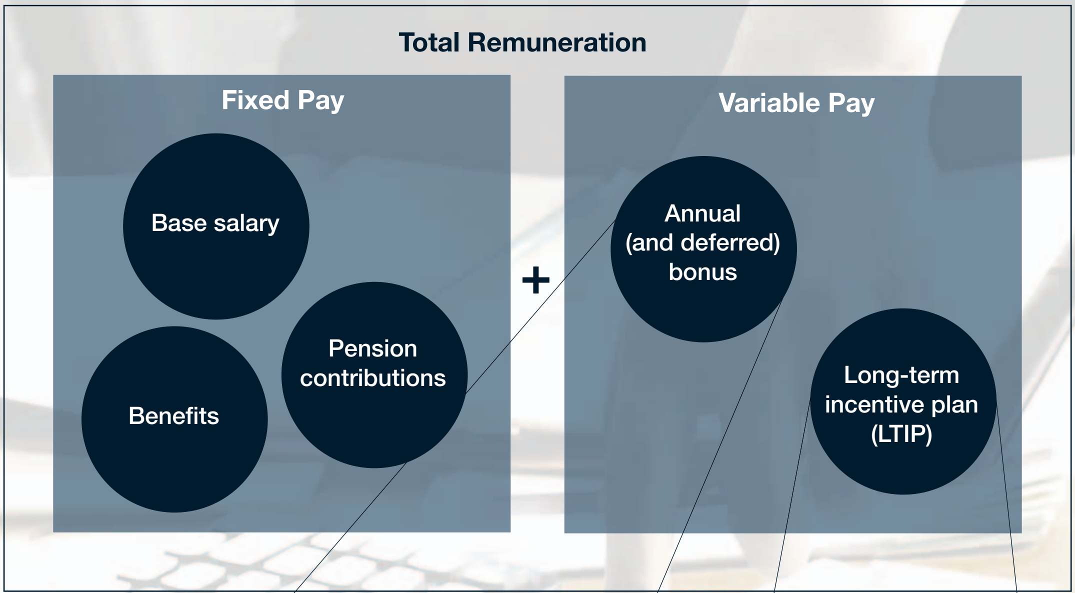
We intend to maintain our current pension arrangements for the executive directors, as these are consistent with those of the rest of the workforce.

As a Committee, we are committed to ongoing dialogue with our shareholders. We look forward to receiving your continued support at the forthcoming Annual General Meeting.

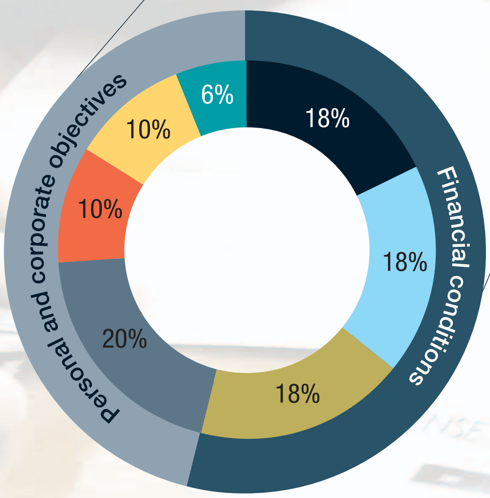
Maria Bentley
Chair of the Remuneration Committee

Remuneration at a glance

The components of remuneration are:



The annual bonus for 2018/19 was determined by:



Personal and corporate objectives

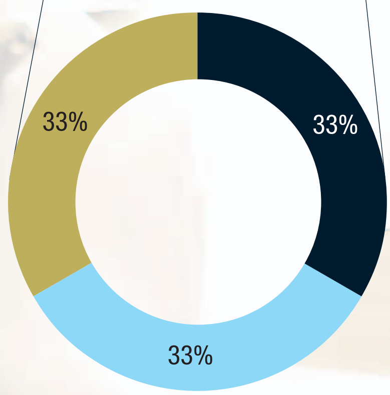
- Progress against strategic objectives
- Conversion to a REIT
- Change to a commercial company
- Enhance reputation with stakeholders

Financial conditions

- Total return
- Total property return
- Growth in EPRA earnings per share

Up to 50% of the annual bonus is deferred into shares which will vest in two years time.

The LTIP is based on three financial metrics, each measured over three years.



- Total shareholder return
- Total property return
- Growth in EPRA earnings per share

Group performance

Annual

6.5%
TOTAL RETURN

7.5%
Above MSCI upper quartile
TOTAL PROPERTY RETURN

2.5%
INCREASE IN NET ASSETS

25%
Down from 27% in 2018
LOAN TO VALUE RATIO

4.3p
Increase of 1.4% from 2018
EPRA EARNINGS PER SHARE

Over three years

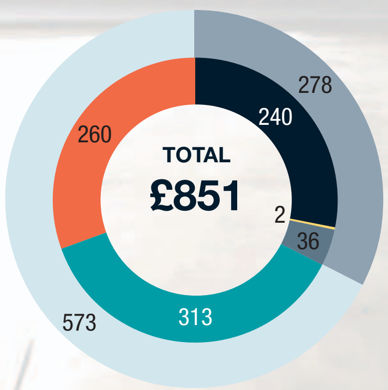
10.1%
Above MSCI upper quartile
TOTAL PROPERTY RETURN

43.7%
TOTAL SHAREHOLDER RETURN

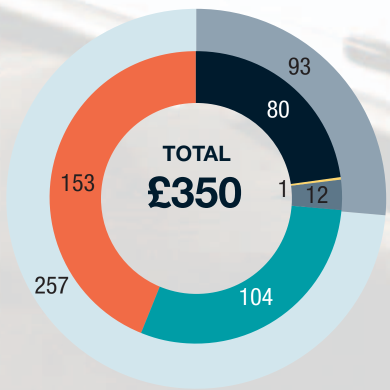
5%
per annum increase
INCREASE IN EPRA EARNINGS PER SHARE

The total remuneration for the directors for the year to 31 March 2019 (in £000) is:

Chief Executive



Finance Director*



Non-executive directors

Total fixed
- Salary/fees
- Benefits
- Pension salary supplement

Total variable
- Annual bonus
- Long-term incentive plan

*Figures from 1 October 2018

p82 Read more in Annual Report on Remuneration

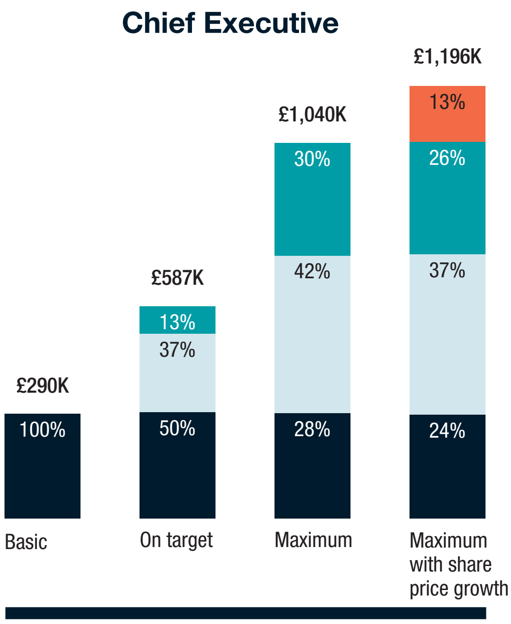
Summary of directors' remuneration policy

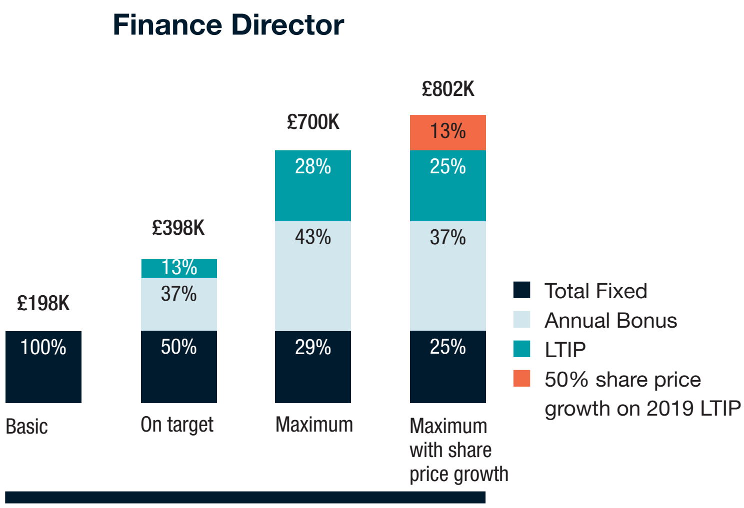
The objective of the Group's remuneration policy is to have a simple and transparent remuneration structure aligned with the Group's strategy.

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.

The following charts show the composition of the executive directors' remuneration at four performance levels:

Basic	This is fixed pay only, comprising base salary from 1 April 2019, benefits and pension salary supplement of 15% of base salary.
On target	This is fixed pay plus target vesting for the annual bonus (at 50% of maximum opportunity for illustrative purposes) and the LTIP (at 25% of maximum award).
Maximum	Fixed pay plus maximum vesting for both the annual bonus (175% of base salary) and the LTIP (125% (Chief Executive) and 120% (Finance Director) of base salary).
Maximum with share price growth	Maximum scenario incorporating assumption of 50% share price growth during LTIP vesting period.





Other than where stated, the charts do not incorporate share price growth or dividend equivalent awards.

Advisers

During the year, Deloitte LLP has provided independent advice in relation to market data, share valuations, share plan administration and content of the Remuneration Report. Total fees for the year were £23,900 (calculated on a time spent basis). 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.

A summary of the Remuneration Policy approved by shareholders at the 2018 Annual General Meeting is set out to the right. The full Policy is contained in our 2018 Annual Report which is available on our website at www.picton.co.uk

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	Base 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	To provide a 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	To provide a 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

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 may be awarded and 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. The Committee may apply a holding period of a further two years to awards that vest.
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 independent non-executive directors. 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 total of non-executive directors' remuneration of £300,000.
Performance measures	None
Clawback	None

Notes to table:

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 were 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.

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.

Annual report on remuneration

Total remuneration for the year

The table below sets out the total remuneration receivable by each of the directors who held office during the year to 31 March 2019, with a comparison to the previous financial year:

		Salary/fees £000	Benefits £000	Pension salary supplement £000	Annual bonus £000	Deferred bonus £000	Long-term incentive plan £000	Total £000
Executive								
Michael Morris	2019	240	2	36	157	156	260	851
	2018	227	2	34	135	165	-	563
Andrew Dewhirst	2019	80	1	12	52	52	153	350
	2018	-	-	-	-	-	-	-
Non-executive								
Nicholas Thompson	2019	98	-	-	-	-	-	98
	2018	86	-	-	-	-	-	86
Roger Lewis	2019	45	-	-	-	-	-	45
	2018	41	-	-	-	-	-	41
Mark Batten	2019	46	-	-	-	-	-	46
	2018	19	-	-	-	-	-	19
Maria Bentley	2019	23	-	-	-	-	-	23
	2018	-	-	-	-	-	-	-
Robert Sinclair	2019	24	-	-	-	-	-	24
	2018	44	-	-	-	-	-	44
Vic Holmes	2019	23	-	-	-	-	-	23
	2018	41	-	-	-	-	-	41

Benefits comprise private medical insurance and life assurance.

Executive directors receive a salary supplement of 15% of basic salary in lieu of company pension contributions.

Andrew Dewhirst joined the Board on 1 October 2018. The above figures for his salary, benefits, annual and deferred bonus have been pro-rated to reflect his time served as a director. The LTIP value has not been pro-rated and reflects the full estimated value of the award that will vest.

Michael Morris became an executive director on 1 October 2018. However the above table also includes, in relation to the prior period that he was a non-executive director of the Company, remuneration received in his capacity as Chief Executive of Picton Capital Limited. He did not receive a separate fee as a non-executive director.

Robert Sinclair and Vic Holmes retired from the Board on 30 September 2018. Maria Bentley joined the Board on 1 October 2018.

The value of LTIP awards are based on the number of shares to be awarded to the executive directors and the average share price over the quarter ended 31 March 2019 of 87.56 pence.

Annual bonus for 2018/19

The annual bonus for the year ended 31 March 2019 for the executive directors was based on a combination of financial metrics (54%) and corporate and personal objectives (46%).

The targets set for the year ended 31 March 2019 and the assessment of actual performance achieved are set out in the tables below.

The financial metrics comprised three equally weighted components: Total Return relative to a comparator group of similar companies, set out later in this report; Total Property Return compared to the MSCI UK Quarterly Property Index; and growth in EPRA earnings per share over the financial year.

At the date of this report a number of companies in the Total Return comparator group had not announced their results to 31 March 2019, and so the Committee has estimated that this condition will be met at the median level, resulting in an award of 50%. The Committee will determine the actual outcome of this condition once all companies have reported, and any adjustment required between the estimate and actual will be made in next year's Remuneration Report. There will be no payout of the bonus until a finalised result can be confirmed.

Performance condition	Basis of calculation	Range	Actual	Weighting (% of bonus)	Awarded (% of maximum)
Total Return versus comparator group	Less than median – 0% Equal to median – 50% Equal to upper quartile – 100%	Not yet available	6.5%	18%	50% (estimated)
Total Property Return versus MSCI Index	Less than median – 0% Equal to median – 50% Equal to upper quartile – 100%	Median – 5.6% Upper quartile – 7.0%	7.3%	18%	100%
Growth in EPRA EPS	Less than 1% – 0% Equal to 1% – 25% Equal or greater than 9% – 100%	1% – 4.23p 9% – 4.57p	4.25p	18%	29%

The corporate and personal objectives for the executive directors for the year to 31 March 2019 were determined by the Remuneration Committee and accounted for 46% of the maximum award. The objectives and the assessment of performance against these are as follows.

<table>
<tr><th>Performance condition</th><th>Assessment</th></tr>
<tr><td>Conversion to a UK REIT</td><td rowspan="2">The project to convert to a REIT was initiated when there was clarity on UK Government proposals to bring offshore companies into the scope of corporation tax. The potential increase in the Group’s tax liability was significant and therefore the importance of this project to the future profitability of the Group was considered to be high. The two objectives of REIT conversion and transition to a commercial company were assessed together due to the many interrelated issues involved.

The Committee considered that this critical project was both successfully planned and executed by the executive directors. Key dates over the course of the project were met allowing final completion to be achieved on time. The project was completed within budget and tax savings of around £0.7 million are expected to be realised within the first year after conversion.</td></tr>
<tr><td>Successful transition to a commercial company</td></tr>
<tr><td>Lead the business and make progress against the strategic aims:
• Be occupier focused and opportunity led in the way that we approach the proactive management of the 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</td><td>The Committee assessed the progress made against the new strategic aims. They considered that good progress had been made and particularly noted the following achievements:
• The proactive management of the portfolio was demonstrated by 26 transactions completed directly with occupiers without the use of third party agents
• Seven leases were regeared or breaks removed to manage the lease expiry profile securing £1.4 million of income
• 16 rent reviews were settled securing a £0.5 million increase in annual income
• 14 leases were renewed securing £1.5 million of annual income
• The Total Property Return has exceeded the MSCI UK Quarterly Property Index over one, three, five and ten years
• Two asset disposals were completed which crystallised value achieved through active management, and ahead of previous valuation
• The Canada Life loan facility was restructured during the year, removing a number of operational constraints and providing greater flexibility
• The loan to value ratio was further reduced over the year by making an early loan repayment
• The EPRA cost ratio, including direct vacancy costs, has reduced compared to the previous year
• A new management system was implemented improving the quality of property data available to the team
• Developed the Picton Promise with Action, Sustainability, Support, Technology and Community initiatives
• Developed sustainability objectives and management policy

The Committee also noted the following where less progress had been made than had been expected:
• The disposal of a retail asset did not take place as originally planned
• Occupancy reduced over the year</td></tr>
<tr><td>Enhance reputation with stakeholders</td><td>Picton achieved recognition through a number of awards over the year, including from MSCI, Investment Week, Citywire, Moneywise and Money Observer. The 2018 Annual Report achieved an EPRA Gold award for the fourth year running, and our sustainability reporting earned a Silver award.

The share price discount has narrowed over the year indicating a stronger demand for shares, and is less than the sector average.

Meetings with shareholders took place throughout the year, and analyst presentations were carried out after the annual and interim results. Shareholder feedback received was consistently positive.</td></tr>
</table>

The Committee agreed the following actual awards in respect of the corporate and personal objectives for the executive directors.

Performance condition	Actual level achieved (% of maximum)	Weighting (% of bonus)	Awarded (% of maximum)
Conversion to a UK REIT	100%	10%	17.5%
Successful transition to a commercial company	100%	10%	17.5%
Lead the business and make progress against the strategic aims	85%	20%	29.75%
Enhance reputation with stakeholders	90%	6%	9.45%

As discussed in the Committee Chair's statement on pages 74 and 75, the Committee considered the formulaic bonus outcome in the context of the Group's overall performance for the year and concluded that it was satisfied the formulaic bonus outcome was a fair reflection of overall Group performance during the year.

Subject to the estimated Total Return component noted above, the overall annual bonus outcome for the executive directors is, therefore, as follows.

	Financial metrics (out of maximum 54%)	Corporate objectives (out of maximum 46%)	Overall bonus % of maximum	Bonus % of salary	Total bonus £
Michael Morris	32.2%	42.4%	74.6%	130.6%	313,500
Andrew Dewhirst	32.2%	42.4%	74.6%	130.6%	104,500

The total bonus above for Andrew Dewhirst represents that portion relating to the period as a director of the Company.

In accordance with the Directors' Remuneration Policy the Committee has determined that 50% of the annual bonuses awarded to the executive directors should be deferred and payable in shares in two years' time. Dividend equivalents will accrue on the shares and these will be paid when the awards vest.

Long-term Incentive Plan

The LTIP awards granted on 27 January 2017 were subject to performance conditions for the three years ended 31 March 2019. The performance conditions and the actual performance for these were as follows:

Performance condition	Basis of calculation	Range	Actual	Weighting (% of award)	Awarded (% of maximum)
Total Shareholder Return versus comparator group	Less than median – 0% Equal to median – 25% Equal to upper quartile – 100%	Median – 16.5% Upper quartile – 20.5%	43.7%	33.3%	100%
Total Property Return versus MSCI UK Quarterly Property Index	Less than median – 0% Equal to median – 25% Equal to upper quartile – 100%	Median – 7.2% Upper quartile – 8.3%	10.1%	33.3%	100%
Growth in EPRA EPS	Less than 3% per annum – 0% Equal to 3% per annum – 25% Equal or greater than 9% per annum – 100%	3% – 4.02p 9% – 4.77p	4.25p	33.3%	48%

The Committee was satisfied that the above performance was achieved within an acceptable risk profile. Based on the vesting percentage above, the shares awarded and their estimated values, based on an average share price of 87.56 pence for the quarter ended 31 March 2019, are:

Director	Maximum number of shares at grant	Number of shares vesting	Number of lapsed shares	Estimated value [1,2] £
Michael Morris	358,791	296,815	61,976	259,900
Andrew Dewhirst	211,418	174,899	36,519	153,100

1 The estimated value excludes dividend equivalent awards which will be made in relation to vested LTIP awards at the point of vesting. The value of these dividend equivalent awards will be included in a restated LTIP value in next year's Remuneration Report.

2 £25,157 (Michael Morris) and £14,824 (Andrew Dewhirst) of this value relates to share price growth since the date of grant.

The following awards in the Long-term Incentive Plan were granted to the executive directors on 8 June 2018.

	Number of shares	Basis (% of salary)	Face value per share (£)	Award face value (£)	Performance period	Threshold vesting
Michael Morris	330,396	125%	0.9080	300,000	1 April 2018 to 31 March 2021	25%
Andrew Dewhirst	193,833	110%	0.9080	176,000	1 April 2018 to 31 March 2021	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 same performance conditions as applied to the January 2017 LTIP award set out above.

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.

The executive directors have the following outstanding awards under the Long-term Incentive Plan.

	Date of grant	Performance period	Market value on date of grant	At 1 April 2018	Granted in year	Vested in year	Lapsed in year	At 31 March 2019
Michael Morris								
2016 LTIP	27 January 2017	1 April 2016 to 31 March 2019	79.085p	358,791	-	-	-	358,791
2017 LTIP	16 June 2017	1 April 2017 to 31 March 2020	84.917p	334,150	-	-	-	334,150
2018 LTIP	8 June 2018	1 April 2018 to 31 March 2021	90.80p	-	330,396	-	-	330,396
				692,941	**330,396**	**-**	**-**	**1,023,337**
Andrew Dewhirst								
2016 LTIP	27 January 2017	1 April 2016 to 31 March 2019	79.085p	211,418	-	-	-	211,418
2017 LTIP	16 June 2017	1 April 2017 to 31 March 2020	84.917p	196,898	-	-	-	196,898
2018 LTIP	8 June 2018	1 April 2018 to 31 March 2021	90.80p	-	193,833	-	-	193,833
				408,316	**193,833**	**-**	**-**	**602,149**

Comparator group

The Committee has agreed that the following companies are used as a comparator group for the Total Shareholder Return and Total Return metrics in determining variable remuneration. A smaller group is used for the Total Return metric due to the different reporting periods of some companies. The criteria for inclusion in the groups are:

Listed companies paying an above average dividend yield, principally directly investing in the UK in one or more of the main commercial property sectors and with a market capitalisation of less than £2 billion.

Company	Total Shareholder Return	Total Return
AEW UK REIT plc	✓	✓
BMO Commercial Property Trust Limited	✓	✓
BMO UK Real Estate Investments Limited	✓	✓
Capital & Regional plc	✓	
Custodian REIT plc	✓	✓
Ediston Property Investment Company PLC	✓	✓
Hansteen Holdings plc	✓	
LondonMetric Property PLC	✓	✓
McKay Securities PLC	✓	✓
Mucklow (A.&J.) Group PLC	✓	
NewRiver REIT PLC	✓	✓
RDI REIT PLC	✓	
Regional REIT Limited	✓	
Schroder Real Estate Investment Trust Limited	✓	✓
Standard Life Investments Property Income Trust Limited	✓	✓
Supermarket Income REIT PLC	✓	
UK Commercial Property REIT Limited	✓	✓
Warehouse REIT plc	✓	✓

For awards made after 1 April 2018 the Committee determined that Tritax Big Box REIT plc would be removed from the comparator groups as its market capitalisation now exceeded the criteria, and that Supermarket Income REIT PLC and Warehouse REIT plc would be added following their listing.

Statement of directors' shareholdings

Directors and employees are encouraged to maintain a shareholding in the Company's shares to provide alignment with investors.

The numbers of shares beneficially held by each director (including connected persons), as at 31 March 2019, were as follows:

	Beneficial holding 2019	Beneficial holding 2018	Holding as a % of salary	Outstanding LTIP awards
Michael Morris	53,596	53,596	20%	1,023,337
Andrew Dewhirst	28,500	28,500	16%	602,149
Nicholas Thompson	215,000	215,000		
Roger Lewis	600,000	600,000		
Mark Batten	-	-		
Maria Bentley	-	-		
Robert Sinclair	15,000	15,000		
Vic Holmes	27,214	27,214		

The percentage holding for the executive directors is based on base salaries as at 31 March 2019 and a share price of £0.88. The beneficial holdings of shares include any held by connected persons.

Robert Sinclair and Vic Holmes retired from the Board during the year ended 31 March 2019. Their 2019 shareholding above is as at the date of their retirement.

Executive directors are now required to maintain a shareholding of 200% of base salary and both directors are currently in the process of building up to that level. The executive directors intend to retain at least 50% of any share awards (post tax) until the guidelines are met.

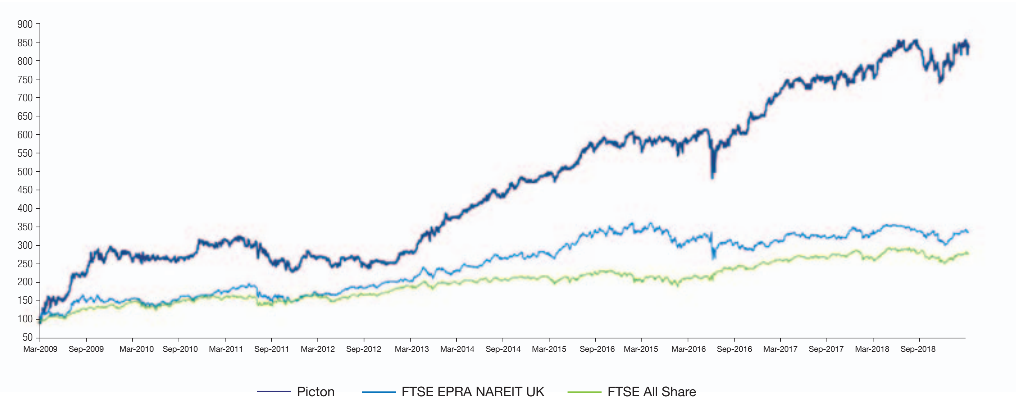
There have been no changes in these shareholdings between the year-end and the date of this report.

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 2019.

Historical total shareholder return performance

The graph below shows the Company's Total Shareholder Return (TSR) since 31 March 2009 as represented by share price growth with dividends reinvested, against the FTSE All Share Index and the FTSE EPRA NAREIT UK Index. These indices have been chosen as they provide comparison against relevant sectoral and pan-sectoral benchmarks.



The table below shows the remuneration of the Chief Executive for the past year, together with the annual bonus percentage and LTIP vesting level. Although the Company only appointed a Chief Executive on 1 October 2018 the table shows his remuneration for the full financial year.

	Total remuneration (£000)	Annual bonus (% of maximum)	LTIP vesting (% of maximum award)
2019	851	75%	83%

Percentage change in remuneration of the Chief Executive

The table below shows the percentage change in the Chief Executive's total remuneration between the years ended 31 March 2018 and 31 March 2019 compared to the average remuneration of all other employees of the Group.

	Change from previous year		
	Base salary	Benefits	Annual bonus
Chief Executive	5.7%	5.2%	4.4%
Average of all employees	12.8%	10.4%	5.2%

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 2019 £	31 March 2018 £	% change
Staff costs	3,672	3,311	11%
Dividends	18,860	18,487	2%
EPRA earnings	22,912	22,625	1%

Implementation of Remuneration Policy in 2019/20

	2019/20	Change from prior year
Executive directors		
Base salaries	Michael Morris (Chief Executive) – £250,000 Andrew Dewhirst (Finance Director) – £170,000	Salaries have increased by 4.2% (Chief Executive) and 6.3% (Finance Director) compared to a 6.3% average increase for the rest of the workforce.
Pension and benefits	15% salary supplement in lieu of pension plus standard other benefits.	No change. All employees may receive 15% salary pension provision.
Annual bonus*	Maximum bonus of 175% of salary with 50% of any bonus deferred in shares for two years. 60% of bonus to be determined by corporate financial metrics of Total Return, Total Property Return and growth in EPRA earnings per share with the remaining 40% determined by strategic and personal measures.	Increase in proportion of bonus based on corporate financial metrics.
LTIP*	Award of shares worth: • Michael Morris (Chief Executive) 125% of salary • Andrew Dewhirst (Finance Director) 120% of salary. Shares released after three year performance and two-year holding period. Vesting of shares based equally on Total Shareholder Return, Total Property Return and growth in EPRA earnings per share measures, with the same target ranges as set out on page 86.	Increase in Finance Director award from 110% of salary as a result of additional duties carried out in respect of REIT conversion. Introduction of two-year holding period.
Non-executive directors		
Fees	Chairman – £98,000 Director – £40,000 Supplementary fee for Chair of the Property Valuation or Remuneration Committee – £5,000 Supplementary fee for Chair of the Audit and Risk Committee – £7,500	No change

*The Remuneration Committee has discretion to override the formulaic outcomes in both the annual bonus and LTIP.

The Committee also confirms that performance has been achieved within an acceptable risk profile before payouts are made. Incentive payouts are subject to malus and clawback provisions.

Statement of voting at the last Annual General Meeting

At the Annual General Meeting held on 13 September 2018 the Remuneration Report resolutions were approved by shareholders representing 31% of the issued share capital of the Company.

	Remuneration Policy		Remuneration Report	
	Votes cast	**%**	**Votes cast**	**%**
For	148,636,904	94.98	163,191,904	98.04
Against	7,853,028	5.02	3,268,028	1.96
Votes cast	**156,489,932**	**100.0**	**166,459,932**	**100.0**
Withheld	10,100,551		130,551	

Maria Bentley
Chair of the Remuneration Committee

Directors' report

The directors of Picton Property Income Limited present the Annual Report and audited financial statements for the year ended 31 March 2019. The Company is registered under the provisions of the Companies (Guernsey) Law, 2008.

Principal activity

The principal activity of the Group is commercial property investment in the United Kingdom.

Results and dividends

The results for the year are set out in the Consolidated Statement of Comprehensive Income.

On 1 October 2018 the Company converted to a UK Real Estate Investment Trust (REIT). As a REIT the Company must distribute to its shareholders at least 90% of the profits of its property rental business for each accounting period as a Property Income Distribution (PID).

As set out in Note 10 to the consolidated financial statements, the Company has paid four interim dividends of 0.875 pence per share, making a total dividend for the year ended 31 March 2019 of 3.5 pence per share (2018: 3.425 pence). The fourth interim dividend paid on 28 February 2019 was paid as a PID. The other three interim dividends paid in the year relate to the period before REIT conversion and were therefore paid as ordinary dividends.

Directors

The directors of the Company who served throughout the year are set out on pages 56 and 57.

The directors' interests in the shares of the Company as at 31 March 2019 are set out in the Remuneration Report.

All of the directors will offer themselves for re-election at the forthcoming Annual General Meeting.

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 2019 was 540,053,660 (2018: 540,053,660) ordinary shares of no par value, including 1,542,000 ordinary shares which are held by the Trustee of the Company's Employee Benefit Trust (2018: 1,070,000 ordinary shares).

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 2018 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 August 2018) 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 resolutions 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 1,542,000 ordinary shares in the Company in trust to satisfy awards made under the Long-term Incentive Plan. During the year the Trustee acquired 472,000 ordinary shares at 84.2 pence per share. The Trustee has waived its right to receive dividends on the shares it holds.

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. The Board considered this timescale to be the most appropriate having regard to the Group's unexpired lease profile and the duration of its external loan facilities. 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. This assessment included the potential impact of Brexit on the Group's operations.

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 2024, 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 2024.

Alternative Investment Fund Managers Directive

As a result of the Company changing its listing status to that of a commercial company from 1 October 2018 it is no longer subject to this legislation.

Non-mainstream pooled investments

As the Company is now a UK REIT, it is exempt from these rules.

Substantial shareholdings

Based 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 3 May 2019.

	% of issued share capital
Investec Wealth & Investment Limited	14.0
Alliance Trust Savings Limited	7.6
Mattioli Woods Plc	5.1
Canaccord Genuity Wealth Management	4.9
Brewin Dolphin Limited	4.7
BlackRock Inc.	4.1
Smith & Williamson Investment Management	3.8
The Vanguard Group Inc.	3.4
Brooks MacDonald Asset Management	3.2

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, subject to a tender process, 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

Andrew Dewhirst
21 May 2019

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 2019, 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 2019, 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 judgment, 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 2018):

Valuation of investment properties

£676.1 million (2018: £670.7 million)

Refer to pages 67 to 69 of the Audit and Risk Committee Report, Note 2 Significant Accounting Policies and Note 13 Investment Properties.

The risk

Basis:
The Group's investment properties accounted for 94% (2018: 93%) of the Group's total assets as at 31 March 2019. The fair value of investment properties at 31 March 2019 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 properties 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 of investment properties including the review and approval by the Board of Directors of the valuations 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 the key inputs used to calculate 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 property 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 13 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 £7.1 million, determined with reference to a benchmark of Group Total Assets of £715.6 million of which it represents approximately 1% (2018: 1%).

We reported to the Audit and Risk Committee any corrected or uncorrected identified misstatements exceeding £355,000, 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 93 and 94) 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 93 and 94) 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 95, 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

21 May 2019

Consolidated statement of comprehensive income

For the year ended 31 March 2019

	Notes	2019 £000	2018 £000
Income			
Revenue from properties	3	**47,733**	48,782
Property expenses	4	**(9,433)**	(10,335)
Net property income		**38,300**	**38,447**
Expenses			
Administrative expenses	6	**(5,842)**	(5,566)
Total operating expenses		**(5,842)**	**(5,566)**
Operating profit before movement on investments		**32,458**	**32,881**
Investments			
Profit on disposal of investment properties	13	**379**	2,623
Investment property valuation movements	13	**10,909**	38,920
Total profit on investments		**11,288**	**41,543**
Operating profit		**43,746**	**74,424**
Financing			
Interest received		**38**	35
Interest paid	8	**(9,126)**	(9,782)
Debt prepayment fees		**(3,245)**	–
Total finance costs		**(12,333)**	**(9,747)**
Profit before tax		**31,413**	**64,677**
Tax	9	**(458)**	(509)
Profit and total comprehensive income for the period		**30,955**	**64,168**
Earnings per share			
Basic	11	**5.7p**	11.9p
Diluted	11	**5.7p**	11.9p

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 26 form part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 March 2019

	Notes	Share Capital £000	Retained Earnings £000	Other Reserves £000	Total £000
Balance as at 31 March 2017		**157,449**	**284,476**	**–**	**441,925**
Profit for the year		–	64,168	–	64,168
Dividends paid	10	–	(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**
Profit for the year		–	30,955	–	30,955
Dividends paid	10	–	(18,860)	–	(18,860)
Share-based awards	7	–	–	363	363
Purchase of shares held in trust	7	–	–	(398)	(398)
Balance as at 31 March 2019		**157,449**	**342,252**	**(286)**	**499,415**

Notes 1 to 26 form part of these consolidated financial statements.

Consolidated balance sheet

As at 31 March 2019

	Notes	2019 £000	2018 £000
Non-current assets			
Investment properties	13	**676,102**	670,674
Tangible assets		**25**	5
Total non-current assets		**676,127**	**670,679**
Current assets			
Investment properties held for sale	13	**–**	3,850
Accounts receivable	14	**14,309**	15,273
Cash and cash equivalents	15	**25,168**	31,510
Total current assets		**39,477**	**50,633**
Total assets		**715,604**	**721,312**
Current liabilities			
Accounts payable and accruals	16	**(22,400)**	(21,471)
Loans and borrowings	17	**(833)**	(712)
Obligations under finance leases	21	**(109)**	(109)
Total current liabilities		**(23,342)**	**(22,292)**
Non-current liabilities			
Loans and borrowings	17	**(191,136)**	(209,952)
Obligations under finance leases	21	**(1,711)**	(1,713)
Total non-current liabilities		**(192,847)**	**(211,665)**
Total liabilities		**(216,189)**	**(233,957)**
Net assets		**499,415**	**487,355**
Equity			
Share capital	19	**157,449**	157,449
Retained earnings		**342,252**	330,157
Other reserves		**(286)**	(251)
Total equity		**499,415**	**487,355**
Net asset value per share	22	**93p**	**90p**

These consolidated financial statements were approved by the Board of Directors on 21 May 2019 and signed on its behalf by:

Andrew Dewhirst
Director
21 May 2019

Notes 1 to 26 form part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 March 2019

	Notes	2019 £000	2018 £000
Operating activities			
Operating profit		**43,746**	74,424
Adjustments for non-cash items	20	**(10,918)**	(40,889)
Interest received		**38**	35
Interest paid		**(8,668)**	(9,160)
Tax paid		**(845)**	(328)
Decrease in accounts receivable		**396**	267
Increase in accounts payable and accruals		**1,532**	1,286
Cash inflows from operating activities		**25,281**	**25,635**
Investing activities			
Capital expenditure on investment properties	13	**(1,559)**	(3,553)
Acquisition of investment properties	13	**–**	(24,543)
Disposal of investment properties		**11,837**	10,285
Purchase of tangible assets		**(27)**	–
Cash inflows/(outflows) from investing activities		**10,251**	**(17,811)**
Financing activities			
Borrowings repaid	17	**(34,871)**	(3,104)
Borrowings drawn	17	**15,500**	12,500
Debt prepayment fees		**(3,245)**	–
Financing costs		**–**	(213)
Purchase of shares held in trust	7	**(398)**	(893)
Dividends paid	10	**(18,860)**	(18,487)
Cash outflows from financing activities		**(41,874)**	**(10,197)**
Net decrease in cash and cash equivalents		**(6,342)**	**(2,373)**
Cash and cash equivalents at beginning of year		**31,510**	33,883
Cash and cash equivalents at end of year	15	**25,168**	**31,510**

Notes 1 to 26 form part of these consolidated financial statements.

Notes to the consolidated financial statements

For the year ended 31 March 2019

1. General information

Picton Property Income Limited (the "Company" and together with its subsidiaries the "Group") was established on 15 September 2005 as a closed ended Guernsey investment company and entered the UK REIT regime on 1 October 2018. The consolidated financial statements are prepared for the year ended 31 March 2019 with comparatives for the year ended 31 March 2018.

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 the 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.

- IFRS 15 Revenue from Contracts with Customers
- IFRS 9 Financial Instruments
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions
- Amendment to IAS 40: Transfer of Investment Property
- Annual improvements to IFRSs 2014-2016 cycle – amendments to IFRS 1 and IAS 28

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

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement. It makes changes to classification and measurement of financial assets and introduces an "expected credit loss" model for impairment of financial assets.

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 2019 and thus have not been applied by the Group. None of these are expected to have an effect on the consolidated financial statements of the Group, except the following set out below:

- 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 is in the process of assessing the full impact of IFRS 16. Once IFRS 16 is adopted, the Group will be required to account for its current operating lease in a similar way to current finance lease accounting. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and impact on the timing of the expense recognition in the consolidated statement of comprehensive income after the period of the lease. Upon the initial adoption of IFRS 16, the opening balance of the lease liability and corresponding right of use asset will be adjusted as at 1 April 2019.

There are a number of other changes to Accounting Standards effective from 1 January 2019 onwards but no material impact is expected on the Group.

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 13. 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 12. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

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 Consolidated 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.

The loans have a first ranking mortgage over the majority of properties; see Note 17.

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 Plan, 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 Consolidated 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. The Group applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected impairment provision for all applicable accounts receivable. 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, which are not interest bearing 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.

2. Significant accounting policies (continued)

Taxation

The Group elected to be treated as a UK REIT with effect from 1 October 2018. The UK REIT rules exempt the profits of the Group's UK property rental business from UK corporation and income tax. Gains on UK properties are also exempt from tax, provided they are not held for trading. The Group is otherwise subject to UK corporation tax.

As a REIT, the Company is required to pay Property Income Distributions equal to at least 90% of the Group's exempted net income. To remain a UK REIT there are a number of conditions to be met in respect of the principal company of the Group, the Group's qualifying activity and its balance of business. The Group continues to meet these conditions.

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.

3. Revenue from properties

	2019 £000	2018 £000
Rents receivable (adjusted for lease incentives)	40,942	41,412
Surrender premiums	682	200
Dilapidation receipts	269	1,111
Other income	122	132
Service charge income	5,718	5,927
	47,733	48,782

Rents receivable includes lease incentives recognised of £0.8 million (2018: £0.2 million).

4. Property expenses

	2019 £000	2018 £000
Property operating costs	**2,342**	2,578
Property void costs	**1,373**	1,830
Recoverable service charge costs	**5,718**	5,927
	9,433	**10,335**

5. Operating segments

The Board is responsible for setting the Group's business model and strategy. 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 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 49 commercial properties, which are in the industrial, office, retail and leisure sectors.

6. Administrative expenses

	2019 £000	2018 £000
Director and staff costs	**3,672**	3,311
Auditor's remuneration	**157**	149
Other administrative expenses	**2,013**	2,106
	5,842	**5,566**

One off REIT conversion costs of £215,000 were incurred during the year ended 31 March 2019, which are included within other administrative expenses (2018: £307,000).

Auditor's remuneration comprises:	2019 £000	2018 £000
Audit fees:		
Audit of Group financial statements	**72**	65
Audit of subsidiaries' financial statements	**43**	43
Audit related fees:		
Review of half-year financial statements	**15**	14
	130	**122**
Non-audit fees:		
Additional controls testing	**15**	14
FCA CASS audit	**–**	6
Liquidators' fees	**7**	7
Tax compliance	**5**	–
	27	**27**
	157	**149**

Liquidators' fees incurred to 31 March 2019 were in connection with the members' voluntary liquidation of Picton (UK) Listed Real Estate Limited.

7. Director and staff costs

	2019 £000	2018 £000
Wages and salaries	**1,654**	1,667
Non-executive directors' fees	**257**	232
Social security costs	**623**	276
Other pension costs	**48**	50
Share-based payments – cash settled	**727**	620
Share-based payments – equity settled	**363**	466
	3,672	**3,311**

The emoluments of the directors are set out in detail within the Remuneration Committee report.

Employees participate in two share-based remuneration arrangements: the Deferred Bonus Plan and the Long-term Incentive Plan (the "LTIP").

For all employees a proportion of any discretionary annual bonus will be an award under the Deferred Bonus Plan. With the exception of executive directors, awards are cash settled and vest after two years. The final value of awards are determined by the movement in the Company's share price and dividends paid over the vesting period. For executive directors awards made after 1 April 2019 are equity settled and also vest after two years. On 1 April 2018 awards of 572,389 units were made which vest on 31 March 2020 (2018: 662,149 units). The next awards will be made in June 2019 for vesting on 31 March 2021.

The table below summarises the awards made under the Deferred Bonus Plan. 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 2019, and were not deferred, were paid out subsequent to the year end at a cost of £925,000 (2018: £508,000).

Vesting Date	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	Units granted in the year	Units cancelled in the year	Units redeemed in the year	Units at 31 March 2019
31 March 2016	65,198	–	–	–	65,198	–	–	(65,198)	**–**
31 March 2017	127,916	–	–	–	127,916	–	–	(127,916)	**–**
31 March 2018	725,980	–	(56,549)	(542,197)	127,234	–	–	(127,234)	**–**
31 March 2019	369,534	662,149	(80,793)	–	950,890	–	(14,331)	(936,559)	**–**
31 March 2020	–	–	–	–	–	572,389	(7,785)	–	**564,604**
	1,288,628	**662,149**	**(137,342)**	**(542,197)**	**1,271,238**	**572,389**	**(22,116)**	**(1,256,907)**	**564,604**

The Group also has a Long-term Incentive Plan for all employees which is equity settled. Awards are made annually and vest three years from the grant date. Vesting is conditional on three performance metrics measured over each three-year period. Awards to executive directors are also subject to a further two-year holding period. On 8 June 2018 awards for a maximum of 1,006,938 shares were granted to employees in respect of the three-year period ending on 31 March 2021. In the previous year awards of 1,036,938 shares were made on 16 June 2017 for the period ending 31 March 2020.

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 Group, compared to the MSCI UK Quarterly Property Index; and
- Growth in EPRA earnings per share (EPS) of the 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		
Grant date	8 June 2018	16 June 2017
Share price at date of grant	90.9p	84.25p
Exercise price	Nil	Nil
Expected term	3 years	3 years
Risk free rate – TSR condition	0.83%	0.21%
Share price volatility – TSR condition	18.4%	18.3%
Median volatility of comparator group – TSR condition	18.1%	16.1%
Correlation – TSR condition	33.2%	35.0%
TSR performance at grant date – TSR condition	7.6%	3.3%
Median TSR performance of comparator group at grant date – TSR condition	3.1%	7.0%
Fair value – TSR condition (Monte Carlo method)	42.9p	31.98p
Fair value – TPR condition (Black-Scholes model)	90.9p	84.25p
Fair value – EPS condition (Black-Scholes model)	90.9p	84.25p

The Trustee of the Company's Employee Benefit Trust acquired 472,000 ordinary shares during the year for £398,000 (2018: 1,070,000 shares for £893,000).

The Group employed ten members of staff at 31 March 2019 (2018: ten). The average number of people employed by the Group for the year ended 31 March 2019 was 11 (2018: 12).

8. Interest paid

	2019 £000	2018 £000
Interest payable on loans at amortised cost	**8,117**	8,780
Interest on obligations under finance leases	**114**	114
Non-utilisation fees	**220**	311
Amortisation of finance costs	**675**	577
	9,126	**9,782**

The loan arrangement costs incurred to 31 March 2019 are £4,534,000 (2018: £5,244,000). These are amortised over the duration of the loans with £675,000 amortised in the year ended 31 March 2019 (2018: £577,000).

9. Tax

The charge for the year is:

	2019 £000	2018 £000
Current UK income tax	324	510
Income tax adjustment to provision for prior year	25	(203)
	349	307
Current UK corporation tax	121	195
UK corporation tax adjustment to provision for prior year	(12)	7
	109	202
Total tax charge	**458**	**509**

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:

	2019 £000	2018 £000
Profit before taxation	31,413	64,677
Expected tax charge on ordinary activities at the standard rate of taxation of 20%	6,283	12,935
Less:		
UK REIT exemption on net income and gains	(2,315)	–
Revaluation gains not taxable	(2,182)	(7,784)
Gains on disposal not taxable	(76)	(525)
Income not taxable, including interest receivable	(163)	(152)
Expenditure not allowed for income tax purposes	985	404
Losses utilised	(2)	(33)
Capital allowances and other allowable deductions	(2,291)	(4,498)
Losses carried forward to future years	85	163
Adjustment to provision for prior years	25	(203)
Total income tax charge	**349**	**307**

For the year ended 31 March 2019 there was an income tax liability of £349,000 in respect of the Group (2018: £307,000) and corporation tax of £109,000 (2018: £202,000).

The Group migrated tax residence to the UK and elected to be treated as a UK Real Estate Investment Trust (REIT) with effect from 1 October 2018. As a UK REIT, the income profits of the Group's UK property rental business are exempt from corporation tax as are any gains it makes from the disposal of its properties, provided they are not held for trading. The Group is otherwise subject to UK corporation tax at the prevailing rate.

As the principal company of the REIT, the Company is required to distribute at least 90% of the income profits of the Group's UK property rental business. There are a number of other conditions that also require to be met by the Company and the Group to maintain REIT tax status. These conditions were met in the year and the Board intends to conduct the Group's affairs such that these conditions continue to be met for the foreseeable future. Accordingly, deferred tax is no longer recognised on temporary differences relating to the property rental business.

The Group is exempt from Guernsey taxation under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989.

10. Dividends

	2019 £000	2018 £000
Declared and paid:		
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
Interim dividend for the period ended 31 March 2018: 0.875 pence	**4,716**	–
Interim dividend for the period ended 30 June 2018: 0.875 pence	**4,716**	–
Interim dividend for the period ended 30 September 2018: 0.875 pence	**4,716**	–
Interim dividend for the period ended 31 December 2018: 0.875 pence	**4,712**	–
	18,860	**18,487**

The interim dividend of 0.875 pence per ordinary share in respect of the period ended 31 March 2019 has not been recognised as a liability as it was declared after the year end. A dividend of £4,712,000 will be paid on 31 May 2019.

11. Earnings per share

Basic and 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:

	2019	2018
Net profit attributable to ordinary shareholders of the Company from continuing operations (£000)	**30,955**	64,168
Weighted average number of ordinary shares for basic profit per share	**538,815,550**	539,734,126
Weighted average number of ordinary shares for diluted profit per share	**541,035,348**	539,738,613

12. Investments in subsidiaries

The Company had the following principal subsidiaries as at 31 March 2019 and 31 March 2018:

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%

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 Finance Limited was wound up as a solvent liquidation.

13. 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.

	2019 £000	2018 £000
Fair value at start of year	**674,524***	615,170
Acquisitions	**–**	24,543
Capital expenditure on investment properties	**1,559**	3,553
Disposals	**(11,269)**	(10,285)
Realised gains on disposal	**406**	2,655
Realised losses on disposal	**(27)**	(32)
Unrealised gains on investment properties	**35,178**	49,664
Unrealised losses on investment properties	**(24,269)**	(10,744)
Transfer to assets classified as held for sale	**–**	(3,850)
Fair value at the end of the year	**676,102**	**670,674**
Historic cost at the end of the year	**648,044**	**660,263**

* Includes assets classified as held for sale at year end.

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

	2019 £000	2018 £000
Appraised value	**685,335**	683,800
Valuation of assets held under finance leases	**1,565**	1,657
Lease incentives held as debtors	**(10,798)**	(10,933)
Assets classified as held for sale	**–**	(3,850)
Fair value at the end of the year	**676,102**	**670,674**

The investment properties were valued by CBRE Limited, Chartered Surveyors, as at 31 March 2019 and 31 March 2018 on the basis of fair value in accordance with the RICS Valuation – Global Standards 2017 which incorporate the International Valuation Standards and the UK national supplement 2018. 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 Group including rents, lease terms, revenue and capital expenditure. Such information is derived from the Group'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 senior management and the Board through the Property Valuation Committee. Members of the Property Valuation Committee, together with senior management, 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 2019 and 31 March 2018 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:

	2019			2018		
	Office	**Industrial**	**Retail and Leisure**	Office	Industrial	Retail and Leisure
Appraised value (£000)	**235,035**	**312,790**	**137,510**	245,500	281,855	156,445
Area (sq ft, 000s)	**856**	**2,731**	**829**	928	2,731	829
Range of unobservable inputs:						
Gross ERV (sq ft per annum)						
— range	**£9.52 to £51.78**	**£3.54 to £17.70**	**£3.88 to £84.11**	£9.52 to £52.65	£3.25 to £17.21	£5.19 to £91.14
— weighted average	**£27.33**	**£8.91**	**£31.50**	**£26.96**	**£8.24**	**£32.73**
Net initial yield						
— range	**2.48% to 8.59%**	**0.00% to 8.25%**	**–0.17% to 15.36%**	2.32% to 11.46%	1.29% to 9.08%	3.01% to 19.90%
— weighted average	**5.15%**	**4.78%**	**5.11%**	**5.29%**	**5.19%**	**6.32%**
Reversionary yield						
— range	**5.32% to 10.70%**	**4.60% to 9.99%**	**4.63% to 12.11%**	5.52% to 13.70%	4.93% to 10.12%	4.55% to 10.95%
— weighted average	**7.01%**	**5.55%**	**6.37%**	**7.14%**	**5.94%**	**6.52%**
True equivalent yield						
— range	**5.24% to 9.49%**	**4.63% to 9.48%**	**4.09% to 10.86%**	5.46% to 11.71%	5.00% to 9.48%	4.37% to 10.35%
— weighted average	**6.88%**	**5.59%**	**6.75%**	**7.05%**	**5.98%**	**6.60%**

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.

13. Investment properties (continued)

Sector	Movement	2019 Impact on valuation	2018 Impact on valuation
Industrial	Increase of 50 basis points	**Decrease of £28.7m**	Decrease of £24.2m
	Decrease of 50 basis points	**Increase of £34.7m**	Increase of £29.0m
Office	Increase of 50 basis points	**Decrease of £18.7m**	Decrease of £18.8m
	Decrease of 50 basis points	**Increase of £21.3m**	Increase of £21.8m
Retail and Leisure	Increase of 50 basis points	**Decrease of £12.6m**	Decrease of £13.2m
	Decrease of 50 basis points	**Increase of £15.8m**	Increase of £17.0m

14. Accounts receivable

	2019 £000	2018 £000
Tenant debtors (net of provisions for bad debts)	**2,594**	4,011
Lease incentives	**10,798**	10,933
Other debtors	**917**	329
	14,309	**15,273**

The estimated fair values of receivables are the discounted amount of the estimated future cash flows expected to be received and the approximate of their carrying amounts.

Amounts are considered impaired using the lifetime expected credit loss method. Movement in the balance considered to be impaired has been included in the Consolidated Statement of Comprehensive Income. As at 31 March 2019, Trade debtors of £918,000 (2018: £384,000) were considered impaired and provided for.

15. Cash and cash equivalents

	2019 £000	2018 £000
Cash at bank and in hand	**24,454**	30,986
Short-term deposits	**714**	524
	25,168	**31,510**

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.

16. Accounts payable and accruals

	2019 £000	2018 £000
Accruals	**6,596**	5,355
Deferred rental income	**8,381**	9,104
VAT liability	**1,994**	2,243
Income tax liability	**57**	444
Trade creditors	**230**	236
Other creditors	**5,142**	4,089
	22,400	**21,471**

17. Loans and borrowings

	Maturity	2019 £000	2018 £000
Current			
Aviva facility	–	**1,204**	1,153
Capitalised finance costs	–	**(371)**	(441)
		833	**712**
Non-current			
Santander revolving credit facility	18 June 2021	**11,500**	10,500
Santander revolving credit facility	20 June 2021	**14,500**	–
Canada Life facility	–	**–**	33,718
Canada Life facility	24 July 2027	**80,000**	80,000
Aviva facility	24 July 2032	**87,465**	88,669
Capitalised finance costs	–	**(2,329)**	(2,935)
		191,136	**209,952**
		191,969	**210,664**

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

	2019 £000	2018 £000
Balance as at 1 April	**210,664**	200,904
Changes from financing cash flows		
Proceeds from loans and borrowings	**15,500**	12,500
Repayment of loans and borrowings	**(34,871)**	(3,104)
Financing costs	**–**	(213)
	(19,371)	**9,183**
Other changes		
Amortisation of financing costs	**676**	577
	676	**577**
Balance as at 31 March	**191,969**	**210,664**

The Group has a loan with Canada Life Limited for £80 million which matures in July 2027. 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 £292.4 million (2018: £289.8 million).

On 20 July 2018 the Group repaid £33.7 million of debt under the Canada Life facility incurring an early repayment charge of £3.2 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 £1.2 million in the year (2018: £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 £230.3 million (2018: £232.4 million).

17. Loans and borrowings (continued)

The Group has two revolving credit facilities ("RCFs") with Santander Corporate & Commercial Banking which expire in June 2021. In total the Group has £51.0 million available under both facilities, of which £26.0 million has been drawn down at year end. Interest is payable on drawn balances at LIBOR plus margins of 175 or 190 basis points. The facilities are secured on properties held by Picton (UK) REIT (SPV No 2) Limited and Picton (UK) Listed Real Estate, valued at £133.7 million (2018: £132.7 million).

The fair value of the drawn loan facilities at 31 March 2019, estimated as the present value of future cash flows discounted at the market rate of interest at that date, was £219.5 million (2018: £235.1 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 2019 was 4.0% (2018: 4.1%).

18. Contingencies and capital commitments

The Group has entered into contracts for the refurbishment of five properties with commitments outstanding at 31 March 2019 of approximately £1.4 million (2018: £nil). No further obligations to construct or develop investment property or for repairs, maintenance or enhancements were in place as at 31 March 2019 (2018: £nil).

19. Share capital and other reserves

	2019 £000	2018 £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 2018: 540,053,660)	**–**	–
Share premium	**157,449**	157,449

	2019 Number of shares	2018 Number of shares
Ordinary share capital	**540,053,660**	540,053,660
Number of shares held in Employee Benefit Trust	**(1,542,000)**	(1,070,000)
Number of ordinary shares	**538,511,660**	**538,983,660**

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 1,542,000 shares it holds but continues to hold the right to vote. 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.

20. Adjustment for non-cash movements in the cash flow statement

	2019 £000	2018 £000
Profit on disposal of investment properties	**(379)**	(2,623)
Movement in investment property valuation	**(10,909)**	(38,920)
Share-based provisions	**363**	642
Depreciation of tangible assets	**7**	12
	(10,918)	**(40,889)**

21. 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:

	2019 £000	2018 £000
Future minimum payments due:		
Within one year	**117**	117
In the second to fifth years inclusive	**466**	466
After five years	**7,383**	7,499
	7,966	**8,082**
Less: finance charges allocated to future periods	**(6,146)**	(6,260)
Present value of minimum lease payments	**1,820**	**1,822**

The present value of minimum lease payments is analysed as follows:

	2019 £000	2018 £000
Current		
Within one year	**109**	109
	109	**109**
Non-current		
In the second to fifth years inclusive	**392**	395
After five years	**1,319**	1,318
	1,711	**1,713**
	1,820	**1,822**

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):

	2019 £000	2018 £000
Within one year	**37,497**	41,083
In the second to fifth years inclusive	**113,403**	125,186
After five years	**88,902**	100,087
	239,802	**266,356**

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.

22. 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 19.

23. 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 17, 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 2019	Note	Held at fair value through profit or loss £000	Financial assets and liabilities at amortised cost £000	Total £000
Financial assets				
Debtors	14	–	3,511	3,511
Cash and cash equivalents	15	–	25,168	25,168
		–	28,679	28,679
Financial liabilities				
Loans and borrowings	17	–	191,969	191,969
Obligations under finance leases	21	–	1,820	1,820
Creditors and accruals	16	–	11,968	11,968
		–	205,757	205,757

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	14	–	4,340	4,340
Cash and cash equivalents	15	–	31,510	31,510
		–	35,850	35,850
Financial liabilities				
Loans and borrowings	17	–	210,664	210,664
Obligations under finance leases	21	–	1,822	1,822
Creditors and accruals	16	–	9,680	9,680
		–	222,166	222,166

24. Risk management

The Group invests in commercial properties in the United Kingdom. The following describes the risks involved and the applied risk management. Senior management 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 17, 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 17, 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:

	2019 £000	2018 £000
Total borrowings	194,669	214,040
Gross assets	715,604	721,312
Gearing ratio (must not exceed 65%)	**27.2%**	**29.7%**

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 manage 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:

	2019 £000	2018 £000
Total liabilities	216,189	233,957
Less: cash and cash equivalents	(25,168)	(31,510)
Net debt	**191,021**	**202,447**
Total equity	**499,415**	487,355
Net debt to equity ratio at end of year	**0.38**	**0.42**

Credit risk

The following tables detail the balances held at the reporting date that may be affected by credit risk:

31 March 2019	Note	Held at fair value through profit or loss £000	Financial assets and liabilities at amortised cost £000	Total £000
Financial assets				
Tenant debtors	14	–	2,594	2,594
Cash and cash equivalents	15	–	25,168	25,168
		–	27,762	27,762

24. RISK MANAGEMENT (CONTINUED)

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	14	–	4,011	4,011
Cash and cash equivalents	15	–	31,510	31,510
		–	**35,521**	**35,521**

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.

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"). Insolvency or resolution of the bank holding cash balances may cause the Group's recovery of 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 2019 and at 31 March 2018 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 senior management 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 12 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 2019	Less than 1 year £000	1 to 5 years £000	More than 5 years £000	Total £000
Cash and cash equivalents	25,177	–	–	25,177
Debtors	3,511	–	–	3,511
Capitalised finance costs	371	1,062	1,267	2,700
Obligations under finance leases	(117)	(466)	(1,237)	(1,820)
Fixed interest rate loans	(8,332)	(33,329)	(201,591)	(243,252)
Floating interest rate loans	(360)	(26,869)	–	(27,229)
Creditors and accruals	(11,968)	–	–	(11,968)
	8,282	(59,602)	(201,561)	(252,881)

31 March 2018	Less than 1 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)

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) is generally not reduced when circumstances cause a reduction in revenue from properties. By diversifying in regions, sectors, risk categories and occupiers, senior management 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 £34.3 million (2018: £34.2 million).

24. Risk management (continued)

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 2019	Less than 1 year £000	1 to 5 years £000	More than 5 years £000	Total £000
Floating				
Cash and cash equivalents	25,168	–	–	25,168
Secured loan facilities	–	(26,000)	–	(26,000)
Fixed				
Secured loan facilities	(1,204)	(5,377)	(160,884)	(167,465)
Obligations under finance leases	(109)	(392)	(1,319)	(1,820)
	23,855	(31,769)	(162,203)	(170,117)

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)

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 the single largest occupier accounting for 4.2% of the Group's annual contracted rental income.

Currency risk

The Group has no exposure to foreign currency risk.

25. Related party transactions

The total fees earned during the year by the non-executive directors of the Company amounted to £257,000 (2018: £232,000). As at 31 March 2019 the Group owed £nil to the non-executive directors (2018: £nil). The emoluments of the executive directors are set out in the Remuneration Report.

Picton Property Income Limited has no controlling parties.

26. Events after the balance sheet date

A dividend of £4,712,000 (0.875 pence per share) was approved by the Board on 25 April 2019 and will be paid on 31 May 2019.

Additional information

Supplementary 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.

	2019 £000	2018 £000	2017 £000
Profit for the year after taxation	**30,955**	64,168	42,750
Exclude:			
Investment property valuation movement	**(10,909)**	(38,920)	(15,087)
Gains on disposal of investment properties	**(379)**	(2,623)	(1,847)
Debt prepayment fees	**3,245**	–	–
Exceptional income	**–**	–	(5,250)
EPRA earnings	**22,912**	**22,625**	**20,566**
Weighted average number of shares in issue (000s)	**538,816**	539,734	540,054
EPRA earnings per share	**4.3p**	**4.2p**	**3.8p**

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.

	2019 £000	2018 £000	2017 £000
Balance Sheet net assets	**499,415**	487,355	441,925
Fair value of financial instruments	**–**	–	–
Deferred tax	**–**	–	–
EPRA NAV	**499,415**	**487,355**	**441,925**
Shares in issue (000s)	**538,512**	538,984	540,054
EPRA NAV per share	**93p**	**90p**	**82p**

EPRA NNNAV per share

The EPRA Triple Net Asset Value includes the fair value adjustments in respect of all material balance sheet items.

	2019 £000	2018 £000	2017 £000
EPRA NAV	**499,415**	487,355	441,925
Fair value of debt	**(24,811)**	(21,106)	(24,475)
Deferred tax	**–**	–	–
EPRA NNNAV	**474,604**	**466,249**	**417,450**
Shares in issue (000s)	**538,512**	538,984	540,054
EPRA NNNAV per share	**88p**	**87p**	**77p**

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.

	2019 £000	2018 £000	2017 £000
Investment property valuation	**685,335**	683,800	624,410
Allowance for estimated purchasers' costs	**46,771**	46,197	42,362
Grossed up property portfolio valuation	**732,106**	**729,997**	**666,772**
Annualised cash passing rental income	**37,699**	41,360	39,998
Property outgoings	**(1,896)**	(1,327)	(911)
Annualised net rents	**35,803**	**40,033**	**39,087**
EPRA net initial yield	**4.9%**	**5.5%**	**5.9%**

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 stepped rents).

	2019 £000	2018 £000	2017 £000
EPRA NIY annualised net rents	**35,803**	40,033	39,087
Annualised cash rent that will apply at expiry of lease incentives	**2,739**	3,160	2,633
Topped-up annualised net rents	**38,542**	**43,193**	**41,720**
EPRA "topped-up" NIY	**5.3%**	**5.9%**	**6.3%**

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.

	2019 £000	2018 £000	2017 £000
Annualised potential rental value of vacant premises	**4,828**	1,995	2,647
Annualised potential rental value for the complete property portfolio	**46,839**	47,854	45,887
EPRA vacancy rate	**10.3%**	**4.2%**	**5.8%**

EPRA cost ratio

EPRA cost ratio reflects the overheads and operating costs as a percentage of the gross rental income.

	2019 £000	2018 £000	2017 £000
Property operating costs	2,342	2,578	3,501
Property void costs	1,373	1,830	2,023
Administrative expenses	5,842	5,566	5,249
Less:			
Ground rent costs	(256)	(217)	(239)
EPRA costs (including direct vacancy costs)	**9,301**	**9,757**	**10,534**
Property void costs	(1,373)	(1,830)	(2,023)
EPRA costs (excluding direct vacancy costs)	**7,928**	**7,927**	**8,511**
Gross rental income	40,942	41,412	40,555
Less ground rent costs	(256)	(217)	(239)
Gross rental income	**40,686**	**41,195**	**40,316**
EPRA cost ratio (including direct vacancy costs)	**22.9%**	**23.7%**	**26.1%**
EPRA cost ratio (excluding direct vacancy costs)	**19.5%**	**19.2%**	**21.1%**

Capital expenditure

The table below sets out the capital expenditure incurred over the financial year, in accordance with EPRA Best Practices Recommendations.

	2019 £000	2018 £000
Acquisitions	–	–
Development	–	–
Like-for-like portfolio	1,559	3,553
Other	–	–
Total capital expenditure	**1,559**	**3,553**

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	
	2019 £000	2018 £000	2019 £000	2018 £000	2019 £000	2018 £000	2019 £000	2018 £000
Like-for-like rental income	13,378	12,910	16,727	15,990	9,401	10,758	39,506	39,658
Properties acquired	1,285	691	–	–	–	–	1,285	691
Properties sold	154	1,063	–	–	(3)	–	151	1,063
	14,817	**14,664**	**16,727**	**15,990**	**9,398**	**10,758**	**40,942**	**41,412**

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.

	2019 £000	2018 £000	2017 £000
Total borrowings	194,669	214,040	204,644
Less:			
Cash and cash equivalents	(25,168)	(31,510)	(33,883)
Total net borrowings	169,501	182,530	170,761
Investment property valuation	685,335	683,800	624,410
Loan to value	24.7%	26.7%	27.4%

Cost ratio

The cost ratio is based on historical information and provides shareholders with an indication of the likely level of cost of managing the Group. The cost ratio uses the annual recurring administrative expenses as a percentage of the average net asset value over the period.

	2019 £000	2018 £000	2017 £000
Administrative expenses	5,842	5,566	5,249
Less:			
REIT conversion and restructuring costs	(215)	(307)	–
Restructuring costs	–	–	(167)
Recurring administrative expenses	5,627	5,259	5,082
Average Net Asset Value over the year	497,304	470,252	429,546
Cost ratio	1.1%	1.1%	1.2%

Property portfolio

Properties valued in excess of £40 million

- **Parkbury Industrial Estate**, Radlett, Herts.
- **River Way Industrial Estate**, River Way, Harlow, Essex

Properties valued between £30 and £40 million

- **Angel Gate**, City Road, London EC1
- **Stanford House**, Long Acre, London WC2

Properties valued between £20 and £30 million

- **50 Farringdon Road**, London EC1
- **Tower Wharf**, Cheese Lane, Bristol
- **Belkin Unit**, Express Business Park, Shipton Way, Rushden, Northants.
- **30 & 50 Pembroke Court**, Chatham, Kent
- **Colchester Business Park**, The Crescent, Colchester, Essex
- **Lyon Business Park**, Barking, Essex

Properties valued between £10 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
- **Datapoint**, Cody Road, London E16
- **Grantham Book Services**, Trent Road, Grantham, Lincs.
- **Sundon Business Park**, Dencora Way, Luton, Beds.
- **The Business Centre**, Molly Millars Lane, Wokingham, Berks.
- **Unit 3220, Magna Park**, Lutterworth, Leics.
- **180 West George Street**, Glasgow
- **401 Grafton Gate East**, Milton Keynes, Bucks.
- **Nonsuch Industrial Estate**, Kiln Lane, Epsom, Surrey
- **Vigo 250**, Birtley Road, Washington, Tyne and Wear

Properties valued between £5 and £10 million

- **Angouleme Retail Park**, George Street, Bury, Greater Manchester
- **Regency Wharf**, Broad Street, Birmingham
- **Trident House**, Victoria Street, St Albans, Herts.
- **Units 1 & 2, Kettlestring Lane**, York
- **Crown & Mitre Complex**, English Street, Carlisle, Cumbria
- **Queen's House**, St Vincent Place, Glasgow
- **Longcross Court**, Newport Road, Cardiff
- **Easter Court**, Europa Boulevard, Warrington
- **53-57 Broadmead**, Bristol
- **Units 1 & 2, Western Industrial Estate**, Downmill Road, Bracknell, Berks.
- **Swiftbox**, Haynes Way, Rugby, Warwickshire
- **Scots Corner**, High Street, Kings Heath, Birmingham
- **Thistle Express**, The Mall, Luton, Beds.
- **Atlas House**, Third Avenue, Marlow, Bucks.
- **Sentinel House**, Harvest Crescent, Fleet, Hants.

Properties valued under £5 million

- **62-68 Bridge Street**, Peterborough
- **78-80 Briggate**, Leeds
- **17-19 Fishergate**, Preston, Lancs.
- **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

	2019	2018	2017	2016	2015
Income Statements					
Net property income	**38.3**	38.5	42.3	35.9	30.3
Administrative expenses	**(5.6)**	(5.3)	(5.0)	(4.4)	(3.8)
Exceptional costs	**(0.2)**	(0.3)	(0.2)	-	-
	32.5	**32.9**	**37.1**	**31.5**	**26.5**
Net finance costs	**(9.1)**	(9.7)	(10.8)	(11.4)	(10.9)
Income profit before tax	**23.4**	**23.2**	**26.3**	**20.1**	**15.6**
Tax	**(0.5)**	(0.5)	(0.5)	(0.2)	(0.3)
Income profit	**22.9**	**22.7**	**25.8**	**19.9**	**15.3**
Property gains and losses	**11.3**	41.5	17.0	44.9	53.6
Debt prepayment fee	**(3.2)**	-	-	-	-
Profit after tax	**31.0**	**64.2**	**42.8**	**64.8**	**68.9**
Dividends paid	**18.9**	18.5	18.0	17.8	13.1

	2019	2018	2017	2016	2015
Balance Sheets					
Investment properties	**676.1**	670.7	615.2	646.0	532.9
Borrowings	**(194.7)**	(214.0)	(204.6)	(249.5)	(232.8)
Other assets and liabilities	**18.0**	30.7	31.3	20.6	69.9
Net assets	**499.4**	**487.4**	**441.9**	**417.1**	**370.0**
Net asset value per share (pence)	**93**	90	82	77	69
EPRA net asset value per share (pence)	**93**	90	82	77	69
Earnings per share (pence)	**5.7**	11.9	7.9	12.0	15.4
Dividends per share (pence)	**3.5**	3.4	3.3	3.3	3.0
Dividend cover (%)	**122**	122	144	112	117
Share price (pence)	**89.2**	84.3	83.8	69.8	71.8

All figures are in £ million unless otherwise stated.

Glossary

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.
Cost ratio	Total operating expenses, excluding one-off costs, as a percentage of the average net asset value over the period.
DTR	Disclosure and Transparency Rules, issued by the United Kingdom Listing Authority.
Dividend cover	EPRA earnings 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 occupier, 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.
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	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.
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
22 May 2019

Annual Results posted to shareholders
June 2019

June 2019 NAV announcement
July 2019
(provisional)

Annual General Meeting
November 2019
(provisional)

2019 Half Year Results to be announced
November 2019
(provisional)

December 2019 NAV announcement
January 2020
(provisional)

Dividend Payment Dates
August/ November/ February/May

Shareholder information

Directors
Nicholas Thompson (Chairman)
Mark Batten
Maria Bentley (appointed 1 October 2018)
Andrew Dewhirst (appointed 1 October 2018)
Vic Holmes (resigned 30 September 2018)
Roger Lewis
Michael Morris
Robert Sinclair (resigned 30 September 2018)

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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.

Website
The Company has a corporate website which contains more detailed information about the Group. **www.picton.co.uk**

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WINNER
INVESTMENT TRUST AWARDS 2018
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PICTON PROPERTY INCOME LIMITED

INVESTMENT WEEK
INVESTMENT COMPANY OF THE YEAR AWARDS 2018
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PROPERTY

Money Observer Trust Awards 2018
Best Property Trust
Picton Property Income

moneywise Investment Trust awards 2018
WINNER
PROPERTY DIRECT UK
Picton Property Income

MSCI
IPF Investment Property Forum
UK Property Investment Awards
WINNER 2018

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