PICTON

Occupier focused, Opportunity led.

Picton Property Income Limited
Annual Report 2022

Welcome to our 2022 Annual Report

Our purpose

To be a responsible owner of commercial real estate, helping our occupiers succeed and being valued by all our stakeholders.

Visit our website picton.co.uk

Occupier focused, Opportunity led.

Through our occupier focused, opportunity led approach, we aim to be one of the consistently best performing diversified UK REITs.

Our business

We acquire, create and manage buildings for around 400 occupiers across a wide range of businesses. By applying insight, agility, and a personalised service, we provide attractive, well-located spaces to help our occupiers' businesses succeed.

We have a long-term track record, outperforming the MSCI UK Quarterly Property Index, over one, three, five and ten years, and since inception.

Our diversified portfolio consists of 47 assets, valued at £849 million as at 31 March 2022.

60% Industrial

30% Office

10% Retail and Leisure

Read more on pages **12-13**

Sustainable thinking, responsible business

A responsible and ethical approach to business is essential for the benefit of all our stakeholders and understanding the long-term impact of our decisions will help us to manage risk and continue to generate value.

Our occupier focused, opportunity led approach ensures we actively manage our assets, which helps to maintain high occupancy and create space for our occupiers to succeed.

We believe that sustainability must be fully embedded into all of our business activities.

Our sustainability policy guides our long-term sustainability priorities, including tackling environmental challenges, providing sustainable buildings for our occupiers and engaging with our stakeholders.

We are a member of the Better Buildings Partnership and a signatory to the Better Buildings Partnership Climate Commitment.

Our strategy

In order to deliver on our purpose, we have in place three distinct strategic pillars: Portfolio Performance, Operational Excellence and Acting Responsibly. These pillars include a range of strategic priorities which guide the direction of our business and are regularly reviewed.

Read more on pages **20-21**

Financial highlights

Record results demonstrate success of strategy and business model.

Read more on the following pages:
Portfolio Review on pages 32 to 43
Financial Review on pages 44 to 47

Strong financial performance

Profit after tax
£147m

2022	147
2021	34
2020	23

Highest profit recorded since launch in 2005

Net assets
£657m

2022	657
2021	528
2020	509

An increase of 24.4%

Earning per share
27.0p

2022	27.0
2021	6.2
2020	4.1

NAV per share
120p

2022	120
2021	97
2020	93

Total return
28.3%

2022	28.3
2021	6.6
2020	4.5

Total shareholder return
18.7%

2022	18.7
2021	0.0
2020	3.6

- Increased dividends paid of £18.4 million, with dividend cover of 115%
- Loan to value ratio maintained at 21% with significant headroom against loan covenants
- Refinanced existing debt facility increasing borrowings by £49 million while reducing the cost of debt and extending the term

Outperforming property portfolio

Property valuation
£849m

2022	849
2021	682
2020	665

Like-for-like valuation increase of 21%

Total property return
24.3%

2022	24.3
2021	7.3
2020	5.3

Outperforming MSCI UK Quarterly Property Index of 19.6%

Like-for-like increase in passing rent
2.1%

2022	2.1
2021	1.9
2020	1.2

Like-for-like increase in estimated rental value
5.4%

2022	5.4
2021	1.1
2020	1.3

- Outperformed MSCI UK Quarterly Property Index for ninth consecutive year
- Upper quartile outperformance against MSCI over three, five and ten years, and since inception
- Selective investment activity:
  - Two industrial assets acquired for £25.0 million
  - One retail asset disposal for £0.7 million, 16% ahead of March 2021 valuation
- Rent collection back to pre-pandemic levels

EPRA measures

120p
EPRA NTA per share
(2021: 97p, 2020: 93p)

119p
EPRA NDV per share
(2021: 93p, 2020: 88p)

131p
EPRA NRV per share
(2021: 105p, 2020: 102p)

£21.2m
EPRA earnings
(2021: £20.1m, 2020: £19.9m)

3.9p
EPRA earnings per share
(2021: 3.7p, 2020: 3.7p)

4.1%
EPRA net initial yield
(2021: 4.8%, 2020: 4.8%)

4.8%
EPRA 'topped-up' net initial yield
(2021: 5.5%, 2020: 5.4%)

7.2%
EPRA vacancy rate
(2021: 8.8%, 2020: 11.5%)

26.0%
EPRA cost ratio[1]
(2021: 26.9%, 2020: 28.3%)

19.9%
EPRA cost ratio[2]
(2021: 20.8%, 2020: 20.2%)

1 Including direct vacancy costs
2 Excluding direct vacancy costs

Occupier focused asset management

Occupancy

93%

Increased occupancy

Asset management transactions completed

76

- 34 lettings or agreements to lease, 8% ahead of ERV
- 21 lease renewals or regears, 3% ahead of ERV
- 12 rent reviews, 7% ahead of ERV
- 9 other asset management transactions

Invested into asset refurbishment, upgrades and repositioning projects

£10m

Responsible stewardship

EPC rating

71%

Improved EPC ratings A-C

Net zero carbon

2040

Target date

Signatory to Better Buildings Partnership Climate Commitment

- Pathway to net zero carbon published
- This covers both operational and embodied emissions

London
Stanford Building

Sustainable thinking, responsible business

This year we published our net zero carbon pathway and became a signatory to the Better Buildings Partnership Climate Commitment.

2040

Net zero carbon for operational and embodied emissions

300 $kgCO_2e/m^2$

Embodied carbon target for major refurbishments by 2040

Visit our website
picton.co.uk/sustainability

Read more in Being Responsible section on pages **60–66**

Our net zero carbon pathway

Our pathway sets out our approach to tackling climate change and priority actions towards decarbonising our portfolio.

We have committed to achieving net zero carbon for our operational and embodied emissions by 2040, which is ten years ahead of the UK Government target.

Our pathway sets out our plan to achieve net zero carbon for both our own and our occupiers' emissions by 2040 and our strategy for achieving this. Our target covers the whole life carbon of our assets, including the energy use of our occupiers.

To ensure credibility and transparency in our approach, our net zero carbon pathway aligns with the Better Buildings Partnership's (BBP) Net Zero Carbon Pathway Framework and the UK Green Building Council's (UKGBC) net zero carbon hierarchy.

To meet our commitment, we have set targets for whole building energy efficiency for each asset type and embodied carbon related to major refurbishments.

By 2040, all operational emissions will be reduced as much as possible through energy efficiency measures and renewable energy, with any residual emissions offset.

From 2040 onwards, all completed refurbishment projects will have reduced their embodied and operational carbon as much as possible, with any residual emissions offset upon practical completion.

We value collaboration in driving industry-wide change and facilitating knowledge-sharing on best practice. To ensure our continued alignment with the BBP requirements, we will continuously monitor our performance and report annually on our progress.

A record year for Picton

Our well-positioned portfolio continues to deliver on our longer-term track record of outperformance.

"I am delighted to report that Picton has delivered a total profit of £147 million, resulting in the most successful year since our launch in 2005.

Lena Wilson CBE
Chair

I am delighted to report that Picton has delivered a total profit of £147 million, resulting in the most successful year since our launch in 2005.

As lockdown restrictions were lifted, the economy rebounded. Driven by improving income and marked capital growth, our portfolio was well positioned. The majority of our assets saw a significant improvement in value.

Almost all our key performance indicators have improved from last year. Further details on these are set out later in this Report.

Performance

We have delivered a total return of 28.3% alongside a 5.5% increase in EPRA earnings, which has enabled us to increase dividends accordingly.

Our total shareholder return was 18.7% and whilst it saw a healthy improvement during the year, like many listed real estate companies, our share price currently remains below our net asset value.

We have delivered property performance ahead of the MSCI UK Quarterly Property Index. This continues to reinforce our strong longer-term track record, achieving upper quartile property performance against this Index over three, five and ten years, and since inception.

Property portfolio

Our outperformance at a property level has principally been driven by our high exposure to the industrial, warehouse and logistics sector, but we have also benefitted this year from a recovery in the value of our retail warehouse assets. Performance in the office sector has been more muted, but our focus on asset management has helped to offset a wider market slowdown.

Encouragingly we have had leasing success across all three sectors, and grown occupancy to 93% from 91% a year ago. This has had a positive impact in terms of void holding costs, which will flow into future years.

In separate transactions, we acquired two multi-let industrial assets and disposed of one small high street retail asset. Although at the early stage of our asset management plans, our acquisitions have already delivered valuation and income growth.

Capital structure

During the year we have extended and increased our longer-term borrowings by £49 million, insulating the business from further rising borrowing costs. Our new debt facility is at a lower cost than our existing borrowings and we incurred one-off costs in resetting the facility to a lower overall rate. By substantially repaying our revolving credit facility, we have future operational flexibility and firepower. At the year-end borrowings totalled £219 million, with the loan to value ratio broadly constant over the year at 21%.

Dividends

On the back of strong leasing activity and improving rent collection, we have increased the dividend twice during the period. We have restored our distributions back to their pre-pandemic level and we can report a healthy dividend cover of 115% over the period.

Our aim is to continue to grow dividends on a progressive basis, which in the short-term will be driven by further improvement in occupancy and rental growth, predominantly coming from our industrial assets.

Sustainability

We have made significant progress on our sustainability priorities, recently publishing our plan to become net zero carbon by 2040.

Our net zero carbon pathway ambition of 2040 is ten years ahead of the Government target and although our initial focus will be on reducing Scope 1 and 2 emissions, we intend to work with our occupiers to reduce the most significant part of the portfolio's emissions, which come under Scope 3. We will report regularly on our progress.

I am grateful to Maria Bentley who has agreed to act as Board champion and oversee the work with the Executive Committee on sustainability.

Outlook

We are acutely aware of the new challenges emerging both directly and indirectly from the conflict in Ukraine. Rising energy, food and commodity prices, along with supply chain disruptions and labour market shortages are becoming increasingly visible and will impact economic growth.

We are already seeing rising interest rates and gilt yields have risen this year. Real estate has both an income and capital element and can offer inflation protection as evidenced by our performance this year, particularly in areas where supply is constrained, and demand enables rents to continue to rise.

As a UK diversified REIT we have greater flexibility with regard to asset selection giving us the ability to position the portfolio for the long-term. We will continue to explore opportunities for growth, but this must be on terms that are attractive to our shareholders and with the right quality of asset. We remain disciplined in our approach.

As in previous years we have invested in our assets and upgraded the quality of accommodation. This approach is increasingly relevant to a discerning occupier base, and will enable us to grow income.

Whilst returns in 2022 are likely to soften from those seen over this reporting period, we can be confident that we have a portfolio that will continue to see further growth.

Lena Wilson CBE
Chair
25 May 2022

Strong operational performance

A successful year of record profit delivered against a backdrop of reduced pandemic-related disruption.

> **We have outperformed the MSCI UK Quarterly Property Index for the ninth consecutive year.**

Michael Morris
Chief Executive

We have had a very successful year, delivering a record profit against a backdrop of reduced pandemic-related disruption. Our clear purpose and strategic priorities have enabled us to focus on what matters.

To reflect the closer integration of sustainability into our business model and our commitment to achieving net zero carbon, we have redefined our Purpose, which now states:

'To be a responsible owner of commercial real estate, helping our occupiers succeed and being valued by all our stakeholders.'

We have also added two strategic priorities, specifically relating to the work we are doing to reduce our impact on climate change:

- Adapting to and mitigating the impact of climate change; and,
- reducing emissions to become carbon net zero in or before 2040.

This makes it clear that the focus of our sustainability strategy is aligned with our occupiers and other stakeholders.

Our strategic priorities are detailed on pages 20-21, and a summary of our progress is detailed below.

Portfolio performance

Income and capital growth

We have seen exceptionally strong portfolio growth over the period. This has been predominantly driven by our industrial, warehouse and logistics assets where both rental and capital values have continued to move higher. Our retail portfolio, which now comprises 65% retail warehouse assets, has also seen strong valuation growth, with a reversal of some of the writedowns seen during the pandemic. Our office assets have not seen the valuation growth we might have expected, especially recognising the leasing success in this sector. This in part reflects perceived changes in working habits and costs associated with improving sustainability credentials.

We will seek to offset increasing cost pressures where we can attract premium rents, either due to limited supply or by providing high quality space.

Growing occupancy and income profile

We have improved occupancy this year, which has led to increased income. Our rent collection over the period has averaged 98% and was close to 100% for the December 2021 and March 2022 quarters. This higher level of income has enabled us to increase the dividend twice during the year, which we cover in more detail in the Financial Review.

Enhancing asset quality

During the year, we have invested £10 million in upgrading our assets. The impact of some of this activity is very obvious, such as the creation of Rum Runner Works, at Regency Wharf, in Birmingham where we have converted leisure space into offices; however, some of the less visible work is equally important as it aligns to our sustainability targets. For example, the complete upgrade and removal of our gas-fired air-conditioning system at 50 Farringdon Road, London, will help with our net zero commitments and improve energy efficiency for our occupiers.

In our refurbishments at Angel Gate, London, 180 West George Street, Glasgow and Longcross, Cardiff, we have also focused on improving occupier amenities, creating more communal and informal space with outside areas where possible.

Outperforming MSCI

We have outperformed the MSCI UK Quarterly Property Index for the ninth consecutive year. This year, across the Index, the range between lower quartile and upper quartile returns was the widest on record at 10.7%. We delivered a portfolio return of 24.3% compared to the Index of 19.6% and upper quartile of 24.9%. Whilst we are just below upper quartile for the year, we have still delivered upper quartile returns against the Index over three, five and ten years, and since inception.

Of note, our industrial assets delivered a total property return of 38.2%, our retail assets delivered 25.6%, which comprised retail warehousing delivering 33.4%, and our office assets delivered 4.4%.

120p
Net asset value per share

27p
Earnings per share

> **One of the advantages of our diversified approach is our ability to position the portfolio as market conditions dictate.**

Michael Morris
Chief Executive

Operational excellence

Efficient platform

We continue to run the business as efficiently as possible and have maintained our cost ratio at 1.0%. We have a small but very dedicated team and use external resource as appropriate. We are not immune from rising costs and it is clear that sustainability focused measures will add to both our workload and costs. We expect to recruit further this year to support our transition to net zero carbon.

Adaptable business model

One of the advantages of our diversified approach is our ability to position the portfolio as market conditions dictate. As returns become more convergent we are looking more widely across sectors. During the year we acquired two adjoining city centre industrial estates, off attractive pricing. Our most recent acquisition post period end was an office and retail asset in London.

This year we introduced SwiftSpace, our flexible lease offering, in response to changes in occupier demand, particularly as we face increased competition from serviced office providers. Our solution provides fast, flexible, inclusive leases, which we are offering in our smaller multi-let offices.

Earnings growth

Our earnings per share of 27.0p are significantly higher than the preceding year, reflecting the growth in the portfolio value. Our EPRA earnings are 5.5% higher reflecting the enhanced income position.

Capital structure

We have recently completed the refinancing of one of our long-term debt facilities, which not only increases the maturity by four years until 2031, but also reduces the overall interest rate. As part of the same transaction, we increased our borrowings by £49 million, which has allowed us to repay most of our revolving credit facility and gives us future financial flexibility. Recognising the asset value growth over the period, the loan to value ratio remained stable at the year-end at 21%.

Growth and economies of scale

We have seen growth this year in two forms: firstly, the valuation growth from the portfolio, which with the use of gearing has increased net assets and secondly, through acquisitions. We have made £25 million of acquisitions, which are earnings accretive, although during the period we have been impacted by stamp duty and other transaction costs.

Within our Interim results, we expressed a desire to grow and highlighted the wide discounts across the listed REIT sector, as well as some of the challenges in the UK real estate open ended sector, which are still prevalent. While we have not yet concluded any transactions, we have been proactive in our dialogue with suitable prospects. We will continue to advocate for change, but remain selective to ensure enhanced future performance.

Acting responsibly

Values and alignment

Ultimately, the performance of the business is delivered by those who work here. Having a small team means that we are able to operate quickly and efficiently with clear objectives that are aligned to remuneration. Our values of being principled, progressive and perceptive have guided us through the challenges of this year. We have broadened our team objectives and asked everyone, irrespective of their role, to help to reduce our impact on the environment.

Working closely with our occupiers

We have spent much of this year focused on a return to normal working practices, as have our occupiers. We have worked with many occupiers to help them rightsize their business. This has enabled us to retain income and de-risk future lease events. We have undertaken 12 transactions where we have extended leases or enabled occupiers to remain in our buildings.

24.3%
Total property return

28.3%
Total return

Sustainability

We have devoted significant resource this year to further integrating sustainability within our business model. Specifically, much of the year was spent considering climate-related risks and creating a plan to mitigate these. In addition, we have been preparing our net zero carbon pathway, which is now published, and sets out a clear direction for the business as we aim to meet our 2040 target. The majority of the team have benefitted from specific training in this area and contributed to the formulation of our net zero carbon pathway. We have held externally facilitated workshops on relevant sustainability issues, alongside an internal workshop to ensure that the team is appropriately briefed on our future plans.

Outlook

We are positive about our future. Although we have had considerable letting success during the year, we can still increase income by improving occupancy. Most of the assets are now seeing stabilised or increasing values. In the industrial sector, we are generally seeing rental growth that is ahead of inflation and believe it is likely that growth will continue, especially if construction costs continue to rise and this impacts supply.

The team is aligned with the need to continue to enhance the portfolio and mitigate any risks from changing occupier habits or climate change. Our future engagement with occupiers and communication of our plan will be crucial moving forwards.

Macroeconomic events are likely to dampen a further recovery in property values, but despite this we believe that the right assets will remain attractive to occupiers and investors alike. We have created a quality portfolio, that is well managed and offers scope to continue to grow both the income and capital position.

Michael Morris
Chief Executive
25 May 2022

Our business model

Our business model creates value through owning a portfolio that generates a diversified and stable income stream. We have the flexibility to adapt to changing market conditions and so deliver value to our stakeholders through the property cycle.

What makes us different

Our long-term track record of outperformance

We have outperformed the MSCI UK Quarterly Property Index over one, three, five and ten years, and since inception.

Read more on pages **32–33**

Our diversified exposure to the UK commercial property market, with flexibility to adapt to changing market conditions

Our diversified property portfolio generates income from around 400 occupiers across a wide range of businesses, providing the opportunity for income and capital growth.

Read more on pages **32–43**

Our occupier focused and responsible approach to business

Our occupier focused approach ensures we actively manage our assets, maintain high occupancy and create space for our occupiers to succeed. Sustainability is integrated within our business model and corporate strategy and in the way we and our occupiers operate.

Read more on pages **60–66**

How we create value

01 Our business model is driven by knowledge, expertise and research led decision making

Our in-depth understanding of the UK commercial property market enables us to identify and source value across different sectors and reposition the portfolio through the property cycle.

02 Stock selection and acquisition – buying into growth assets, locations or sectors

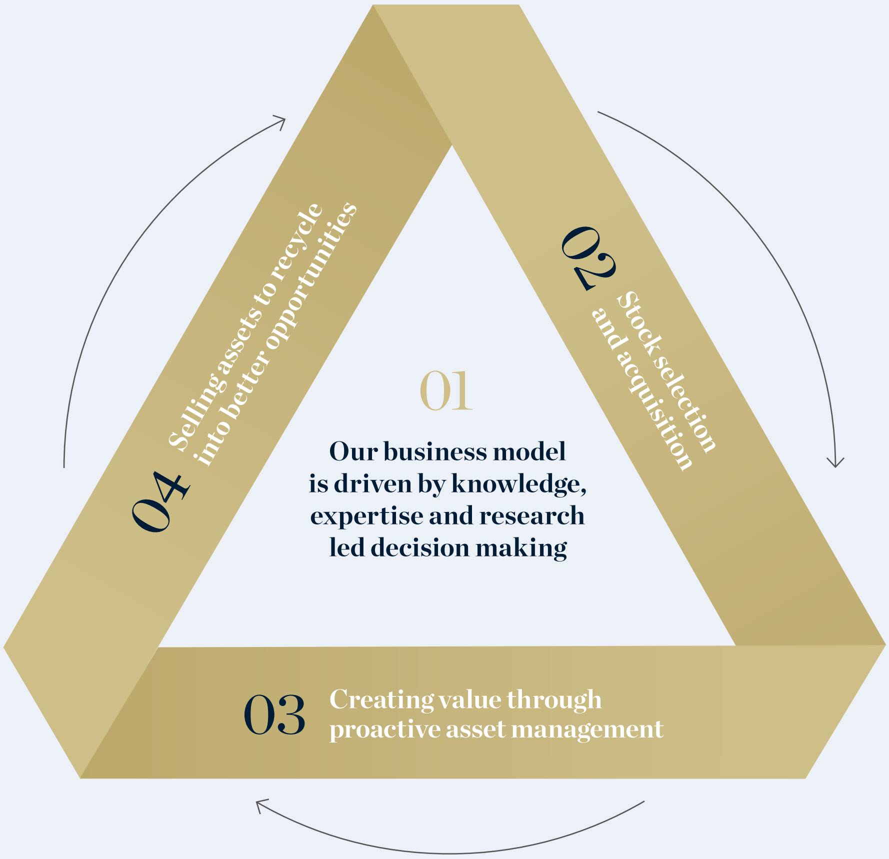
We have established a diversified UK property portfolio and while income focused, we will consider opportunities where we can enhance value and/or income.

03 Creating value through proactive asset management

Our diverse occupier base generates a stable income stream, which we aim to grow through active management and capturing market rental uplifts. Our occupier focused, opportunity led approach ensures we create space that meets our occupiers' needs in order to maintain high levels of occupancy across the portfolio.

04 Selling assets to recycle into better opportunities

We identify assets for disposal to maximise value creation. Proceeds are invested into new opportunities, or used elsewhere within the Group.



This is underpinned by:

Risk management

Our diverse portfolio and occupier base spreads risk and generates a stable income stream throughout the property cycle. We adapt our capital structure and use debt effectively to achieve enhanced returns. We maintain a covered dividend policy, to generate surplus cash and allow us to invest back into the portfolio.

Responsible stewardship

We have a responsible and ethical approach to business and sustainability is embedded within our corporate strategy. We understand the impact of our business on the environment and are committed to creating and delivering value for the benefit of all our stakeholders.

Stakeholder value

Shareholders

£147m

Profit after tax

Occupiers

93%

Occupancy

Communities

15

Charities supported

Our people

82%

Employee satisfaction score

The environment

71%

EPC ratings A-C

For more detailed information on our stakeholders, see our Section 172 statement on pages **58-59**

Our marketplace

Inflationary pressures likely to subdue post-pandemic recovery.

Economic backdrop

As Covid-19 concerns began to dissipate, the war in Ukraine has become a fresh source of uncertainty. The consequences of the sanctions on Russia and embargo on Russian oil and gas are multifaceted. In the UK, we are fortunately less reliant on Russian imports than our neighbours in Europe but the added pressure on household incomes as a result of commodity price increases and persistent inflation will still be considerable.

UK GDP saw an annual rise of 7.4% in 2021 following a -9.3% fall in 2020 and at the end of March 2022 was 0.7% above its pre-pandemic level in December 2019. In the short-term, the rate of economic recovery is expected to be impacted on the supply side by disrupted supply chains and shortages of goods and labour and on the demand side by the cut in household incomes. Forecasters have revised down their GDP growth expectations for 2022 to reflect the impact of the crisis, which are now 3.8% for 2022 according to the Office for Budget Responsibility.

Quantitative easing and Government stimulus during the pandemic supported households and injected significant capital into the economy. As lockdowns ended and more and more businesses were able to reopen, consumer demand increased but this was not always matched with increases in supply, putting upward pressure on prices. The 12-month CPI inflation rate hit a new 40-year high of 9.0% in April 2022. The increase reflects the change in Ofgem's energy price cap in April causing a jump in utility prices, alongside the rise in fuel and food prices as the agriculture sector faced increasing cost pressures.

The Bank of England's response to rising inflation has been a series of base rate increases from a historic low of 0.1% to 1.0% in May 2022, the highest level since 2009. Further rate increases are expected, together with a programme of quantitative tightening.

Growth in average total pay (including bonuses) was 7.0% and growth in regular pay (excluding bonuses) was 4.2% among employees in January to March 2022. In real terms, total pay increased on the year by 1.4% and regular pay fell on the year by -1.2%.

In terms of demand, there is still momentum from the reopening of the economy, particularly for the travel industry which is one of the last to see restrictions lifted. As workers have returned to the office, albeit in a more flexible capacity, this will hopefully create an increase in the consumption associated with business travel, city centre retail and leisure activity.

Retail sales volumes are 4.1% above their level in February 2020, however did fall by -0.3% in the three months to April 2022, fuelling concerns that consumers are being hit by affordability pressures. The proportion of online retail sales stood at 27.0% in April 2022, remaining significantly higher than the 19.9% level in February 2020 before the pandemic.

The end of the furlough scheme in September 2021 did not have a significant impact on unemployment. The unemployment rate has fallen below pre-pandemic levels and job vacancies are at a record high. The number of job vacancies in February 2022 to April 2022 rose to a new record of 1.3 million, an increase of 0.5 million from its January to March 2020 level.

UK ten-year gilt yields have been on a generally upward trajectory since December 2021, but remain relatively low by historic standards.

House prices accelerated during the pandemic as changes to the tax paid on property purchases were announced. UK average house prices increased by 10.9% over the year to February 2022. Rising interest rates are likely to dampen the housing market to some extent in the short-term.

Despite the now more muted outlook for the UK economy and the current inflationary environment, there are reasons for cautious optimism. The Covid-19 pandemic has moved into the rear-view mirror. With the vast majority of adults in the UK fully vaccinated, restrictions have been lifted and normality has largely resumed. In a global context the UK remains a safe haven for international capital and posted the strongest GDP growth of all the G7 economies in 2021.

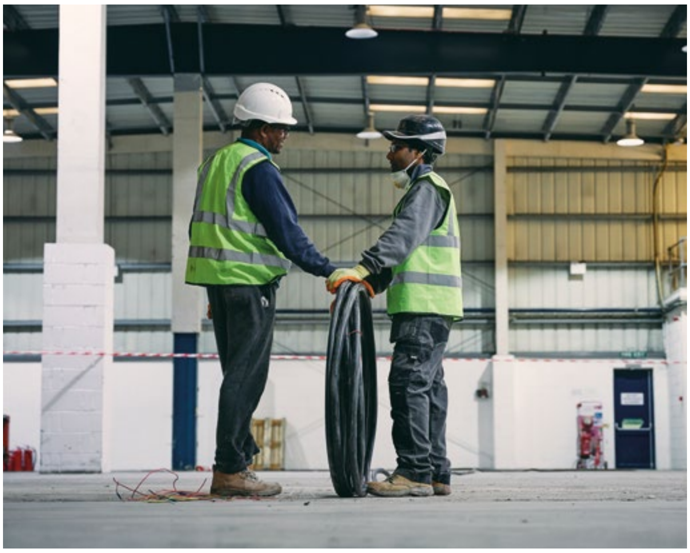
UK property market

The speed and strength of the property market's recovery from the pandemic was better than expected. Although the average returns are positive, there is still polarisation between sectors and within subsectors, particularly retail.

According to the MSCI UK Quarterly Property Index, commercial property delivered a total return of 19.6% for the year ended March 2022, which compares to 1.1% for the year ending March 2021. The stellar performance was largely attributable to the continued growth in the industrial sector and a recovery in values in the retail warehouse subsector. All Property capital growth was 14.9% in the year to March 2022, significantly better than the -3.2% recorded for the previous year. The income return was 4.2%, slightly lower than the 4.5% recorded for the preceding year.

The industrial sector had an extraordinarily strong year. The industrial total return for the year ending March 2022 was 40.7%, with annual capital growth reaching an all time high of 35.9% and an income return of 3.6%. Industrial ERV growth for the period was 11.2%, with a subsector range of 15.8% to 8.2%. Capital growth ranged from 47.7% to 28.2% within subsectors. Equivalent yields for industrial property now stand at 4.1% (March 2021: 5.0%).

The office sector continued to face a degree of uncertainty over future demand levels and suffered an additional setback in December 2021 as people were once again advised to work from home in the face of the Omicron wave. The office sector produced a total return of 6.9% for the year to March 2022, comprising 3.2% capital growth and 3.7% income return. All Office annual rental growth was 1.4% ranging from 2.4% to 0.9% within subsectors. Office capital growth ranged from 6.5% to -0.6%. Equivalent yields for office property now stand at 5.5% (March 2021: 5.8%).



The elevated rate of online sales over bricks and mortar retail and oversupply of retail units continues to hamper the retail sector as a whole, albeit some segments have recently seen a return to positive capital growth. The retail sector produced a total return of 14.9% for the year to March 2022. This comprised capital growth of 8.9% and income return of 5.6%. Rental values fell -2.0% over the period, ranging from 0.6% to -7.0%. Retail subsector capital growth ranged from 22.9% to -5.8%. The retail warehouse subsector was the driver of growth, with increased demand from investors pushing down yields. Equivalent yields for all retail property now stand at 5.9% (March 2021: 6.7%).

According to Property Data, the total investment volume for the year to March 2022 was £70.5 billion, a 66.5% increase on the year to March 2021. The volume of investment by overseas investors in the year to March 2022 was £33.0 billion, accounting for 46.8% of all transactions.

As the disruptive threat of the pandemic recedes, new challenges for the property market are emerging from the macroeconomic and geopolitical environment. In times of uncertainty, UK property is often seen as a safe haven for investment. During periods of increased inflationary pressure property can provide a hedge in the form of an opportunity to grow income through rental growth and in turn generate capital growth. Certain property types are more akin to acting as an inflation hedge. At the current time, assets where demand is strong and supply limited are likely to offer protection through rising rental values, equally leases with fixed or inflation linked leases will also provide support.

Market drivers and impacts

The drivers of commercial property markets are complex and can vary between sectors. The relationships between the drivers described below are often interconnected, with certain themes or trends spanning multiple drivers and creating multifaceted impacts. For example, the systemic shifts created by the Covid-19 pandemic, political unrest, environmental degradation, social inequality, inflation, and economic conditions have cross-dimensional impacts on our operational environment.

Market driver | **Impact**

Socio-political

Market driver

There is no doubt we are operating in a tumultuous period. With the Covid-19 pandemic subsiding, the conflict and humanitarian crisis in Ukraine and plight of refugees around the world are front and centre of political agendas.

In the wake of the Covid-19 pandemic, global vaccine equality is vital to help control the severity of future outbreaks and variants. In terms of economic recovery, the pandemic amplified many social injustices, from unemployment to access to affordable childcare, education and health inequalities. There is growing recognition that we need to transition to a fairer and greener economy.

Inflationary pressures and the rising cost of living are being felt by many. Rising oil and energy prices have been amplified by the war in Ukraine and sanctions on Russia.

The UK Government's levelling up agenda involving investment in infrastructure and creation of freeports will affect market drivers in certain areas through tax benefits relating to property and business rates, planning permission and tariffs.

Longer-term trends that impact the commercial property market include but are not limited to; shifting global economic power, the slowdown in economic growth in China and the impact on supply chains of China's zero Covid policy, the shifting demographics towards an ageing population, the ongoing trend towards urbanisation and the increasing population of cities.

Impact

With the pandemic amplifying social injustices and inequalities, societal value has moved up the corporate agenda. Companies are increasingly held accountable for creating long-term positive impact to local communities and the environment.

The pandemic has changed the way in which we live, work and consume. Certain trends, for example increased online retail spending and remote working, are not expected to fully revert to pre-pandemic levels.

Remote working is evolving into a hybrid model, with many employers wanting to stay flexible post-pandemic. This means not only working from home, but flexitime, compressed hours, and other dynamic working practices. For office occupiers this could mean changing requirements for location, fit out, configuration and quality of space. The 'new normal' is still being figured out and will depend on many factors, for example sector, industry, workforce age/seniority level, company size and location.

In terms of demographics, the impacts of an ageing population are complex. There are implications for the economy, labour force, fiscal balance and real estate.

Urbanisation and population growth in cities brings a general increase in demand for goods and services and for property from which to manufacture, distribute and sell them.

Economic

Market driver

The war in Ukraine poses multiple threats to the UK economy, from trade links with Russia to a reduction in business and consumer confidence, investment sensitivity to uncertainty and links to inflation through rising energy costs and commodity prices.

The annual rate of inflation recently reached a 40-year high. The rising price of gas and electricity following the increase in the cap on energy prices and the rising price of motor fuel were significant contributors.

In addition, there was a transitory element to inflation, as it was anchored to the pandemic years and the reopening of the economy following lockdowns. Pay increases are not expected to keep pace, resulting in a fall in real incomes. Property provides a hedge but for some sectors more than others.

Despite the Omicron variant causing prolonged uncertainty in the winter of 2021/22, GDP is now ahead of pre-pandemic levels. In the short-term, it is expected that GDP growth will be dampened by heightened inflation. There are also concerns on the supply side as bottlenecks due to Covid-19, labour shortages and wider geopolitical issues affect the global supply chain.

Impact

Any form of uncertainty has the potential to adversely impact economic growth.

The global pandemic is not over and there is the potential for further variants to reduce vaccine efficacy and threaten public safety. In addition, some aspects of the Brexit transition have not been finalised, the cost of living has dramatically accelerated and heightened geopolitical tensions are not conducive to improving business and consumer confidence. In times of uncertainty, investors often turn to 'real assets' as a less volatile haven.

The degree to which real estate acts as an inflation hedge is a topic of debate. Factors to consider are the length of investment period and point of investment.

The speed at which rents keep pace varies across property sectors. For example, recently, industrial rental growth has comfortably outpaced CPI inflation. There is also a link with property values through rental and income growth. The gap between property yields and risk-free gilt yields is a crucial measure in the attractiveness of property investment.

The Bank of England has responded to rising inflation by increasing interest rates, with further rises expected in the short-term. Despite the increases, interest rates remain low by historic standards, leaving investors to search for income in a low-rate environment.

Market driver	Impact

Occupational and investor demand

The property market is cyclical, with performance linked to economic growth. The balance of supply and demand in the investment and occupier markets impact pricing and rental growth respectively.

Historically, all property sectors have moved through cycles broadly in unison; however, more recently there is a greater divergence between sectors brought about by structural drivers. The Covid-19 pandemic accelerated trends that affect the use of commercial property, for example remote working and online retail.

In 2021 the MSCI Quarterly Property Index reported a huge increase in industrial capital values, with robust occupier and investor demand and limited supply resulting in surging rents and yield compression. Although it is not expected that this pace will be maintained, demand from a wide range of occupiers is likely to underpin this sector's performance going forwards.

The role of the office is evolving. Although the Government advice to work from home where possible has now been reversed, many office-based businesses are still establishing a new normal and incorporating an element of flexible working. The office as a place for collaboration and face-to-face communication requires an adjusted fit out, incorporating more meeting rooms and breakout space. Enticing office workers back to the office is achieved through offering quality space in the best locations.

The various subsectors within the retail sector are at different stages of recovery. Retail warehouses saw very robust performance in 2021, with capital growth almost keeping pace with industrial. Other retail subsectors have not yet seen a significant turn in fate.

It is expected that 2022 will begin to see a rebalancing of total returns and more convergence of the main sectors.

Sustainability and climate change

Sustainability, climate change, extreme weather, biodiversity loss and other environmental issues are amongst the largest risks we are facing on a global scale. Time for change is limited and the real estate industry has a significant part to play.

There is a need to transition to a low carbon economy. The Government has set a target of bringing all UK greenhouse gas emissions to net zero by 2050. Declaring a pathway to achieving net zero carbon, involving reducing carbon emissions as much as possible and then offsetting any residual emissions, is becoming common corporate practice.

The Task Force on Climate-related Financial Disclosures (TCFD) provides a framework for reporting the physical and transition risks to companies associated with climate change and provides transparency to stakeholders.

Specific to the property industry, the legislation on minimum energy efficiency standards (MEES) is changing. Landlords must understand the new requirements and adapt where necessary to avoid stranded asset risk.

There is growing recognition that the linear economy – take, make, waste; is not sustainable and a more regenerative and restorative economy is needed. Circular economy principles and systems aim to tackle waste and pollution, reuse products and materials and regenerate nature.

The social and human cost of achieving success is increasingly considered. Society is holding Governments and corporations accountable for the wider impact of investment decisions.

Sustainability is becoming widely and fully embedded into corporate strategy, business models and asset business plans.

TCFD is promoting the improvement and increased reporting of climate-related financial information and enabling progress to be measured against science-based targets. Complacency brings increased physical and transitional risks and potentially stranded assets.

Measures to reduce the carbon emissions of a property portfolio, lift the EPC profile and improve other sustainability credentials like biodiversity and wellness bring both costs and opportunities to enhance value.

Collaboration is key. Engaging with industry stakeholders to share knowledge, data and best practices accelerates progress. Engaging with occupiers on Scope 3 emissions is vital to achieve a meaningful reduction in portfolio emissions and progress along a pathway to net zero.

Applying circular economy principles to real estate helps to reduce embodied carbon emissions through extending the lifecycle of a building, promoting repurposing over demolition and reuse of materials over landfill.

Technology

The digitisation of real estate, increased use of data, advanced analytics and automation are drivers of change in the built environment.

The technology trends set to directly impact the property sector in the short to medium-term are wide ranging, from smart building technology, the 5G network, increased adoption of electric vehicles, Artificial Intelligence, robotics, Big Data and cloud computing.

Competitiveness in a post-pandemic world will depend on a company's ability to thrive in the digital environment. The use of analytics to make data-backed decisions provides confidence to investors.

Technology plays a significant role in driving positive change towards sustainable buildings during each stage of a building's life cycle. Technological advances in construction, manufacture of materials, energy usage and circular economy principles are all essential to progress towards a low carbon economy.

Property sectors are all uniquely impacted by technological advances in multiple areas, with each facing its own benefits and challenges.

Common problems in the industry include a reliance on legacy systems, fragmented software solutions, lack of standardisation and decentralised data platforms.

Remote working, flexible working and reduced business travel are facilitated by the advancement of online communications platforms. Although accelerated by the pandemic, these working patterns will continue in a hybrid model.

Flexible workspaces require technology to be marketed and managed, to remain competitive and provide an effective solution for businesses.

The UK Government's agenda to ban sales of new combustion engines by 2030 will shape requirements for electric vehicle charging where we live, work and shop, with implications for buildings, power supply and parking arrangements. A longer-term consideration is the roll out of the 5G network, enabling driverless vehicles.

There is a heightened need for data storage and datacentres. Big Data, Artificial Intelligence, Machine Learning and cloud computing are shaping the future of the workforce and the requirements for buildings in which they operate. Bolstering cyber security and secure data storage is high on corporate agendas.

For retailers, investment in online platforms and fulfilment is paramount. The proportion of online spending has not reverted to pre-pandemic levels. Longer-term, the increased use of robotics, electric industrial vehicles and drones has the potential to impact the way online orders are fulfilled and industrial property is occupied.

Throughout the year, structural changes that were accelerated by the pandemic continued to create a divergence in performance between property sectors.

The industrial sector has benefitted from the increase in online consumer spending to the detriment of traditional retail, whilst enforced working from home during the pandemic is likely to lead to a longer-term shift towards a more hybrid model of home and office-based working.

Industrial market trends

The 12 months to March 2022 was a record-breaking year for the industrial sector, which saw capital values increase by 35.9% – the highest annual growth recorded for any sector across any year in the MSCI UK Quarterly Property Index. Annual rental growth was also a record for the sector at 11.2%, significantly higher than the 12-month CPI inflation rate of 7.0% for the same period.

The industrial sector has witnessed exceptional levels of take-up for the last two years as it continues to benefit from the accelerated shift to online spending, as well as global supply chain disruptions which have created a need for greater stock holding to maintain supply chain resilience. On the supply side, development has struggled to keep pace with demand, with the rising cost of materials and labour shortages increasing lead times and in turn supporting rental growth.

However, now more closely tied to levels of consumer spending, like the retail sector, industrial may also be adversely impacted if activity falls because of persistently high levels of inflation. Industrial occupiers are also faced with rising fuel and energy prices coupled with increasing rents and the impending business rates revaluation in 2023, potentially putting pressure on profit margins.

The sector is experiencing strong investor demand which has driven down yields. For the year to March 2022, the industrial sector accounted for 27% of total investment volumes at a value of £19.2 billion. Standard industrial units, particularly in London and the South East are forecast to outperform the All Property average.

What this means for Picton

- We are primarily invested in multi-let industrial assets, for which there continues to be healthy demand across a wide range of occupiers. The portfolio remains well positioned with limited exposure to large and online driven distribution units.
- Our occupier focused approach has enabled us to capitalise on strong demand for industrial property and grow ERVs through new lettings, renewals and rent reviews.

Our response to these trends

- We will continue to capture rental growth through new lettings and proactive portfolio management.
- We will strategically maintain our overweight position to the sector.
- We will continue to acquire complementary assets where possible, whilst remaining selective given the increase in pricing.
- We envisage only limited and selective disposals.

Office market trends

The success of home working during the pandemic has not led to the mass exodus of office occupiers that was feared by some. Office employees continue to make incremental returns to the workplace and the sector is gaining momentum. If the majority of the workforce is in the office for at least part of the week then significant downsizing is often not viable.

According to the MSCI UK Quarterly Property Index, office capital values increased by 3.2% in the year to March 2022 and rents grew by 1.4%.

Office take-up has been recovering steadily, particularly in large city centres and central London markets. There is a flight to quality and a shortage of Grade A space, which is supporting rental growth at the top end of the market. In addition, sustainability credentials are becoming increasingly important to office occupiers, where the property element of their operations is accountable for a significant proportion of overall carbon emissions.

For the year to March 2022 the office sector accounted for 30% of total investment volumes at a value of £21.2 billion. Central London offices are forecast to perform at around the All Property average whereas provincial and out of town markets rank lower.

What this means for Picton

- Our offices must continue to provide high quality space in the best locations.
- As the office sector continues to gain momentum, we must continue to engage with our occupiers to ensure their needs are met.
- We will need to provide more flexible leasing arrangements reflecting current working practices.
- We must continue to address the need for sustainable buildings and wellbeing within the office environment.

Our response to these trends

- We will continue to actively manage the office portfolio and engage with existing and potential occupiers to grow occupancy and income.
- We will promote our new flexible office leasing solution, SwiftSpace, where appropriate.
- We will continue to upgrade space, focusing on amenities and making improvements in energy efficiency.
- Due diligence and research will ensure that the office portfolio is positioned in the most accessible and desirable locations.
- We will be increasingly selective when considering office acquisitions.

Retail and Leisure market trends

It has been a polarised year for the retail sector, with retail warehouses at a different stage of recovery to other subsectors. High streets and shopping centres are still faced with a demand/supply imbalance and are not forecast to see positive rental growth in the short-term. The vacancy rate of retail warehouses is much lower and rental decline has started to flatten out.

According to the MSCI UK Quarterly Property Index, retail capital values increased by 8.9% in the year to March 2022 and rents fell by -2.0%. However, drilling down into the retail warehouse subsector, here capital values increased by 22.4%. Rents fell, albeit by a lower amount of -0.3%.

Retail occupiers are likely to bear the brunt of a reduction in consumer spending as a result of cost of living increases. Retail sales began to recover in early 2022 but have since experienced a drop in volumes. The step change in the percentage of retail sales occurring online has declined from its early pandemic peak but not fully reverted to 2019 levels. On a positive note, the wave of CVAs that have been so prevalent over the last few years seems to have receded.

Given the level of price and rental value correction that has occurred across the retail sector, for investors searching for income, high yielding retail assets in selective locations are looking more attractive.

For the year to March 2022 the retail sector accounted for only 12% of total investment volumes at a value of £8.3 billion. Of this, 44% of investment activity was for retail warehouses, where there has been increasingly strong investor sentiment.

What this means for Picton

- Our occupier focused approach has enabled us to proactively manage our retail and leisure portfolio to maximise occupancy.
- Where appropriate we have been able to reposition retail space through change of use refurbishments.

Our response to these trends

- With revised pricing, we are cautiously optimistic with regard to acquisitions in selective retail subsectors and locations.
- With healthy demand for retail warehouse space, we will strive to maintain occupancy and grow rents in this subsector.

Occupier focused, Opportunity led.

Purpose

To be a responsible owner of commercial real estate, helping our occupiers succeed and being valued by all our stakeholders.

Strategy

Through our occupier focused, opportunity led approach, we aim to be one of the consistently best performing diversified UK REITs. In order to deliver on our purpose, we have in place three distinct strategic pillars: Portfolio Performance, Operational Excellence and Acting Responsibly. These pillars include a range of strategic priorities which guide the direction of our business and are regularly reviewed.

This year we have added two further priorities within Acting Responsibly. Progress against our strategic priorities is set out in the Chief Executive's Review.

Sustainable thinking, responsible business

Sustainability is embedded into all of our activities. A responsible and ethical approach to business is essential for the benefit of all our stakeholders and understanding the long-term impact of our decisions will help us to manage risk and continue to generate value.

Read more on pages **22–27**

Read more about our KPIs on pages **28–31** and our Risks on pages **48–52**

Portfolio Performance

1 Creating and owning a portfolio which provides income and capital growth

2 Growing occupancy and income profile

3 Enhancing asset quality, providing space that exceeds occupier expectations

4 Outperforming the MSCI UK Quarterly Property Index

Associated Risks

1 2 4 5 6 7 8

Connected KPIs

A C D G I J

Operational Excellence

1	Maintaining an efficient operating platform, utilising technology as appropriate
2	Having an agile and flexible business model, adaptable to market trends
3	Delivering earnings growth
4	Having an appropriate capital structure for the market cycle
5	Growing to deliver economies of scale

Associated Risks

1 3 4 10 11

Connected KPIs

E F H

Acting Responsibly

1	Ensuring we maintain our company values, positive working culture and alignment of the team
2	Working closely with our occupiers, shareholders and other stakeholders
3	Ensuring sustainability is integrated within our business model and how we and our occupiers operate
4	Adapting to and mitigating the impact of climate change
5	Reducing our emissions to become carbon net zero by 2040

Associated Risks

4 6 7 9

Connected KPIs

B K L

Madleaze and Mill Place Trading Estates

Industrial acquisitions

In Gloucester, we acquired two adjoining city centre industrial estates, in separate transactions.

Madleaze Trading Estate was acquired in September 2021 and the adjacent Mill Place Trading Estate was acquired in February 2022 for a combined £23.5 million plus costs. This reflects a low capital value of £35 per sq ft.

Our combined ownership totals over 29 acres, with 670,000 sq ft of warehouse and ancillary accommodation and a site coverage of 52%. The average rent on acquisition was only £2.76 per sq ft.

On purchase there was 100,000 sq ft of vacant accommodation to be upgraded or redeveloped across both estates. We have already leased 22,000 sq ft of space with very limited capital expenditure and have interest in a further 21,000 sq ft.

Occupational demand is robust and there are 13 lease events in 2022, although we expect the majority of occupiers to remain. There are numerous asset management opportunities, noting the short weighted average lease length. The central location of the site does open the possibility of a larger mixed-use development in the longer-term. We are exploring this whilst seeking to increase the income and value through proactive management and improving the appeal of the estates to new and existing occupiers.

£23.5m
Purchase price

£1.4m
Passing rent at acquisition

Portfolio Performance
See more information on pages **20-21**

Rum Runner Works, Regency Wharf

Repositioning assets

In Birmingham we have converted vacant restaurants into Grade A canalside office space.

We secured planning permission for change of use for the building from leisure to offices and during the year completed the project renaming it Rum Runner Works, as it was once home to the historic Rum Runner nightclub. We relocated an existing occupier which allowed us to convert the canalside block into offices.

The building maintains a mix of period features and modern design over 16,200 sq ft. Excellent floor-to-ceiling heights, feature lighting, and exposed services give the glass and steel construction an industrial feel reflective of its manufacturing past. Terraces offer private outdoor space with a view and the central courtyard makes it ideal for events and functions.

The refurbishment was carried out in line with our refurbishment guidelines, which have the aim of ensuring sustainability is at the heart of the design process. The building's EPC rating was improved from an E to a B. Natural gas was removed from the building and solar panels were installed along with heat recovery systems.

The works were completed in late 2021 and the building was shortlisted for the British Council for Offices Awards 2022. The estimated rental value has increased from £0.2 million per annum as leisure to £0.4 million per annum as an office. We expect strong demand for a self-contained Grade A building which offers unique space and good sustainability credentials.

112%

Improvement in ERV

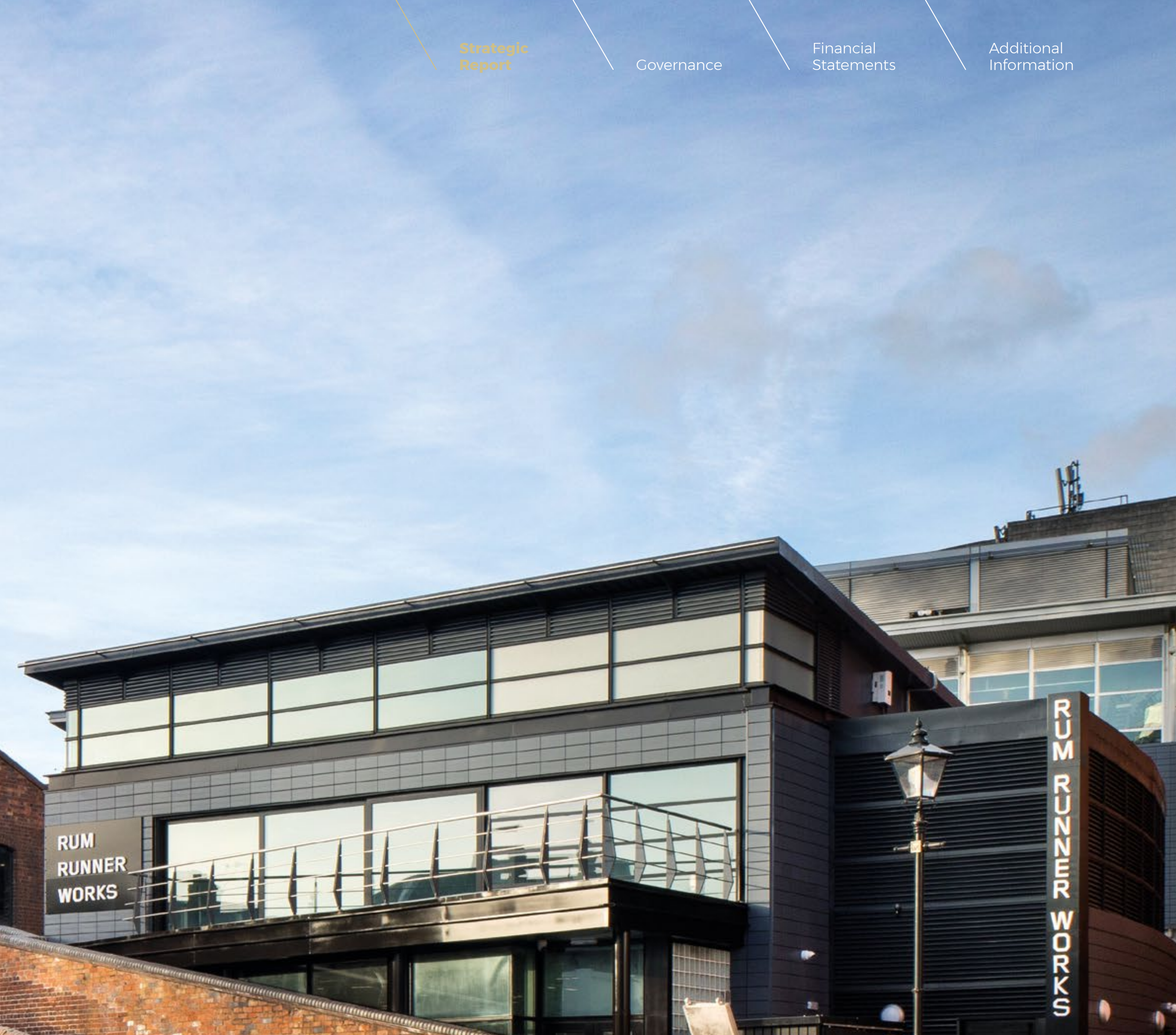
E to B

Upgraded minimum EPC rating

3 1 2

Portfolio Performance and Acting Responsibly

See more information on pages **20-21**


RUM RUNNER WORKS
RUM RUNNER WORKS


RUM RUNNER WORK

Lyon Business Park, Barking

Growing occupancy and income

Our industrial estate in Barking has benefitted from strong occupational demand despite three units becoming vacant during the Covid-19 pandemic.

This estate was the most severely impacted property in the portfolio in terms of loss of income through occupier failures over the past two years.

During the year we refurbished and pre-let the largest unit of 45,000 sq ft to a well-established catering company. The unit was leased for a 15-year term certain at £0.6 million per annum, 46% ahead of the previous passing rent and 5% ahead of the March 2021 ERV. The lease included our standard green lease provisions.

A smaller unit became vacant in October and was leased, with nominal expenditure, to an existing occupier on a new five-year lease at £0.1 million per annum, 38% ahead of the previous passing rent and 25% ahead of ERV. The lease included our standard green lease provisions. The occupier also extended their current lease, which expired in two years, to five years with a rental uplift in 2024.

A further unit of 26,000 sq ft became vacant in November and is currently being refurbished in line with our sustainable refurbishment guidelines. We are targeting a B-rated EPC. The previous occupier was paying a rent of £0.3 million per annum and we believe we will achieve a new rent 25% ahead of this on a new letting.

Three further leases were renewed securing £0.1 million per annum, a 23% uplift on the previous passing rent and in line with ERV.

45%

Increase in contracted rent on lettings

Portfolio Performance
See more information on pages **20-21**

Measuring the success of the business

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

Key performance indicators are also used to determine variable remuneration rewards for the Executive Directors and the rest of the Picton team. The indicators used are total return, total shareholder return, total property return and EPRA earnings per share. This is set out more fully in the Remuneration Report.

We are now reporting EPCs rated A-C and as with occupancy this is expressed as a percentage of ERV. We have amended the methodology to better reflect the risks in relation to MEES.

For more information on **EPRA Best Practices Recommendations** see pages **139–141**

Remuneration Link

Strategic pillars

1 Portfolio Performance

2 Operational Excellence

3 Acting Responsibly

Financial KPIs

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 aim to be one of the consistently best performing diversified UK REITs is being achieved, and is a measure used to determine the annual bonus.

Our performance in 2022

Our total return this year was driven by strong valuation gains and increased dividends.

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. We use this indicator because it 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 2022

An increase in the share price over the year, as the impacts of the pandemic receded, together with increased dividends, contributed to a return of 18.7%

Total property return (%)

C

2022	24.3
2021	7.3
2020	5.3

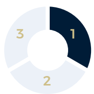
Why we use this indicator

The total property return is the combined income and capital return from our property portfolio for the year, as calculated by MSCI. We use this indicator because it shows the success of the portfolio strategy without the impact of gearing and corporate costs.

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 2022

We have outperformed the MSCI UK Quarterly Property Index for the ninth consecutive year, delivering a return of 24.3% compared to the Index return of 19.6% for the year. We have also delivered upper quartile outperformance against MSCI over three, five and ten years, and since inception.



Loan to value ratio (%)

E

2022	21.2
2021	20.9
2020	21.7

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 2022

The loan to value ratio has marginally increased this year with the additional borrowings drawn during the year offset by the increase in the portfolio value.

Property income return (%)

D

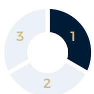
2022	4.5
2021	4.7
2020	4.8

Why we use this indicator

The property income return, as calculated by MSCI, is the income return of the portfolio. Income is an important component of total return and our portfolio is biased towards income generation.

Our performance in 2022

The income return for the year of 4.5% was ahead of the MSCI UK Quarterly Property Index of 4.2%, and we have also outperformed over one, three, five and ten years, and since inception.



Cost ratio (%)

F

2022	1.0
2021	1.0
2020	1.1

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.

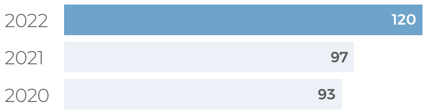
Our performance in 2022

The cost ratio has been maintained at 1.0% this year.

EPRA KPIs

EPRA NTA per share (pence)

G



Why we use this indicator

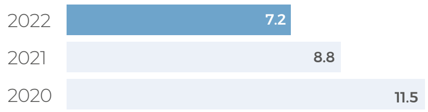
The EPRA net tangible assets (NTA) per share, calculated in accordance with EPRA, measures the value of shareholders' equity in the business. We use this to measure the growth of the business over time and regard this as the most relevant net asset metric for the business.

Our performance in 2022

The EPRA NTA per share has increased by 24.4% this year, due to valuation gains, particularly in the industrial portfolio.

EPRA vacancy rate (%)

I



Why we use this indicator

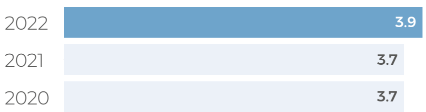
The vacancy rate measures the amount of vacant space in the portfolio at the end of each financial period, and over the long-term, is an indication of the success of asset management initiatives undertaken.

Our performance in 2022

Recently refurbished space has been let over the year as Covid-19 restrictions were lifted and occupiers seek best in class space.

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. We use this because it measures the operating profit generated by the business from the core property rental business.

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 2022

EPRA earnings per share has increased to 3.9 pence as a consequence of higher occupancy, reduced provisions against income receivable and additional income from property acquisitions.

Non-financial KPIs

Retention rate (%)

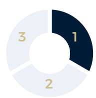
J

2022	37
2021	88
2020	53

Why we use this indicator

This provides a measure of income at risk and the retention of that income during the year. This is achieved through lease extensions or removal of break options.

Our performance in 2022



The lower retention rate principally reflects pandemic-related voids.

Total ERV at risk due to lease expiries or break options totalled £5.5 million, £1.2 million lower than last year. Of the ERV at risk that was not retained, 29% or £1.6 million of ERV was re-let to a different occupier during the year.

Employee satisfaction (%)

L

2022	82
2021	85
2020	83

Why we use this indicator

We use this indicator to assess our performance against one of our strategic objectives, to nurture a positive culture reflecting the values and alignment of the Picton team. The indicator is based on the employee survey carried out during the year.

Our performance in 2022

Although slightly lower this year, the employee satisfaction score remains very high.

EPC rating A-C (%)

K

2022	71
2021	64
2020	55

Why we use this indicator

Energy Performance Certificates (EPCs) indicate how energy efficient a building could be by assigning a rating from 'A' (very efficient) to 'G' (very inefficient).

From 2023 MEES regulations prohibit leasing space that is F or G rated. It is proposed that from 2027 an EPC of at least a C rating will be required.

Our performance in 2022

The proportion of EPC ratings between A to C has increased against the prior year and makes up 71% of the portfolio. The remaining 29% is rated D or E.

Portfolio overview

We are a diversified Real Estate Investment Trust (REIT) investing in UK commercial property. Our property portfolio consists of 47 assets with currently 60% invested in the industrial sector.

Industrial weighting

60%

South East	**44%**
Rest of UK	**16%**

Read more on pages **38-39**

Office weighting

30%

Central London	**11%**
Rest of UK	**10%**
South East	**9%**

Read more on pages **40-41**

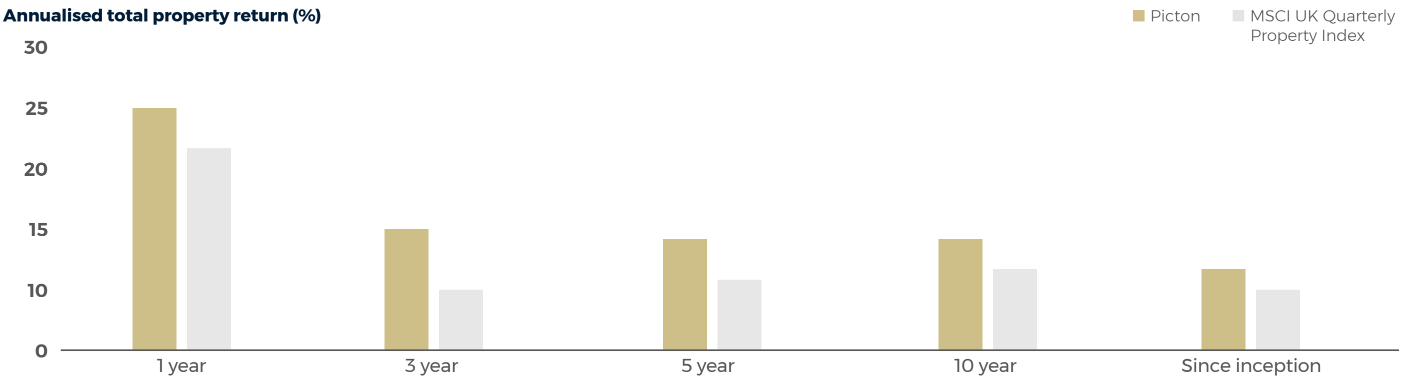
Retail and Leisure weighting

10%

Retail Warehouse	**7%**
High Street Rest of UK	**2%**
Leisure	**1%**

Read more on pages **42-43**

Annualised total property return (%)



Portfolio summary

47
Number of assets

£849m
Value

93%
Occupancy

4.0%
Net initial yield

5.4%
Reversionary yield

4.7m sq ft
Area

Top ten occupiers

The largest occupiers, based as a percentage of contracted rent, as at 31 March 2022, are as follows:

Occupier	Contracted rent (£m)	%
Public sector	2.3	5.0
Whistl UK Limited	1.6	3.6
B&Q Plc	1.2	2.8
The Random House Group Limited	1.2	2.6
Snorkel Europe Limited	1.2	2.6
XMA Limited	1.0	2.2
Portal Chatham LLP	0.9	2.1
DHL Supply Chain Limited	0.8	1.7
Hi-Speed Services Limited	0.7	1.5
Canterbury Christ Church University	0.7	1.5
Total	**11.6**	**25.6**

Top ten assets

The largest assets, as at 31 March 2022, ranked by capital value, represent 55% of the total portfolio valuation and are detailed below:

Assets	Acquisition date	Property type	Tenure	Approximate area (sq ft)	Capital value (£m)	No. of occupiers	Occupancy rate (%)
Parkbury Industrial Estate, Radlett, Herts.	03/2014	Industrial	Freehold	343,800	>100	21	100
River Way Industrial Estate, Harlow, Essex	12/2006	Industrial	Freehold	454,800	50-75	10	100
Datapoint, Cody Road, London E16	05/2010	Industrial	Leasehold	55,100	30-50	6	100
Lyon Business Park, Barking	09/2013	Industrial	Freehold	99,400	30-50	8	77
Stanford Building, London WC2	05/2010	Office	Freehold	19,600	30-50	4	100
Shipton Way, Rushden	07/2014	Industrial	Freehold	312,900	30-50	1	100
Angel Gate, City Road, London EC1	10/2005	Office	Freehold	64,600	30-50	18	61
Tower Wharf, Cheese Lane, Bristol	08/2017	Office	Freehold	70,600	20-30	6	90
50 Farringdon Road, London EC1	10/2005	Office	Leasehold*	31,300	20-30	4	100
Sundon Business Park, Dencora Way, Luton	10/2005	Industrial	Freehold	127,800	20-30	11	91

*Denotes leasehold interest in excess of 950 years.

Proactive management

Throughout the year we have continued to engage with our occupiers, invested into our assets and driven forward our sustainability priorities, which is at the forefront of our thinking as we actively manage the portfolio.

Driven by significant investor and occupier demand in the industrial sector, combined with a rebound in the retail warehousing sector, we have seen strong valuation gains. We have had like-for-like increases in passing rent and estimated rental value (ERV).

It has been another busy year in terms of the portfolio, with 76 asset management transactions completed. Our repositioning programme has especially helped us secure new office occupiers seeking best in class space, and this has resulted in an increase in occupancy over the period to 93%, up from 91% in the prior year.

Our occupier focused approach has always been key to enabling us to actively manage the portfolio. We are guided by our Picton Promise of Action, Community, Technology, Support and Sustainability. This philosophy of working in collaboration with our occupiers is a significant contributor to our long-term track record of outperformance.

During the year we have launched SwiftSpace at several of our office buildings, this initiative recognises that flexibility and ease of occupation are particularly important for some smaller businesses, and we are offering bespoke leasing solutions to include fitted space, inclusive rents and flexibility.

Performance

Our portfolio comprises 47 assets, with around 400 occupiers, and is valued at £849 million with a net initial yield of 4.0% and a reversionary yield of 5.4%.

Our asset allocation, with 60% in industrial, 30% in office and 10% in retail and leisure, combined with increasing occupancy and transactional activity, has enabled us to outperform the MSCI UK Quarterly Property Index over the year.

Overall, the like-for-like valuation was up 21%, with the industrial sector up 34%, offices up by 2% and retail and leisure up by 17%. This compares with the MSCI UK Quarterly Property Index recording a capital value increase of 15% over the period.

The overall portfolio passing rent is £38.7 million, an increase from the prior year of £2.2 million. On a like-for-like basis the passing rent increased by 2% and the contracted rent, which is the gross rent receivable after lease incentives, increased by £2.7 million or 7%.

The March 2022 ERV of the portfolio is £49.8 million, an increase from the prior year of 5% on a like-for-like basis. We had positive growth in all three sectors, with the industrial sector increasing 11% and the other two sectors both up 1%.

We have set out below the principal activity in each of the sectors in which we are invested and believe our sector strategy and proactive occupier engagement has delivered positive performance this year.

The industrial sector has had a very strong year, with considerable investment demand, with multiple buyers for well-located assets, resulting in further price growth. A lack of supply, especially of multi-let estates, coupled with increasing build costs, means that occupiers have restricted choice when looking for a unit, which in turn has driven strong rental growth across the country and especially in London and the South East where 73% of our portfolio is located. As examples, the ERV at Datapoint, London increased by 26%, Lyon Business Park, Barking by 15% and River Way, Harlow by 11%.

The office sector is returning to a 'new normal' with building occupancy improving, albeit on a more flexible basis. Increasingly businesses are focused on providing best in class space for their employees with good sustainability characteristics. There is good demand for Grade A space with take-up almost at pre-pandemic levels, but poorer quality buildings are struggling to attract occupiers.

400
Occupiers

21%
Like-for-like valuation increase

£38.7m
Passing rent

£49.8m
Estimated rental value

Many companies are revising working patterns, with offices being used two or three days a week and staff working from home the rest of the time. We have invested substantially into our office portfolio over the last few years, which has meant we have best in class assets which we have been able to lease during the year as well as retaining existing occupiers.

Retail warehouse parks have performed strongly, and our parks are busy with occupiers trading well. Investment demand has resulted in price growth in 2021 and early 2022, however we have not yet seen significant rental growth. This investor demand has not translated to the high street, but there is activity at the prime end with the indication that pricing has reached a floor for best in class assets. The leisure market is returning to normal, with pubs and restaurants reporting brisk trading.

We believe the portfolio remains well placed in respect of our sector allocations. Combined with the quality of our assets, we will be able to continue to drive performance going forward.

Activity

We have had another good year in respect of asset management transactions. We completed 12 rent reviews, 7% ahead of ERV, 21 lease renewals or regears, 3% ahead of ERV and 34 lettings or agreements to lease, 8% ahead of ERV. Two industrial assets were acquired for £23.5 million plus costs and one retail asset disposed of for £0.7 million, 16% ahead of March 2021 valuation.

Over the year we have invested £10 million into the portfolio principally across eight key projects. These have all been aimed at enhancing space to attract occupiers, improve sustainability credentials and grow income.

A major renovation project was recently completed at Rum Runner Works, Regency Wharf, Birmingham, where we have converted leisure space to offices with the development being shortlisted for the British Council of Offices Awards 2022.

The air conditioning plant was replaced at 50 Farringdon Road, while the building was fully leased. The system has now been converted from gas to electric, reducing carbon emissions and improving the EPC from a D to a B.

Our largest void is Angel Gate Office Village, London. The property offers space for smaller businesses and this market is beginning to pick up. We have upgraded the common parts, installed an occupier lounge, which is already very popular, and fitted out office suites for immediate occupation in line with our SwiftSpace concept.

We are continually focused on futureproofing assets from a sustainability perspective, which has resulted in an improvement in our EPCs with 71% now rated C and above. The average lot size of the portfolio is £18.1 million, 22% ahead of last year.

Our total void is £3.6 million per annum by ERV. By sector, 70% is in offices, 16% is in industrial and 14% is in retail and leisure.

Retention rates and occupancy

Over the year, total ERV at risk due to lease expiries or break options totalled £5.5 million, a reduction on the £6.6 million in the year to March 2021.

We retained 37% of total ERV at risk in the year to March 2022. Of the ERV that was not retained, a further 29% or £1.6 million was re-let to a different occupier during the year.

In addition, a further £2.1 million of ERV was retained by either removing future breaks or extending future lease expiries ahead of the lease event.

Occupancy has increased during the year from 91% to 93%, which is ahead of the MSCI UK Quarterly Property Index of 92% at March 2022. The increase primarily reflects the success of the refurbishment programmes in the office sector, with occupiers seeking best in class space. In addition, we have seen strong demand for our industrial units and the retail portfolio remains well let. Industrial occupancy is 98% (2021: 100%), office occupancy is 87% (2021: 82%) and retail and leisure occupancy is 93% (2021: 92%).

At the year end, over half of our vacant buildings were being refurbished, with the remainder available to let and being actively marketed.

"Occupancy has increased during the year from 91% to 93%, reflecting the success of our refurbishment programmes in the office sector.

Jay Cable
Senior Director and Head of Asset Management

£18m

Average lot size of the portfolio

£10m

Invested into the portfolio

Longevity of income

As at 31 March 2022, expressed as a percentage of contracted rent, the average length of the leases to the first termination was 4.8 years (2021: 4.9 years). This is summarised as follows:

	%
0 to 1 year	11.4
1 to 2 years	12.9
2 to 3 years	15.4
3 to 4 years	20.8
4 to 5 years	9.3
5 to 10 years	23.2
10 to 15 years	5.7
15 to 25 years	0.1
25 years and over	1.2
Total	**100.0**

Outlook

As the UK opened up we saw a bounce in consumer confidence and spending.

Subsequently, the war in Ukraine has caused a more uncertain outlook with inflationary pressure and supply chain issues being the immediate result. The war has not had any direct repercussions on the property market to date, however we are mindful of the fact that there could be secondary impacts going forward.

Our net zero carbon pathway is in place, and we continue to focus on sustainability and upgrading our buildings to ensure they are attractive to occupiers.

We have had success in securing occupiers in all sectors, with industrial demand remaining very strong. Our occupiers remain key and we have long-standing relationships in place with many of them, which enable us to work with and assist businesses as they grow and contract.

As at 31 March 2022 the portfolio had £11.1 million of reversionary income potential, £3.6 million from letting the vacant space, £4.5 million from expiring rent free periods and £3.0 million where the passing rent is below market level.

Demand for our industrial properties continues to be robust as proven by our high occupancy and growing ERVs. With this sector accounting for 60% of the total portfolio by value, we believe it will continue to contribute strongly to our performance, with supply constraints likely to lead to further rental growth.

The majority of office occupiers are now working on a flexible basis, with staff coming into the office two or three days a week. The longer-term implications differ from business to business but we are not seeing a significant reduction in overall floorspace. As we predicted, there has been a flight to quality, with companies wanting to upgrade their space to retain and attract staff. There is now a limited supply of Grade A space, as the development pipeline has slowed over the last two years, and this should result in rental growth. Poor quality buildings are less in demand, with many requiring significant expenditure to incorporate sustainability requirements and make them appealing to occupiers. We expect a significant proportion of these buildings to be repurposed in due course.

Retail warehousing, which makes up 65% of our retail allocation, has seen a valuation rebound, with retailers preferring out of town units to the high street. We have succeeded in letting all of our vacant retail warehouse units during the year and our parks are now fully leased.

We remain in a strong position with advantageous portfolio weightings, good quality assets and a proven occupier focused approach. Looking forward, we will continue to grow occupancy and income, acquire value accretive assets, engage with our occupiers, and invest further into our properties.

Jay Cable
Senior Director and Head of Asset Management
25 May 2022

Industrial

The industrial sector accounts for 60% of the portfolio and had the strongest sector performance of the year.

Key metrics

£509.7m
Valuation
(2021: £360.7m)

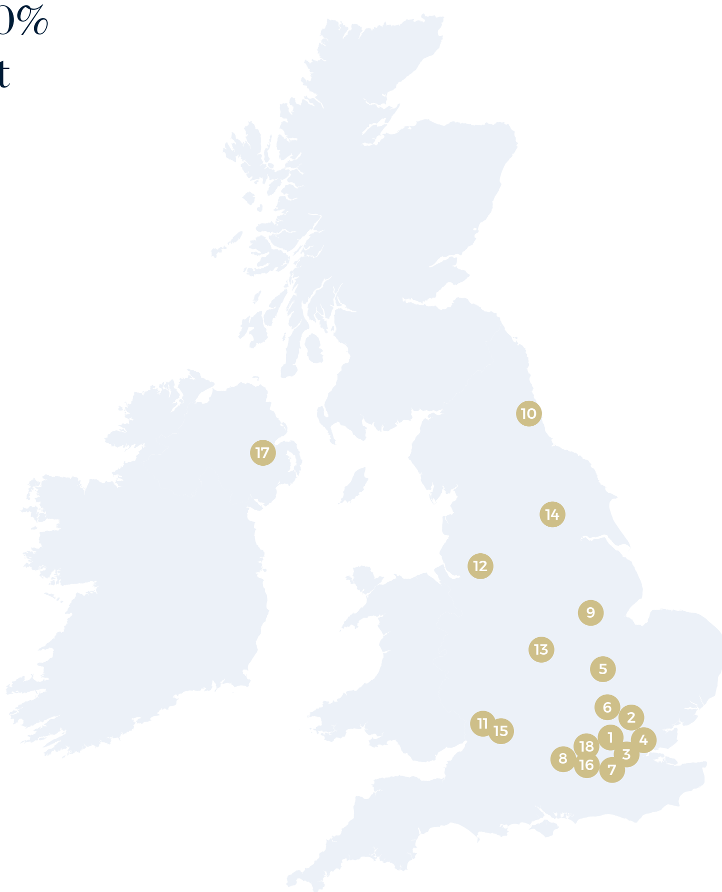
£23.4m
Estimated rental value
(2021: £19.3m)

3.2m sq ft
Internal area
(2021: 2.6m sq ft)

98%
Occupancy
(2021: 100%)

£17.6m
Annual passing rent
(2021: £16.9m)

18
Number of assets
(2021: 16)



Locations

1. **Parkbury Industrial Estate**
Radlett
343,800 sq ft – Freehold

2. **River Way Industrial Estate**
Harlow
454,800 sq ft – Freehold

3. **Datapoint**
London E16
55,100 sq ft – Leasehold

4. **Lyon Business Park**
Barking
99,400 sq ft – Freehold

5. **Shipton Way**
Rushden
312,900 sq ft – Freehold

6. **Sundon Business Park**
Luton
127,800 sq ft – Freehold

7. **Nonsuch Industrial Estate**
Epsom
41,400 sq ft – Leasehold

8. **The Business Centre**
Wokingham
101,000 sq ft – Freehold

9. **Trent Road**
Grantham
336,100 sq ft – Leasehold

10. **Vigo 250**
Washington
246,800 sq ft – Freehold

11. **Madleaze Trading Estate**
Gloucester
303,100 sq ft – Freehold

12. **Easter Court**
Warrington
81,800 sq ft – Freehold

13. **Swiftbox**
Rugby
99,500 sq ft – Freehold

14. **1&2 Kettlestring Lane**
York
157,800 sq ft – Freehold

15. **Mill Place Trading Estate**
Gloucester
366,200 sq ft – Leasehold

16. **Downmill Road**
Bracknell
41,200 sq ft – Freehold

17. **Abbey Business Park**
Belfast
61,500 sq ft – Freehold

18. **Magnet Trade Centre**
Reading
13,700 sq ft – Freehold

Continued strength in the investment market, driven by strong occupational fundamentals, has resulted in another very positive year for this sector. Strong occupational demand, combined with active management extending income and securing rental uplifts, have all contributed to performance.

On a like-for-like basis, the value of our industrial assets increased by £123.4 million or 34%. The passing rent was £17.6 million at year end, with an ERV of £23.4 million. Due to eight occupiers being in rent-free periods the passing rent decreased by -5% on a like-for-like basis, but on a contracted rent basis the rent increased by 8%. The portfolio has an average weighted lease length of 4.2 years and £5.8 million of reversionary potential.

We have seen ERV growth of 11% across the industrial portfolio, reflecting a supply constrained market. Occupancy is 98%, with all of the vacant units being refurbished.

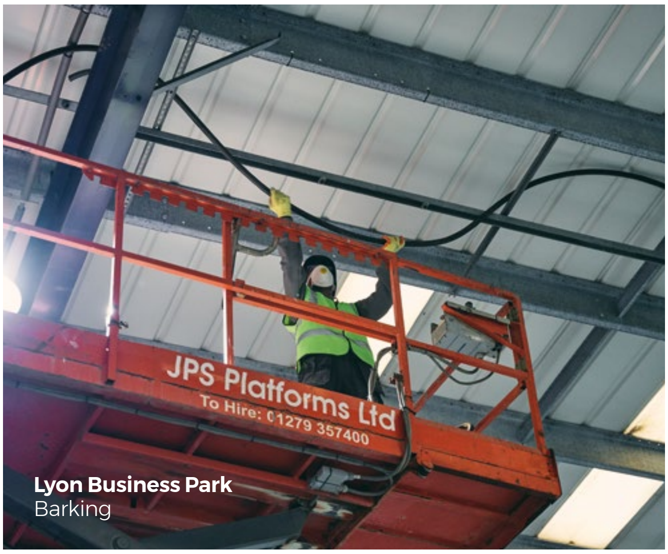
Portfolio activity

Madleaze and Mill Place Trading Estates, located in Gloucester city centre, were acquired in two separate transactions, for a combined purchase price of £23.5 million or £35 per sq ft, considerably below replacement cost. Our combined ownership now totals over 29 acres, with 670,000 sq ft of warehouse and ancillary accommodation, with a site coverage of 52%. The average rent on acquisition was only £2.76 per sq ft with a further 100,000 sq ft of vacant accommodation available to upgrade or redevelop, subject to occupational demand. We have already leased 22,000 sq ft without any capital expenditure and are in discussions with a number of occupiers in respect of either expansion or relocation.

At Rugby, we let a 99,500 sq ft unit to a logistics operator for ten years, subject to break. The lease commenced the day after the existing occupier vacated, meaning there were no void costs or capital expenditure. The new rent agreed at £0.7 million per annum is 11% ahead of both the previous passing rent and the ERV.

At Lyon Business Park, Barking we had an occupier severely affected by the pandemic. We actioned a landlord break option on the 45,000 sq ft unit, which was subsequently refurbished and leased to a catering company on a 15-year lease. The new rent of £0.6 million per annum is 46% ahead of the previous passing rent and 5% ahead of ERV. We renewed and extended three further leases on the estate securing £0.1 million per annum, 23% ahead of the previous passing rent and in line with ERV. We recently had another pandemic related void at the estate and have a 26,000 sq ft unit to lease, which is currently being refurbished.

At The Business Centre, Wokingham, we have driven income growth through agreeing two rent reviews, increasing the passing rent by 26% to £0.4 million per annum and leasing two units for a combined £0.1 million per annum, 2% ahead of ERV. The estate is fully leased.



Lyon Business Park
Barking

At Dencora Way, Luton, we increased income through settling a rent review, increasing the passing rent by 43%, 1% ahead of ERV and renewing two leases at a rent 30% ahead of the previous passing rent. We leased one unit for £0.1 million per annum, 9% ahead of ERV.

At Easter Court, Warrington, following the completion of a rent review, we achieved a 47% uplift in rent, 3% ahead of ERV. A further lease was renewed, increasing the passing rent by 31% to £0.1 million per annum, 7% ahead of ERV.

Outlook

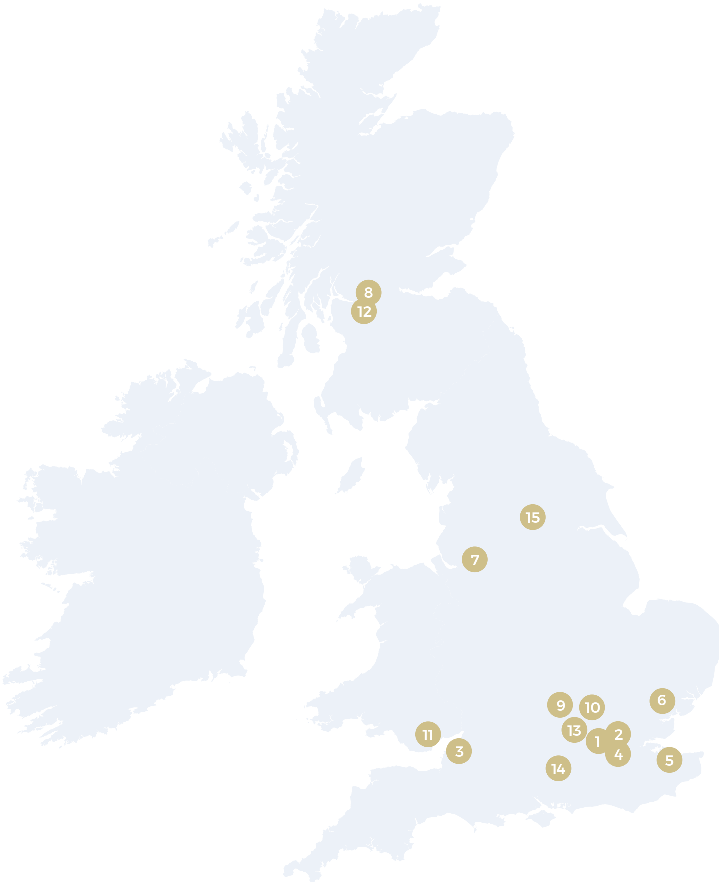
The industrial sector has performed exceptionally well this year, with continued strong demand, low vacancy rates and rental growth. Where units have come back due to occupiers relocating or insolvencies, we have been able to promptly re-let them at higher rents, post refurbishment.

We do not anticipate a material slowdown in occupational demand, and combined with limited availability and development pipeline, especially for multi-let estates, we expect continued rental growth.

The focus going forward is to maintain high occupancy, continue to capture rental growth, and work proactively with our occupiers to unlock asset management opportunities. We have 41 lease events forecast for the coming year, and the overall ERV for these units is 10% higher than the current passing rent of £2.7 million. This provides us with the opportunity to grow income and value further.

Office

The office sector accounts for 30% of the portfolio and delivered positive performance driven by leasing activity and active management.



Key metrics

£251.1m
Valuation
(2021: £245.4m)

£19.3m
Estimated rental value
(2021: £19.0m)

0.8m sq ft
Internal area
(2021: 0.8m sq ft)

87%
Occupancy
(2021: 82%)

£14.0m
Annual passing rent
(2021: £13.1m)

15
Number of assets
(2021: 15)

Locations

1. **Stanford Building**
London WC2
19,600 sq ft – Freehold
2. **Angel Gate**
London EC1
64,600 sq ft – Freehold
3. **Tower Wharf**
Bristol
70,600 sq ft – Freehold
4. **50 Farringdon Road**
London, EC1
31,300 sq ft – Leasehold
5. **30 & 50 Pembroke Court**
Chatham
86,000 sq ft – Leasehold
6. **Colchester Business Park**
Colchester
150,500 sq ft – Leasehold
7. **Metro**
Manchester
71,000 sq ft – Freehold
8. **180 West George Street**
Glasgow
52,200 sq ft – Freehold
9. **401 Grafton Gate**
Milton Keynes
57,400 sq ft – Freehold
10. **Trident House**
St Albans
19,000 sq ft – Freehold
11. **Longcross**
Cardiff
69,700 sq ft – Freehold
12. **Queens House**
Glasgow
49,400 sq ft – Freehold
13. **Atlas House**
Marlow
24,800 sq ft – Freehold
14. **Sentinel House**
Fleet
33,500 sq ft – Freehold
15. **Waterside House**
Leeds
25,200 sq ft – Freehold

The value of the office portfolio has increased on a like-for-like basis by £5.7 million or 2% to £251.1 million and the annual rental income increased by £0.8 million or 6% to £14.0 million.

Occupancy within the office sector has increased from 82% to 87%. We have secured £2.9 million per annum from lettings and have worked with our occupiers to extend income elsewhere.

The office portfolio has an average weighted lease length of 4.0 years and £5.3 million of reversionary potential. The ERV has increased slightly over the year, which is mainly due to regional offices with London being stable.

The impact of the global pandemic on working practices continues to be felt, however this varies dramatically from business to business. Occupational demand has picked up, especially for better quality space as businesses return to the office and review their requirements.

We have launched our SwiftSpace offering in order to meet the need for more flexible space requirements in a post-Covid-19 environment. From a regulatory standpoint, the Welsh Government retained their work from home policy until the end of our financial year, and this had an impact on demand for our Cardiff building.

We invested £6.2 million into our office assets during the period. Key projects were completed at Angel Gate, London, 50 Farringdon Road, London, 180 West George Street, Glasgow and Longcross, Cardiff.

Portfolio activity

At 50 Farringdon Road, London, we extended a lease, due for expiry later this year. This was our largest lease event in the office sector retaining £0.6 million per annum, which is 2% ahead of ERV. The transaction follows an upgrade of the heating and cooling system last year, transitioning from gas to electric, reducing carbon emissions from the building and upgrading the EPC from a D to a B.

At 180 West George Street, Glasgow, following a comprehensive refurbishment of the first, fifth and sixth floors to include new external roof terraces, we leased all three floors to separate occupiers, securing a combined rent of £0.6 million per annum, 19% ahead of ERV. This is a good example of occupiers seeking best in class space for their employees.

In Chatham, we completed the letting of all the remaining space at 50 Pembroke Court to NatWest at £0.3 million per annum, 8% ahead of ERV, for a term of five years, subject to break. In line with the occupier's sustainability policy the refurbished floor achieved a B-rated EPC.

Following the completion of the refurbishment of Stanford Building, London, we leased the remaining two office floors to a recruitment company, securing a rent of £0.5 million per annum, 3% below ERV but reflecting a longer ten-year lease commitment. We also leased the flagship retail unit, which is covered in the Retail and Leisure section.

At Colchester Business Park, we renewed three leases securing a combined rent of £0.4 million per annum, an 11% increase on the previous passing rent and 1% ahead of ERV. Two large occupiers vacated towards year end, and we are therefore refurbishing this space. We expect good levels of demand on completion of the works.

At Grafton Gate, Milton Keynes, we retained an occupier on lease expiry and removed two break options in return for taking back one suite this summer. The combined rent secured was £0.4 million per annum, 5% ahead of ERV. One rent review was agreed, securing a 33% increase to £0.2 million per annum, 4% ahead of ERV.

Our largest office void is Angel Gate, London, which has suffered from smaller businesses choosing to work from home during the pandemic and only now beginning to look to return to the office. The common areas have been redesigned and we have converted a ground floor office suite into an occupier lounge that has proved attractive to occupiers. We renewed two leases during the year for a combined £0.2 million per annum, 19% ahead of ERV and relocated four occupiers, all of whom upgraded their space and we let one fully fitted suite, securing a combined £0.4 million per annum, 5% ahead of ERV. We are beginning to see enquiries rise and believe our SwiftSpace option is attractive to occupiers looking for this type of flexible space.

Outlook

As we predicted, we are seeing a flight to quality with businesses looking for best in class space to attract their employees back to the office.

The majority of businesses have moved to a flexible working pattern, with employees working from home one or two days a week. This means they still require office space for all of their staff, and we have not seen a lot of second hand space being put on the market.

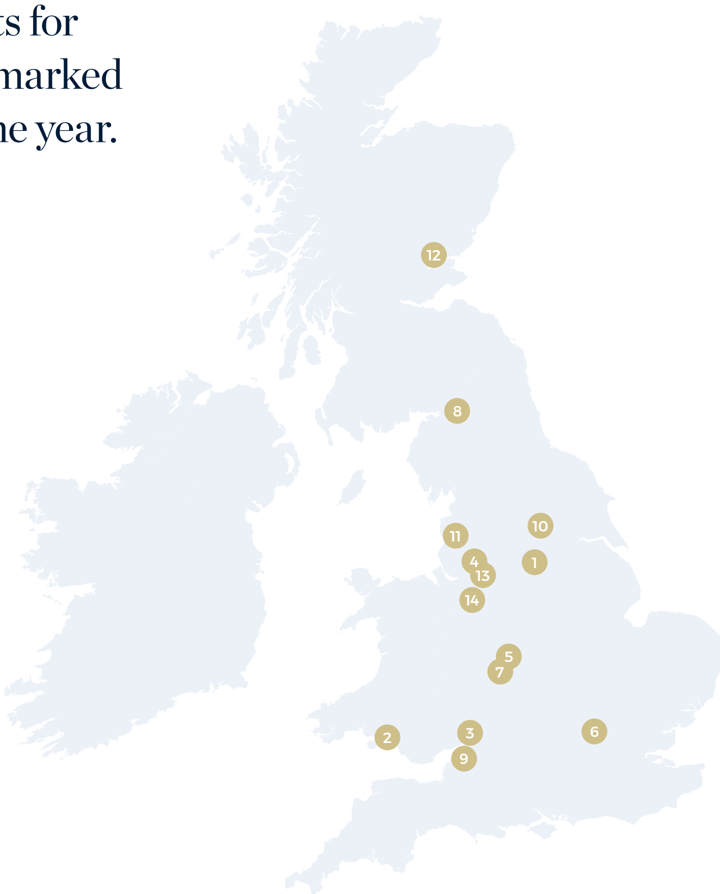
Sustainability is an ever-increasing factor in choosing a building and older stock, where the capital expenditure required to upgrade is prohibitive, will be converted to other uses. We have invested £15.2 million into our office portfolio over the last three years, creating high quality contemporary space with occupier amenities that offer flexibility in workspace planning, meaning our buildings are attractive to occupiers as demonstrated by our leasing success.

We have 33 lease events forecast for the coming year, with the current ERV for these units being 4% higher than the current passing rent of £2.6 million and a 13% void, with an ERV of £2.5 million, providing us with the opportunity to significantly grow income and value.

Angel Gate
Refurbished offices

Retail and Leisure

The retail and leisure sector accounts for 10% of the portfolio and delivered a marked improvement in performance over the year.



Key metrics

£88.5m
Valuation
(2021: £76.3m)

£7.1m
Estimated rental value
(2021: £7.1m)

0.7m sq ft
Internal area
(2021: 0.7m sq ft)

93%
Occupancy
(2021: 92%)

£7.1m
Annual passing rent
(2021: £6.4m)

14
Number of assets
(2021: 15)

Locations

1. **Queens Road**
Sheffield
105,600 sq ft – Freehold
2. **Parc Tawe North Retail Park**
Swansea
116,700 sq ft – Leasehold
3. **Gloucester Retail Park**
Gloucester
113,900 sq ft – Freehold
4. **Angouleme Retail Park**
Bury
76,200 sq ft – Leasehold
5. **Regency Wharf**
Birmingham
42,200 sq ft – Leasehold
6. **Thistle Express**
Luton
81,600 sq ft – Leasehold
7. **Scots Corner**
Birmingham
25,500 sq ft – Freehold
8. **Crown & Mitre Building**
Carlisle
25,200 sq ft – Freehold
9. **53-57 Broadmead**
Bristol
13,200 sq ft – Leasehold
10. **78-80 Briggate**
Leeds
7,700 sq ft – Freehold
11. **17-19 Fishergate**
Preston
52,300 sq ft – Freehold
12. **72-78 Murraygate**
Dundee
9,700 sq ft – Freehold
13. **7-9 Warren Street**
Stockport
8,700 sq ft – Freehold
14. **6-12 Parliament Row**
Hanley
17,300 sq ft – Freehold

The value of the retail and leisure sector increased on a like-for-like basis by £12.8 million or 17% with the majority of the increase relating to our retail parks, which account for 65% of this element of the portfolio. The annual rental income increased by £0.8 million or 14% to £7.1 million. The portfolio has an average weighted lease length of 8.1 years with the ERV being £7.1 million.

Investor demand for retail warehouse parks has increased substantially over the last six months, resulting in valuation increases on the back of yield movement. While the sector remains more attractive to retailers seeking accommodation, we have yet to see significant rental growth coming through.

The high street is still struggling following the pandemic with an oversupply in most markets. Shoppers are however returning to city centres and local shopping is still performing well, with signs of occupational demand returning off rebased rents.

We have seen positive ERV growth of 1% across this element of the portfolio and pleasingly we have been able to increase occupancy during this period to 93%. Our largest retail void is the office element of Regency Wharf, Birmingham and we only have three vacant high street shops, one is under offer, and we have interest in the other two.

£2.5 million was invested into the retail portfolio during the period, the majority into the Regency Wharf conversion.

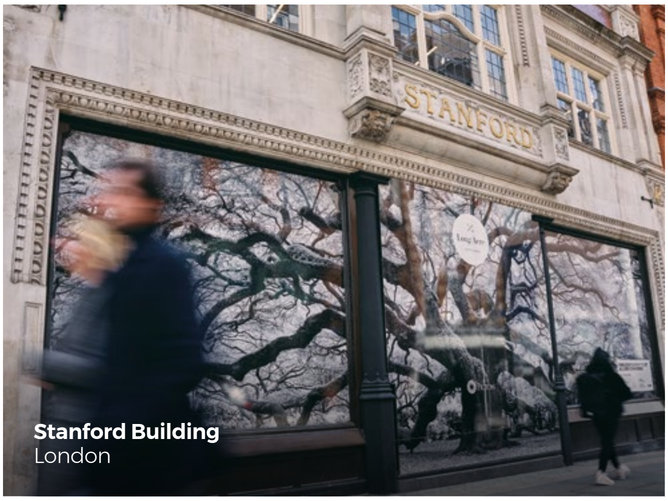
Portfolio activity

At Stanford Building, London, we let the flagship retail unit to Scotch & Soda, an international fashion retailer, for ten years, subject to break. The rent of £0.5 million per annum is 22% ahead of ERV. The lease starts in May 2022 and the incentive package was less than one year's rent.

We had success at our retail parks, with a letting to the UK Government in Swansea for a Job Centre, which worked well in this end of terrace unit. We secured a five-year lease, subject to break, at a rent of £0.1 million per annum, in line with ERV. The park is fully leased with occupiers including Lidl, FarmFoods, JD Gyms, and Pets at Home.

At Angouleme Way Retail Park, Bury we leased the final vacant unit to JD Gyms. We secured a ten-year term certain at a rent of £0.2 million per annum, in line with ERV. The park is fully leased with occupiers including TK Maxx, Argos and JYSK.

At Scots Corner, Birmingham, where we have a parade of local high street retail units with a Job Centre above, we extended two leases for a combined rent of £0.1 million per annum, which was 5% ahead of ERV. At the same property we leased a unit securing a rent 23% ahead of ERV. We have one unit to lease, and we have interest.



Stanford Building
London

Victoria Lane, Huddersfield, was sold in September. The property consisted of three small retail units, with short income to Argos, Savers, and Peacocks, but with Argos vacating. The property was sold for £0.7 million, 16% ahead of valuation, to the local council.

Outlook

The retail and leisure sector is stabilising following the pandemic. Retail warehouse parks are trading well and are in demand from investors. Although there remains an oversupply of floorspace in the high street and shopping centre subsectors, there are signs that yields have reached a floor and there could be opportunities in carefully selected prime assets.

Our portfolio is well leased, provides an attractive income return and with 65% in the retail warehouse sector we are strategically well placed. We have been successful in securing new occupiers over the year and our parks have remained busy. High street valuations, which have moved down over the past few years, are now stabilising.

The inflationary pressures currently being felt may result in a drop in consumer spending. Therefore, we remain cautious within the sector and will be selective when considering potential investments.

Strong valuation and earnings growth

This financial year we are reporting a record profit of £147 million and an increase in the net assets of over 24% to £657 million.

£147m
Profit for the year

£657m
Net Assets

This financial year has seen a significant rebound in the economy, with UK GDP returning above pre-pandemic levels by the end of March 2022. However the conflict in Ukraine has tempered the outlook, with rising inflation expected to restrain growth in the short-term.

The total profit for the year was £147.4 million, up from £33.8 million in 2021. Both income and capital elements were ahead of the previous year's position.

On the capital side, we saw very strong growth in our industrial and retail warehouse assets, with the overall valuation movement of £130 million for the year. The like-for-like gain in the valuation of the property portfolio was 21%.

Our EPRA earnings, comprising the operating results and net interest expense, increased to £21.2 million for the year, an increase of 5.5%. As discussed below, property revenue rose by over £3 million compared to 2021, or over 7%. With the new acquisitions made in the year, plus the one recently announced post year-end, we expect revenue to move forward again next year.

We have raised the level of dividend twice in the year, and this is now back to the pre-pandemic level.

The total return for the year was 28%, significantly improving upon the 6.6% recorded last year.

Net asset value

The net assets of the Group increased to £657.1 million, or 120 pence per share, which was a rise of 24.4% over the year. The chart below shows the components of this increase.

	£m
March 2021 net asset value	528.2
Income profit	21.2
Valuation movement	130.2
Debt prepayment fees	(4.0)
Share-based awards	0.6
Purchase of shares	(0.7)
Dividends paid	(18.4)
March 2022 net asset value	**657.1**

“

We have raised the level of dividend twice in the year.

Andrew Dewhirst
Finance Director

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).

	2022 £m	2021 £m	2020 £m
Net asset value – IFRS and EPRA NTA	**657.1**	528.2	509.3
Fair value of debt	**(6.7)**	(21.0)	(29.6)
EPRA NDV asset value	**650.4**	507.2	479.7
Net asset value per share (pence)	**120**	97	93
EPRA net tangible asset value per share (pence)	**120**	97	93
EPRA net disposal value per share (pence)	**119**	93	88

Income statement

As noted above our results for the year are very strong. Valuation gains are at a record level, but there has also been growth in EPRA earnings, with an increase in property income.

Total revenue from the property portfolio for the year was £46.5 million, up from £43.3 million last year. Rental income has increased by 9.8% compared to 2021, as a result of the new acquisitions made during the year, as well as the increased occupancy and reduced bad debt provisions. On a like-for-like basis, rental income increased by 9.5% compared to the previous year, on an EPRA basis.

Rent collection has largely returned to pre-pandemic levels.

Property operating and void costs are slightly higher than the previous year, at £4.9 million compared to £4.6 million. Although occupancy has increased, following a number of lettings towards the end of the year, void holding costs are higher this year, impacted by general inflationary pressure.

Administrative expenses for the year were £5.8 million, compared to £5.4 million in 2021. Staff costs are some 6% higher compared to the previous year, reflecting higher variable remuneration provisions as well as the new fee and salary rates agreed for 2021/22. There have been other additional costs this year relating to developing the net zero carbon pathway and other sustainability related issues.

Interest costs for this year are £8.5 million. This includes the additional amortisation this year of costs associated with the original Canada Life facility from 2012, which, as set out below, has been extended this year. We have also made drawdowns under our revolving credit facility, although these were largely repaid within the year. As a result of resetting the interest rate on our Canada Life facility our cost of debt will be lower going forward.

Capital gains on the portfolio were £130.2 million for the year, including the gains on owner-occupied property. There were strong valuation gains across the portfolio, with the industrial and retail warehouse assets performing particularly well. One disposal of a retail asset was made during the year, realising a small gain compared to the March 2021 valuation.

The total profit for the year was £147.4 million, up by over 300% compared to 2021.

Dividends

As the restrictions caused by the pandemic have eased and our rent collection rate has risen, we have been able to increase the quarterly dividend twice over the course of the year, and have now returned to the pre-pandemic rate of 0.875 pence per share. The full dividend for the year was 3.375 pence per share, with total dividends paid out of £18.4 million, compared to £15.0 million last year, an increase of 23%. Dividend cover for the full year was 115%.

Investment properties

The appraised value of our investment property portfolio was £849.3 million at 31 March 2022, up from £682.4 million a year previously. We have made two acquisitions this year, for a total consideration of £25.0 million, as well as a disposal of one small retail property, for net proceeds of £0.7 million. The two industrial acquisitions are discussed in more detail in the Portfolio Review section. This year we have invested £9.6 million of capital expenditure in the portfolio. There have been a number of key refurbishment projects undertaken this year, principally at Regency Wharf, Birmingham, Longcross, Cardiff and at 50 Farringdon Road, London. There were significant portfolio valuation gains totalling £130.2 million this year, principally in the industrial and retail warehouse sectors.

As last year, the value of the floor that we occupy at Stanford Building, London, has been excluded from the value of Investment Properties and included separately with Property, Plant and Equipment. Any gains arising from the revaluation of this element of the property are shown within Other Comprehensive Income.

At 31 March 2022 the portfolio comprised 47 assets, with an average lot size of £18.1 million.

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

Borrowings

Total borrowings are now £218.8 million at 31 March 2022, with the loan to value ratio at 21.2%. The weighted average interest rate on our borrowings has reduced to 3.7%, while the average loan duration is now 9.6 years.

In March, we extended and amended our Canada Life facility. Previously the outstanding £80 million loan had a maturity date of July 2027, which we have moved out to July 2031. We have also borrowed an additional £49 million under this facility, increasing the principal to £129 million, and at the same time reducing the interest rate payable on the full amount to 3.25%. As a result of resetting the rate on the original principal we have incurred one-off prepayment fees of £4.0 million.

Our senior loan facility with Aviva reduced by the regular amortisation, £1.3 million in the year.

The Group remained fully compliant with its loan covenants throughout the year. During the year we utilised our revolving credit facility to acquire the two industrial assets mentioned above. Much of this has been repaid using the proceeds from the new Canada Life borrowings. At 31 March 2022 we had £4.9 million drawn under the revolving credit facility, which had been used to fund capital expenditure projects. The revolving credit facility, originally for an initial term of three years, was extended by a further year in 2021/22, and a further one-year extension has now been granted, taking the maturity to 2025.

The fair value of our borrowings at 31 March 2022 was £225.6 million, higher than the book amount. Lending margins have fallen slightly compared to the previous year, but gilt rates have risen more significantly.

A summary of our borrowings is set out below:

	2022	2021	2020
Fixed rate loans (£m)	**213.9**	166.2	167.5
Drawn revolving facility (£m)	**4.9**	–	–
Total borrowings (£m)	**218.8**	166.2	167.5
Borrowings net of cash (£m)	**180.3**	142.8	143.9
Undrawn facilities (£m)	**45.1**	50.0	49.0
Loan to value ratio (%)	**21.2**	20.9	21.7
Weighted average interest rate (%)	**3.7**	4.2	4.2
Average duration (years)	**9.6**	8.9	9.9

Cash flow and liquidity

Our overall cash position increased by £15.1 million over the year. This was partly due to the additional borrowings that were received in March 2022, but additionally the cash flow from operating activities was higher this year at £20.0 million. Cash outflows from investing activities was £33.8 million for the year, being the consideration paid for the two new assets, plus £9.6 million of capital expenditure. Dividends paid increased to £18.4 million. Our cash balance at the year-end stood at £38.5 million, compared to the previous year's balance of £23.4 million.

Share capital

No new ordinary shares were issued during the year.

The Company's Employee Benefit Trust acquired a further 750,000 shares, at a cost of £0.7 million, or 97 pence per share, during the year. This was to satisfy the future vesting of awards made under the Long-term Incentive Plan and Deferred Bonus Plan, and now holds a total of 1,974,253 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
25 May 2022

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 139.

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 use industry standard measures and terminology where possible.

In common with many other listed property companies we report the EPRA performance measures. 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, employee satisfaction and EPC ratings. The definition of these measures, and the rationale for their use, is set out in the Key Performance Indicators section.

EPRA's mission

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, we fully support the EPRA Best Practices Recommendations which recognise the key performance measures, as detailed above. Specific EPRA metrics can be found within the KPIs and Financial Review sections of this Report with further disclosures and supporting calculations on pages 139 to 141.

120p
NAV per share
(2021: 97p, 2020: 93p)

3.4p
Dividends per share
(2021: 2.8p, 2020: 3.5p)

115%
Dividend cover
(2021: 134%, 2020: 105%)

3.9p
EPRA earnings per share
(2021: 3.7p, 2020: 3.7p)

20.8%
Like-for-like valuation gain
(2021: 3.2%, 2020: 1.4%)

Managing risks

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 below, together with mitigating controls.

The UK Corporate Governance Code requires the Board to make a Viability Statement. This considers the Company's current position and principal and emerging 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 in the Director's Report.

Principal risks and trends

- Increasing
- No change/stable
- Decreasing

1	Political and economic	Increasing
2	Market cycle	No change/stable
3	Regulatory and tax	No change/stable
4	Climate change resilience	Increasing
5	Portfolio strategy	No change/stable
6	Investment	Increasing
7	Asset management	No change/stable
8	Valuation	Decreasing
9	People	No change/stable
10	Finance strategy	No change/stable
11	Capital structure	No change/stable

Covid-19 impacts

The impacts of the Covid-19 pandemic have lessened over the past year as restrictions have been lifted and the UK economy has largely recovered, with GDP above pre-pandemic levels. However, the longer-term implications may be felt for some time. Government borrowing has increased significantly during the pandemic which could lead to higher taxes and lower growth. Other consequences of the pandemic, such as flexible working and increased online retailing, are unlikely to reverse.

Climate-related risks

The Board has carried out an assessment of the physical and transition risks most relevant to the business, and undertaken a review of its procedures for identifying and managing those risks. This review made a number of recommendations which will be implemented during the coming year. More detail on the risk assessment and scenario modelling is set out in the Task Force for Climate-related Financial Disclosures section of the Report.

Emerging risks

During the year the Board has considered themes where emerging risks or disrupting events may impact the business. These may arise from behavioural changes, political or regulatory changes, advances in technology, environmental factors, economic conditions or demographic changes. All emerging risks are reviewed as part of the ongoing risk management process.

The principal emerging risks have been identified to be:

- rising inflation in the UK economy, caused by higher energy, food and commodity prices;
- the legacy effects of the pandemic, which has heightened awareness of social injustice and global inequality, and the pressure on businesses to create positive societal value;
- cyber security, heightened by the disruption during the pandemic and greater home working;
- the increasing importance of sustainability issues to all stakeholders;
- office working is evolving into a more flexible model, making businesses reassess their space requirements;
- online retailing continues to reduce the demand for physical space in the retail market;
- advances in technology are impacting both the real estate sector, in areas such as smart building systems and electric vehicle charging, and also occupiers' businesses, changing their space requirements;
- changes in regulations are increasing environmental standards and property owners must keep pace to avoid the risk of stranded assets.

These emerging risks are covered in more detail in the Marketplace section of the Report.

Read more on pages **16-17**

Risk management framework

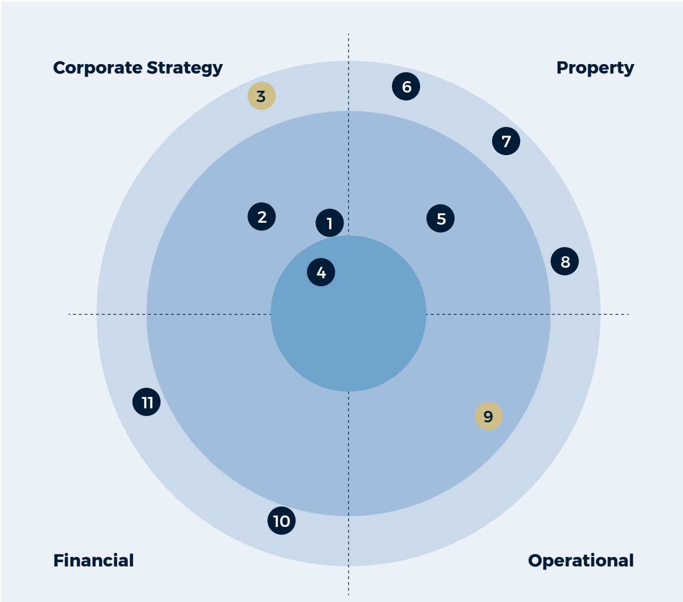
Board
- Has overall responsibility for risk management
- Determines business model
- Considers risk appetite

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

Audit and Risk Committee
- Recommends risk management policy
- Reviews internal controls
- Reviews detailed risk matrix
- Considers principal and emerging risks

Management Committees
- Review specific transaction risks
- Consider forthcoming legislation
- Review operational risk

The matrix below illustrates the assessment of the impact and likelihood of each of the principal risks.



Principal risk likelihood	High ● Medium ● Low ●
Estimated risk of occurrence within next five years	0% to 10%
	10% to 33%
	Greater than 33%

Read more on pages **50-52**

Corporate Strategy

1

Political and economic

Risk trend

Risk

Uncertainty in the UK economy, whether arising from political events or otherwise, brings risks to the property market and to occupiers' businesses. This can result in lower shareholder returns, lower asset liquidity and increased occupier failure.

Mitigation

The Board considers economic conditions and market uncertainty when setting strategy, considering the financial strategy of the business and in making investment decisions.

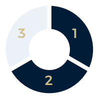
Commentary

The recent and continuing conflict in Ukraine has brought further uncertainty to global markets. Although UK GDP has recovered to above pre-pandemic levels there are still risks to the economy, with inflation rising, higher energy and commodity prices and supply chain issues.

Connected KPIs

A G B H C

Strategic pillar



2

Market cycle

Risk trend

Risk

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.

Mitigation

The Board reviews the Group's strategy and business objectives on a regular basis and considers whether any change is needed, in light of current and forecast market conditions.

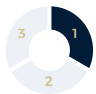
Commentary

Uncertainty in the property market has declined with the easing of restrictions. There is still a marked divergence in performance across the market sectors, due to structural differences.

Connected KPIs

C D

Strategic pillar



3

Regulatory and tax

Risk trend

Risk

The Group could fail to comply with legal, fiscal, health and safety or regulatory matters which could lead to financial loss, reputational damage or loss of REIT status.

Mitigation

The Board and senior management receive regular updates on relevant laws and regulations.

The Group is a member of the BPF and EPRA, and management attend industry briefings.

Commentary

There are no significant changes expected to the regulatory environment in which the Group operates.

Connected KPIs

C D

Strategic pillar

4

Climate change resilience

Risk trend

Risk

Failure to react to climate change could lead to reputational damage, loss of income and value and being unable to attract occupiers. Rising materials and energy costs as a result of climate change could give rise to asset obsolescence.

Mitigation

Sustainability is embedded within the Group's business model and strategy.

We have published our pathway to net zero carbon with a commitment to become carbon net zero by 2040.

We have carried out an assessment of the physical and transition risks to the business under two climate scenarios.

We have developed a refurbishment checklist to apply to projects ensuring environmental factors are fully considered at all stages.

Commentary

Climate change and other sustainability issues are increasingly important to all stakeholders.

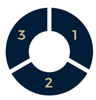
The UK Government has set a net zero target of 2050 and has implemented other regulations, such as the Minimum Energy Efficiency Standards, which are relevant to the real estate industry.

Occupiers are developing their own net zero strategies and demanding energy efficient buildings as well as more staff amenities.

Connected KPIs

A J C K

Strategic pillar



Property

5

Portfolio strategy

Risk trend

Risk

The Group has an inappropriate portfolio strategy, as a result of poor sector or geographical allocations, or holding obsolete assets, leading to lower shareholder returns.

Mitigation

The Group maintains a diversified portfolio in order to minimise exposure to any one geographical area or market sector.

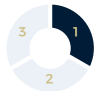
Commentary

As stated above there is a continued divergence across sectors. The role of the office is changing, and the retail sector has longer-term structural issues to address.

Connected KPIs

A C

Strategic pillar



6

Investment

Risk trend

Risk

Investment decisions may be flawed as a result of incorrect assumptions, poor research or incomplete due diligence, leading to financial loss.

Mitigation

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 including environmental assessments.

A review of each acquisition is performed within two years of completion.

Commentary

Environmental factors and climate-related risks are becoming increasingly important in investment decisions.

Connected KPIs

A C

Strategic pillar

7

Asset management

Risk trend

Risk

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.

Mitigation

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.

Commentary

Occupier engagement will remain important to successful asset management, particularly through the transition to net zero.

Connected KPIs

C I J K

Strategic pillar

8

Valuation

Risk trend

Risk

A fall in the valuation of the Group's property assets could lead to lower investment returns and a breach of loan covenants.

Mitigation

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 and adequate headroom against financial covenants.

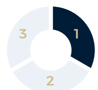
Commentary

Investment markets have returned to more normal conditions as restrictions have eased.

Connected KPIs

A C E

Strategic pillar



Operational

9

People

Risk trend

Risk

The Group relies on a small team to implement the strategy and run the day-to-day operations. Failure to retain or recruit key individuals with the right blend of skills and experience may result in poor decision making and underperformance.

Mitigation

The Board has a remuneration policy in place which incentivises performance and is aligned with shareholders' interests.

There is a Non-Executive Director responsible for employee engagement who provides regular feedback to the Board.

Commentary

The team has remained stable throughout the year. The results of the employee engagement survey were again positive. Flexible working arrangements have been introduced following employee feedback.

Connected KPIs

F H L

Strategic Pillar

Financial

10

Finance strategy

Risk trend

Risk

The Group has a number of loan facilities to finance its activities. Failure to comply with covenants or to manage refinancing events could lead to a funding shortfall for operational activities.

Mitigation

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 considers the going concern status of the Group biannually.

Commentary

The Group has increased its borrowings during the year but still has good headroom under its lending covenants. The revolving credit facility has been extended for a further year.

Connected KPIs

C D E

Strategic Pillar

11

Capital structure

Risk trend

Risk

The Group operates a geared capital structure, which magnifies returns from the portfolio, both positive and negative. An inappropriate level of gearing relative to the property cycle could lead to lower investment returns.

Mitigation

The Board regularly reviews its gearing strategy and debt maturity profile, at least annually, in light of changing market conditions.

Commentary

Although borrowings have increased the Group's loan to value ratio has remained low.

Connected KPIs

A G C H E

Strategic Pillar

TCFD Statement

This year, in order to fully comply with the requirements of the Task Force on Climate-related Financial Disclosures (TCFD), we have carried out a review of climate risk governance and a detailed assessment of the climate-related risks relevant to the business under two distinct climate change scenarios. The risks identified may be physical risks, caused by acute weather events or shifts in climate patterns, or transition risks, resulting from the change to a lower carbon economy.

Recommendation	Commentary
Governance	
The Board's oversight of climate-related risks and opportunities	Responsibility for climate-related risk management ultimately lies with the Board. This encompasses consideration of climate-related risks and extends to setting the Group's risk appetite which defines the limits of the Group's activities. Climate risk and wider sustainability matters are overseen by the Audit and Risk Committee which, in adopting the Risk Management Policy, is responsible for identifying and managing climate-related risks to the Group. The Audit and Risk Committee ensures that the Risk Management Policy is reviewed at least annually and revised as necessary to support our agile risk management approach. The Audit and Risk Committee meets at least twice a year and the Chair is responsible for reporting the Committee's findings and recommendations to the Board after each meeting, including updates on the Group's overall risk appetite, risk profile and risks strategy, accounting for the current and prospective macroeconomic and financial environment. This process led the Board to approve the implementation of our net zero carbon target this year, in response to our growing recognition of potential transition risks, including our exposure to higher energy prices and increasingly stringent building standards. This year we updated our Audit and Risk Committee's terms of reference to include climate-related responsibilities, such as using qualitative and quantitative metrics as appropriate to identify, manage, monitor and oversee climate-related risks.
Management's role in assessing and managing climate-related risks and opportunities A detailed overview of our Governance structure can be found on page **80**	The Responsibility Committee meets regularly to consider all aspects of sustainability and is responsible for identifying and reporting any emerging climate-related risks and opportunities. This year we updated the Committee's Terms of Reference to reflect this. The Committee ensures compliance with all relevant ESG standards and legislation, and provides regular updates to the Executive Committee. The Executive Committee is responsible for identifying and evaluating risks, including climate-related risks, arising from the implementation of the day-to-day operational activities of the Group. The Committee ensures that physical and transition climate risks are evaluated and recorded in the Risk Matrix and Emerging Risks Dashboard on a regular basis, and as appropriate, risks are escalated to the Board and Audit and Risk Committee. Within the Risk Matrix, responsibility for oversight is assigned to an appropriate Committee or individual. The Executive Committee maintains management and oversight of all risks identified and their mitigating activities, and reports recommendations to the Board or the Audit and Risk Committee. The Terms of Reference have been updated accordingly to reflect the Executive Committee's enhanced responsibility for oversight of climate-related risks. As part of our climate risks assessment outlined below in Risk Management, we conducted a detailed climate risk governance gap analysis, aligned with the TCFD recommendations, to understand the governance structures we should install to govern, oversee and manage climate-related risks across all levels of the business.

Recommendation	Commentary

Strategy

Climate-related risks and opportunities identified over the short, medium and long-term

Through conducting a rigorous climate risk assessment, outlined under Risk Management below, we have accurately identified the potential climate risks and opportunities facing our business. The table below outlines the key physical and transition risks we have identified over the short-term (2020-2029), medium-term (2030-3039) and long-term (>2040). Our heightened understanding of our climate risks has enabled us to employ a robust risk management process to address possible impacts and we will be working to improve this process further over the next year.

<table>
<tr><th>Time horizon</th><th>Risk</th><th>Risk description</th><th>Risk impacts</th></tr>
<tr><td rowspan="3">Short-term: 2020-2029</td><td>Changes in occupier/market demand</td><td>As markets shift towards low carbon alternatives, climate resilient assets could achieve a 'green premium' by outperforming buildings that do not meet a higher sustainability standard. Failure to adapt could create competitive risk and tenant default risk.</td><td rowspan="4">– Reduced asset values, 'green premium' vs 'brown discount'
– Increased cost of financial capital
– Occupier default risk causing loss of income
– Increased capital expenditure and retrofit costs
– Increased operational costs, including impacts from increased cost of carbon</td></tr>
<tr><td>Increased building standards/ requirements</td><td>Policy mandates buildings and developments to adhere to higher standards, to improve efficiencies and operational practice, and to embed climate resilience on-site. Non-compliant assets could experience reputational risk and reduced occupier demand.</td></tr>
<tr><td>Financial market impacts</td><td>Financial market impacts could transpire as market preferences shift towards low carbon solutions and climate resilience, or as a result of physical climate risks causing macroeconomic impacts. Market shifts could affect our ability to secure financial capital, acquisition activities and asset values.</td></tr>
<tr><td rowspan="4">Medium-term: 2030-2039</td><td>Decarbonisation and increased energy demand/ cost</td><td>Increasing the share of renewable energy sources and decarbonising energy-intensive industries could intensify other transition risks associated with reputation damage, financial impacts and litigation risk.</td></tr>
<tr><td>Flooding</td><td>Some of our assets are exposed to fluvial and pluvial flooding risk, while our susceptibility to coastal flooding is limited. This encompasses risks associated with disruption and damage that could lead to high repair costs or stranded asset risk.</td><td rowspan="4">– Physical damage causing costly repairs and clean-up
– Cost of mitigation measures
– Migration away from vulnerable areas
– Decline in asset values or stranded asset risk
– Litigation or reputational risks if perceived to inadequately prepare for physical risks
– Supply chain, distribution and regional infrastructure disruption</td></tr>
<tr><td>Heat stress</td><td>Rising temperatures and extreme temperature highs puts pressure on both our assets and people. Our concentration of assets in Southern England increases our susceptibility to this risk and to associated costs, including premature material replacement and increased cooling costs.</td></tr>
<tr><td>Extreme weather events</td><td>Extreme weather events, including storms, heavy winds, heavy precipitation, drought and snow could become more frequent and severe, generating risks associated with asset damage, regional infrastructure disruption, stranded asset risk and high capital expenditure costs to reinforce building design.</td></tr>
<tr><td>Long-term: 2040-2049</td><td>Drought and water stress</td><td>Water becomes increasingly scarce, with supply unable to meet demand. As temperatures rise, average drought lengths could increase, with implications on water costs, supply chains and public health.</td></tr>
</table>

Additionally, key opportunities we have identified include:

- The opportunity to secure occupiers, increase asset values and enhance our reputation by investing in renewables, harnessing low carbon technologies and providing energy efficient buildings. This includes the opportunities we expect to realise as we implement our net zero carbon pathway.
- Embedding resilience in our assets and business strategy by proactively assessing and managing identified climate-related risks, gaining a competitive advantage and securing our long-term sustainability as a result.

Recommendation	Commentary
Strategy continued	
Impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning	The Board recognises that climate change will have an impact on our business and consequently we have enhanced our business strategy and financial planning to account for climate-related considerations, including the impact of climate-related risks on the Group's current and future capital position. Having identified a broad range of climate-related risks and opportunities, we have integrated climate-related considerations into our business strategy in a number of ways. A core strategic focus is enhancing and adapting our assets through refurbishment and energy efficiency upgrades, and we consider a range of climate-related risks across each stage of the property lifecycle to continue to strive towards futureproofing our assets. For example, at the acquisition due diligence stage, we undertake on-site environmental assessments to identify risks associated with flooding and energy efficiency, and we use these findings to inform our investment decisions. We have strategies in place to take advantage of opportunities linked to the shift to a low carbon economy, including assessments as part of our Sustainability Action Plan that establish the feasibility to roll out in use certifications at our relevant assets and assessments as part of our Sustainable Refurbishment Guidelines to assess net zero (operational and embodied) capacity. Having conducted a rigorous climate risk assessment in early 2022 and developed our net zero carbon pathway, we are informed of a breadth of opportunities to further embed strong sustainability performance into our overall strategy. Throughout 2022 and beyond, we will begin implementing both climate resilience planning and our net zero carbon pathway. Both of these will create fundamental shifts in our business.
Resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2˚C or lower scenario	The thorough climate risk assessment we undertook enabled us to understand and analyse our key material climate-related risks against the time horizons described above. Obtaining this information allowed us to understand a variety of mitigation measures to reduce our vulnerability and exposure to climate-related risks, which will enable us to proactively manage them and improve our resilience. Moreover, a number of climate-related risks (transition climate risks as well as physical risks associated with heat stress) will be effectively managed as we implement our net zero carbon pathway. Our net zero carbon pathway is aligned with targets for a 1.5˚C scenario. The scenarios we selected for our analysis were the Intergovernmental Panel on Climate Change (IPCC) Representative Concentration Pathways RCP4.5 and RCP8.5, aligning with industry best practice and covering the most likely range of average global temperature rises in the coming decades. Analysing these distinct climate scenarios has enabled us to understand the wide scope of climate-related risks and opportunities for the business and inform actions to support our resilience. The RCP4.5 scenario models average temperature rise by 2100 of 1.7-3.2˚C and describes increased policy action over the coming decades aiming to meet the Paris Agreement. It therefore is characterised by transition risks, although physical risks are still substantial with this level of warming. RCP8.5 represents a 'no additional policy' scenario and models average temperature rise by 2100 of 3.2-5.4˚C. This scenario is characterised by very severe physical climate risks.

Recommendation	Commentary
Risk management	
Describe the organisation's processes for identifying and assessing climate-related risks	We are acutely aware that climate change poses a threat to not only our business and sector but to the global economy. In recognition, in early 2022 we conducted two parallel, rigorous climate scenario analysis exercises, the first to model climate risks to our portfolio and the second to qualitatively assess the resilience of our overall business strategy. This assessment used two distinct, plausible scenarios established by the IPCC, one which considers a transition to a lower carbon economy consistent with a 2˚C or lower scenario (RCP4.5) and one which aligns with heightened physical climate-related risks (RCP8.5). The scenarios were selected to test a range of likely outcomes and identify material climate-related risks over the short, medium and long-term. The first climate assessment considered our portfolio's susceptibility to a range of climate-related risks, including physical risks (for example flooding, heat stress and extreme weather events) and transition risks (for example market risk and technology). Via this quantitative modelling assessment, we have been able to determine the geographical distribution of our climate-related risks and opportunities and the potential financial losses and gains to our portfolio, respectively, allowing us to focus on mitigation strategies at our most at-risk assets and harness the available opportunities. The second climate assessment involved in-depth analysis of the most up-to-date, peer-reviewed scientific literature. Using this knowledge to determine the frequency, duration, velocity and financial impacts of a range of climate-related risks, an overall likelihood and impact score was assigned to our business' most material climate risks, including an indication of when we can expect them to materialise. High impact opportunities were also identified in relation to our business strategy. We brought these together to identify our top climate-related risks and opportunities that then informed detailed risk management recommendations.
Describe the organisation's processes for managing climate-related risks	Our risk matrix and emerging risk dashboard are updated annually and biannually, respectively, by the Executive Committee to ensure that we remain attentive to the changing nature of these risks and to reflect evolving stakeholder requirements and the wider macroeconomic and geopolitical landscape. The risk matrix identifies individual climate-related risks and comprehensively outlines specific mitigation strategies to manage these risks. Each risk is scored for its probability, risk impact and residual risk, and responsibility for oversight is detailed. Based on materiality, risks are communicated across relevant levels of our business. The emerging risk dashboard lists the most material risks we have identified and places risks against a timeline to highlight the relative urgency of identified risks. We will be updating this to reflect the findings of the climate risk assessments we undertook. Rigorous risk management processes are present at each stage of the property lifecycle, with all activities taking place within our defined risk appetite. During pre-acquisition due diligence, we conduct environmental assessments to assess environmental risks and energy efficiency. These guide our investment decisions and inform asset management planning. After acquisition, our Sustainability Refurbishment Guidelines integrate a range of climate-related factors, including specifications around EPCs and net zero carbon readiness. To enhance our ability to manage climate-related risks in occupier-controlled spaces, we have introduced green lease clauses and are engaging with occupiers around their operational behaviour, energy efficiency and data sharing. We will continue to undertake asset level ESG audits to identify opportunities to reduce energy consumption and improve efficiencies. Together, these strategies inform our investment and capital allocation activities, as well as acquisition and divestment decisions to maximise the overall performance and resilience of our portfolio's assets. This year, we have committed to achieving net zero carbon by 2040 – a key step towards building our resilience to transition risk impacts, including increased carbon costs and shifting market demand towards low carbon buildings. Our net zero carbon pathway, published on our website, has full details. We are determined to establish ambitious business strategies and processes to achieve this goal and we are allocating significant investment to secure success. The climate risk assessment process we have undertaken in 2021/22, described above, has informed detailed risk management recommendations that we are reviewing and beginning to implement. We have a three-year roadmap for implementing key actions that will set the foundations for prudent climate-related risk management for the medium to long-term.
Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management	Climate-related risks and opportunities are fully integrated into our risk management processes. Over the course of 2022, we will be integrating the outputs of the climate risk assessments into our risk management framework and will be integrating key risks within the risk matrix and emerging risk dashboard owned by the Executive Committee which is overseen by the Audit and Risk Committee and the Board.

Recommendation	Commentary
Metrics and targets	
Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	We report in line with EPRA Sustainability Best Practices Recommendations for sustainability reporting and issue our EPRA tables within our Sustainability Report. We provide information to our stakeholders on our climate-related performance and activities by reporting on a range of metrics for resource consumption, energy and carbon emissions across our portfolio. These include: – Total and like-for-like Scope 1 and 2 emissions and total Scope 3 emissions. Scope 3 emissions are reported voluntarily and are calculated using internal expense reports alongside the emissions factors from the UK Government's GHG Conversion Factors for Company Reporting 2020; – Total and like-for-like electricity consumed in kWh, including energy intensity in kWh/m². We aim to have automatic meter reads across the whole portfolio to enhance reliability of data and reporting accuracy; – Energy intensities for Scope 1 and 2 emissions using the metric tCO_2e/m^2. We use the most widely applied industry intensity ratios to aid transparency and comparability within the sector; – Total and like-for-like water consumption, including occupier water consumption in absolute terms, for each asset type; and – Total and like-for-like waste disposal in tonnes, split into recycling, composting, recovery, incineration and landfill. To supplement our quantitative measures, we also assess key qualitative measures, including EPC ratings and building certifications to build a holistic view of our portfolio's performance. As part of our net zero carbon pathway we will be implementing metrics, including: – Portfolio on-site renewable energy capacity (MW) – Renewable energy procurement % – High quality renewable energy procurement % – Major refurbishment embodied carbon intensity (tCO_2e/m^2 GIA) – Minor development and fit out embodied carbon intensity (tCO_2e/m^2 GIA) – Total portfolio embodied carbon development (tCO_2e) – Total carbon emissions offset (tCO_2e)
Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks	We disclose Scope 1, 2 and 3 greenhouse gas emissions in our Annual Report and Sustainability Report. We have provided trend analysis since 2019 to show progress and historical performance. We have calculated and reported our emissions in line with the GHG Protocol Corporate Accounting and Reporting Standard.
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	In recognition of the escalating concerns around climate change and our awareness that the real estate industry is a major contributor to global GHG emissions, to target meaningful carbon reduction, we have developed a net zero carbon pathway with the ambition to achieve net zero carbon by 2040. As part of this strategy, since most of our emissions are attributed to landlord and occupier energy consumption, we will be formulating energy efficiency measures and targets per asset type based on the UK Green Building Council's targets for offices and the Carbon Risk Real Estate Monitor (CRREM) 1.5°C Global Pathways' aligned targets for all other asset types. Additionally, we are pursuing an embodied carbon target of 300 $kgCO_2e/m^2$ by 2040 for major refurbishments. As best practice and further guidance emerges surrounding targets, we will review our target to ensure its effectiveness for achieving our net zero carbon goal. Having identified our key material climate-related risks and opportunities by conducting rigorous climate risk assessments, we will develop additional appropriate metrics and targets against which to measure our performance.

Section 172

As the Company is registered in Guernsey, the UK Companies Act 2006 has no legal effect. However, in accordance with the UK Corporate Governance Code 2018 and as a matter of good governance, the Directors, individually and collectively as the Board, act as they consider most likely to promote the success of the Company for the benefit of shareholders as a whole.

The Directors have regard to:

The likely long-term consequences of decisions

Read more on pages **74–79**

The interests of its employees

Read more on page **65**

The Company's relationships with its suppliers, customers and others

Read more on pages **64–65**

The impact of the Company's operations on the community and the environment

Read more on pages **60–65**

The Company's reputation and maintaining a reputation for high standards of business conduct

Read more on pages **68–82**

The need to act fairly towards shareholders

Read more on pages **76–79**

Consideration of these factors and other relevant matters is embedded into all Board decision making, strategy development and risk assessment throughout the year. We consider our key stakeholders to be our occupiers, our people, our communities, our suppliers and our shareholders. Working closely with our stakeholders falls within one of our three strategic pillars set out within our business model and strategy. The primary ways in which the Board engages directly or delegates responsibility for engagement to management are set out below.

Board engagement with stakeholders

Our shareholders

As owners of the business we rely on the support of our shareholders and their views are important to us. The long-term success of the business will deliver value for shareholders. Senior management hold regular meetings with shareholders and feedback from these meetings is reported back to the Board. This feedback may be on operational matters, financing strategy or dividend policy, as examples. The Directors normally attend the Annual General Meeting to meet with shareholders and to answer any questions they may have.

Our occupiers

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. The Board has delegated responsibility for engaging with occupiers to the asset management team, who have ongoing communication with occupiers, and use this information when making proposals to the Board on investment transactions, such as refurbishment projects or leasing events.

Our people
Our people are key to our success and we want them to succeed both as individuals and as a team. One of our Non-Executive Directors, Maria Bentley, has responsibility for employee engagement. As well as carrying out a further employee survey this year, Maria held a virtual meeting with the team without the Executive Directors present. A number of topics were discussed and the employees' views were reported directly back to the rest of the Board.

Local communities and environment
We are committed to improving the impact of our buildings on local communities, whether providing space to local businesses, improving local areas or minimising the environmental impact of buildings themselves. The Board has established a Responsibility Committee, which is chaired by one of the Executive Directors, to deal with sustainability policy and initiatives on its behalf. The Board reviews progress on sustainability matters and has attended relevant workshops during the year.

Suppliers
We have in place a framework for conducting business across the Group in a way that makes a positive contribution to society, while minimising any negative impact on people and the environment. The Board has agreed the overall business framework and delegated its implementation to the management team.

Considering stakeholders in key Board decision making
Set out below are examples of important decisions taken during the year. These are decisions that are material to the Group but also significant to any of our key stakeholders. In its decision making the Board considered the feedback from stakeholder engagement as well as the need to act fairly between shareholders and to maintain high standards of business conduct.

	Actions
Publication of net zero carbon pathway	The Board has been focused on sustainability issues throughout the year including the development of the net zero carbon pathway and assessment of climate-related risks to the business. The pathway has now been published with a target date of becoming net zero carbon by 2040. The Board also agreed that Picton would become a signatory to the Better Buildings Partnership Climate Commitment.
Review and increase of dividend	The Board is aware of the value of regular dividend payments to shareholders and reviews the level of dividend each quarter. As the level of rent collection has increased during the year and returned to normal levels the Board has approved two increases in dividend, restoring it to its pre-pandemic level.
Support given to occupiers during the pandemic	Although the impacts of the pandemic were receding the Board maintained a policy of considering financial support to occupiers on a case-by-case basis.
Flexible working	Following last year's employee engagement the Board agreed that the team would be able to return to the office on a flexible basis, with some home working.
Consultation on Remuneration Policy	Subsequent to the Annual General Meeting the Board has engaged further with shareholders regarding the implementation of the Directors' Remuneration Policy to understand their views.

Our responsible and ethical approach

We believe that sustainability has to be fully embedded into all of our activities.

Our sustainability framework

This year we have re-focused our sustainability priorities as we have developed our approach and understanding of our material issues. We have three core segments: Governance and Advocacy, Environmental Focus and Stakeholder Engagement. In this section we set out our key achievements under each of these areas, but more detail will be provided in our Sustainability Report.

This year we have published both our new sustainability policy and our net zero carbon pathway.

Sustainable thinking, responsible business

Our sustainability policy guides our long-term sustainability priorities, including tackling environmental challenges, providing sustainable buildings for our occupiers and engaging with our stakeholders.

Environmental focus

This year we have been focused on two key projects to help us address the issue of climate change adaptation and mitigation. Firstly we have developed and published our net zero carbon pathway, as discussed below, and we have also carried out an assessment of climate-related risks relevant to our business, and how we identify and manage these. This is covered in the Managing Risks section.

Net zero carbon pathway

We have committed to be net zero carbon for our operational and embodied emissions by 2040.

We have developed our pathway so that it aligns with the Better Buildings Partnership Net Zero Pathway Framework and the UK Green Buildings Council's net zero carbon hierarchy. By 2040 all operational emissions arising from our portfolio will be reduced as much as possible through energy efficiency measures and the use of renewable energy, with any residual emissions offset. From 2040 onwards, all completed refurbishment projects will have reduced their embodied carbon as much as possible, with any residual emissions offset upon practical completion.

We have defined our portfolio's baseline carbon footprint, using 2019 as the most representative recent year, to map the emissions reductions required to meet our 2040 target. As with similar property companies, the majority of our emissions (76%) relate to the energy consumption of our occupiers. Although not included in the baseline year assessment, embodied carbon associated with refurbishment activity has been projected for future years and is a key part of our commitment.

We will continue to implement energy efficiency measures across the portfolio in order to meet energy intensity targets. We will also investigate on-site renewable energy opportunities and procure remaining energy requirements from high-quality renewable sources. For refurbishment projects we will employ circular economy principles, so reducing waste and demand for raw materials by keeping resources in the value chain for as long as possible. Our target is to reduce emissions on major refurbishments to 300 $kgCO_2e/m^2$. Finally we will source high quality carbon offsets, aligned with the Oxford Principles for Net Zero Aligned Offsetting. We have also become a signatory to the Better Buildings Partnership Climate Commitment.

What we have achieved this year

- Developed and published our net zero carbon pathway
- Became a signatory to the Better Buildings Partnership Climate Commitment
- Improved portfolio EPC ratings
- Removed gas supplies from three assets
- Increased the number of green leases completed
- Introduced further biodiversity measures
- Reduced GHG emissions compared to 2019 baseline
- Undertook two energy efficiency audits at office assets

What we will do next year

- Address the initial priorities in our net zero carbon pathway
- Continue to improve data capture and increase coverage across our portfolio
- Undertake five net zero carbon audits across our portfolio
- Integrate findings from energy audits into longer-term asset business plans

Emission source	GHG Scope	2021 Absolute GHG emissions (tCO_2e)	2021 GHG intensity (tCO_2e/m^2)	2020 Absolute GHG emissions (tCO_2e)	2020 GHG intensity (tCO_2e/m^2)	2019 Absolute GHG emissions (tCO_2e)	2019 GHG intensity (tCO_2e/m^2)
Combustion of fuel and operation of facilities	1	**1,020**	**0.019**	940	0.017	1,137	0.005
Electricity, heat, steam and cooling purchased for own use	2	**1,457**	**0.028**	1,499	0.028	2,295	0.010
Total Scope 1 and 2		**2,477**	**0.042**	2,439	0.040	3,432	N/A
Business travel	3	**2**	**N/A**	1	N/A	4	N/A
Occupier data	3	**3,099**	**0.034**	2,278	0.024	3,672	0.033
Office premises	3	**5**	**0.018**	8	N/A	9	N/A
Landlord water and treatment	3	**6**	**0.000**	28	0.001	53	0.001
Landlord waste	3	**8**	**0.000**	7	0.000	13	0.000
Total Scope 3		**3,120**	**0.021**	2,322	0.011	3,751	N/A
Total all Scopes		**5,597**	**0.038**	4,761	0.023	7,183	0.017

Greenhouse gas emissions

Scope 1

Our absolute Scope 1 emissions rose by 9% compared to the previous year to 1,020 tCO_2e. Similarly, our Scope 1 intensity rose by 11%. This rise was to be expected as lockdown restrictions eased further during 2021, with small increases seen in many of our office assets. Compared to 2019 emissions, the last full reporting year prior to the pandemic impacts on occupation, we have seen a -10% reduction.

We continue to explore energy efficiency measures across our portfolio, with current studies being undertaken at Colchester Business Park, Colchester, on replacing the gas boilers with low carbon alternatives.

Scope 2

Our absolute Scope 2 emissions have decreased by -3% this year, to 1,457 tCO_2e, with our emission intensity staying level. Energy efficiency projects at Stanford Building, London, 50 Farringdon Road, London and Regency Wharf, Birmingham, have helped reduce our Scope 2 emissions despite the increasing occupancy levels following the easing of lockdown restrictions. Compared to 2019, we have seen a -37% reduction in emissions. This year we are looking to continue refurbishing our properties, with LED upgrade works at Parkbury Industrial Estate, Radlett, a building management system upgrade at Metro, Manchester and the continued roll out of Asset IQ across suitable assets. For the first year, we have represented our head office emission intensity due to occupying a floor within the newly refurbished Stanford Building, London.

Scope 3

By far, the largest element of our Scope 3 emissions is that of our occupiers. Data collection for the Annual Report is presented at the time of writing, with final data collection figures presented in our Sustainability Report. We are targeting an increase in occupier data collection compared to 2020 following the end of lockdown restrictions. To help assist our engagement with occupiers, we have installed a CBRE Host app at Colchester Business Park, Colchester. In 2022 we will be implementing the app at further sites, including Stanford Building, London. We will also be starting an occupier engagement workshop programme to encourage collaboration opportunities with all of our occupiers.

We have also seen a small increase in business travel emissions as our team have begun travelling more regularly to our assets. We expect this to increase further in 2022 but continue to encourage sustainable forms of travel and virtual meetings where possible. We have seen a -77% reduction in water emissions, largely due to an improved emission factor for 2021 reporting. We are investigating the roll out of automatic meter readers to improve the accuracy and reliability of water supplies we control.

Methodology

We have reported on all the emission sources required under the core requirements of the EPRA Best Practices Recommendations and have voluntarily disclosed business travel, occupier, and own premises consumption (Scope 3) emissions. An operational control approach has been adopted and all our properties are included. Figures presented are absolute for utility and waste consumption and relate only to utilities and waste removal we control. 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 the UK Government's GHG Conversion Factors for Company Reporting 2021. We have changed from financial year to calendar year reporting to ensure we have more time to collect occupier consumption data.

This is the first year we have calculated our intensity measurements based on the area served by each meter, for example whole site, common area or a specific floor within an asset. External supplies have been excluded from the intensity calculations. In order for an accurate comparison to be made between reporting years, this approach has been backdated to 2020 figures. We have continued to voluntarily report on Scope 3 vehicle emissions. Vehicle emissions were calculated using our vehicle expenses reports and the vehicle emission factors from the UK Government GHG Conversion Factors for Company Reporting 2021. 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 2021. Year-on-year, we will continue to update previous reported figures if applicable to remove estimates and ensure actual data is captured and reported.

Sustainable buildings

We are committed to monitoring and enhancing the environmental performance of our buildings and ensuring they are resilient to changes in both climate and the regulatory environment. Over the year we undertook energy audits at two buildings in order to identify improvement measures and continue to develop our strategy for onsite solar power and the introduction of electric vehicle charging facilities. We will be undertaking specific net zero carbon audits of four buildings over the coming year. We have also been implementing our refurbishment guidelines which were introduced in 2021, utilising refurbishment opportunities to remove fossil fuels from buildings at Regency Wharf, Birmingham, Angel Gate, London and 50 Farringdon Road, London.

EPCs

This year we have amended the basis for reporting our EPCs to better reflect risks and recognising the diversified nature of the portfolio. Looking at the percentage of EPC ratings by estimated rental value (ERV) of our portfolio, 71% have an EPC rating of A-C, 29% are rated D or E and only 0.2% is rated F or G.

We continue to use lease events, common area works and EPC renewals to implement improvement works with the overall aim of continually improving our EPC score and ensuring compliance with MEES.

Energy audits

During 2021 we undertook energy audits at 401 Grafton Gate, Milton Keynes, and Atlas House, Marlow. Our planned audits at 50 Farringdon Road, London and Longcross, Cardiff have been postponed because of the works which were being undertaken at these buildings to improve the heating and cooling systems and remove their gas supplies.

Adjustments to systems recommended in these reports have been undertaken. Whilst the impact of the pandemic on building occupancy and systems operation makes like-for-like comparison of energy consumption more difficult, by comparing consumption figures in early 2022 (when office occupancy at our buildings was returning to more normal levels) with levels in 2019, we can see that consumption has fallen by as much as 35% at the buildings, as a result of the audit recommendations.

In addition to the energy audits, over the year we have also prepared high level sustainability action plans at all our multi-let assets. These plans cover areas including biodiversity and social amenities as well as energy efficiency. Over 2022 we will implement the improvement measures identified.

We will be undertaking net zero carbon audits to establish a strategy for reducing carbon at a representative sample of our building types at Parkbury Industrial Estate, Radlett, Sundon Business Park, Luton, Angouleme Way, Bury, 401 Grafton Gate, Milton Keynes and 50 Pembroke Court, Chatham.

Green leases

We have continued to incorporate sustainability clauses into our leases. During the year we have completed another 42 green leases, bringing the total to over 30% of all current leases in place.

Biodiversity

Biodiversity measures were rolled out across more of our industrial estates during this year and we have made this a topic for discussion at our occupier meetings. Through doing this we have been able to adjust our landscaping procedures for example at Easter Court, Warrington where some grassed areas have been turned over to wildflower growth.

The refurbishment at Regency Wharf, Birmingham, included the installation of a green wall in the reception area. We also expanded our beehive numbers with a further installation at Metro, Manchester.

We have started to embrace the biodiversity measures in the Better Buildings Partnership Responsible Property Management Toolkit, for example by commissioning more biodiversity surveys at locations such as Angel Gate, London.

Water and waste

Carbon emissions associated with the purchase and disposal of water are a low materiality issue for us in comparison to our other emission sources such as landlord and occupier energy consumption. We aim to implement water-saving measures such as water sub-metering, target-setting, new water-saving technology, and recycled water use across the portfolio.

Stakeholder engagement

We have in place a framework for conducting business in a way that makes a positive contribution to society, while minimising the impact on people and the environment. We are committed to engaging with our occupiers, shareholders, suppliers and wider community and the Board acts to promote the long-term success of the business for the benefit of all our stakeholders.

Occupier engagement

We are always seeking to improve our occupiers' experience, which is why we created the Picton Promise: five key commitments including Action, Community, Technology, Support and Sustainability. Each commitment underpins every aspect of the occupier experience we provide.

During 2021 we continued to maintain regular contact with our occupiers through measures such as our occupier meetings and ensured our buildings remained fully accessible on a Covid-19 compliant basis.

We issued information packs to our office occupiers, which helped them plan for their staff to return to the workplace following the UK Government's work from home advice ending.

The completion of our new business hubs at Angel Gate, London and Longcross, Cardiff, have allowed us to provide more flexible services to occupiers at these locations.

We have recently launched our two new occupier engagement apps at Colchester Business Park and Angel Gate, which will help us to improve the effectiveness of our communication at these locations.

Occupier and employee health and safety

Our health and safety record continued to be strong over the year with no reportable accidents or health and safety related incidents. We were 99% compliant in critical and secondary documentation.

Our Health and Safety Committee meets every month to ensure that compliance and performance is measured appropriately for all our stakeholders, our employees, occupiers, contractors, and other visitors to our buildings.

Our incident response and business continuity strategies have been updated and we have reviewed the current policies for all our managing agents.

During the year, our team received training sessions on fire safety as well as general health and safety updates.

Occupier wellbeing and satisfaction

Occupancy levels during much of 2021, particularly at our offices, continued to be affected by the pandemic. As a result, for much of this period our focus has been on reassuring our occupiers that our buildings remain safe to use and we have used our information packs and regular occupier meetings to reinforce this.

The launch of our new occupier apps at Colchester Business Park and Angel Gate, London were timed to coincide with occupancy levels beginning to return to normal levels. We have used these to promote a wide range of occupier focused events structured around wellness for employees. Utilising the facilities at these locations such as the communal space outside the Village at Colchester and the business hub at Angel Gate, London we have hosted many events. A wide ranging programme is planned for 2022.

We plan to roll out more occupier apps at other locations during 2022, using the experience which we gained from the projects noted above.

What we have achieved this year

- Introduced new occupier amenities and improved communication methods
- Introduced new supplier clauses and a due diligence questionnaire to address modern slavery risks
- Helped develop the BBP Responsible Management Toolkit
- Made charitable donations of £16,000 to 15 charities
- Carried out an annual employee engagement survey
- Returned to working in the office on a flexible basis
- Provided further sustainability training for the team
- Held two employee offsite days

What we will do next year

- Host occupier sustainability workshops
- Maintain a high level of Health and Safety compliance
- Continue the roll out of supplier modern slavery clauses and due diligence questionnaires
- Continue to roll out our occupier engagement plan

Employees

We have a strong and open company culture with shared values co-created by our employees. We value the contributions made by the whole team and aim to nurture a positive working environment.

Employee engagement

For the third year we have carried out an employee engagement survey across the whole team, excluding the Directors. Overall the scores were very positive, with over half of the questions receiving Agree or Strongly Agree responses. Issues that were raised by the team included:

- Training, particularly on sustainability, was well received and considered to be relevant;
- Flexible working arrangements were valued, with a split between working from home and in the office;
- Resourcing within the team given increasing demands particularly around sustainability;
- Communication between the Board and team to be reviewed; and
- Progress made against sustainability, and how this would be resourced in the light of our net zero carbon pathway.

This year we held two offsite days for the team. The first looked at how we could make improvements in the way each team worked, while the second focused entirely on sustainability priorities, including how the net zero carbon pathway would be implemented and embedded into the way we worked.

Diversity and inclusion

We value the contributions made by all of our team 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.

We aim to maintain the right blend of skills, experience and knowledge within the Board and the team. At the date of this Report, the number of men and women employed by the Group were:

	Men	Women
Board	4	2
Rest of team	4	3
Total	**8**	**5**

Training and development

We want to encourage our employees to realise their full potential by giving them access to development and training opportunities.

This year the amount of training carried out by employees was 1.6% on a time spent basis, in line with last year.

Employee development is based on 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; and
- Development needs are met by a mix of activities, which include internal and external training courses, structured ‘on the job’ 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.

Community and social value

We are committed to supporting the local communities where we own buildings. We aim to continually improve the impact of our buildings within local communities through not only providing space to local businesses and charities, but also through the improvement of local areas and minimising the environmental impact of buildings themselves. Further details can be found in our community and social value and charitable giving policies available on our website.

We continue to support a variety of charities, and this year made donations of over £16,000. We have a longstanding relationship with children’s charity Coram and have recently entered into a charity partnership with them, which will increase our level of support through both donations and volunteering opportunities. In October 2021 Tim Hamlin, our Director of Asset Management, ran the London Marathon with all donations going to Coram. Other charities that we have supported this year include The Funding Network and LandAid, and we have made donations to current humanitarian crises.

We have maintained our occupier matched giving policy, and also offer matched giving for employees who are raising money for charity.

Suppliers and contractors

We expect high standards within our business and from our suppliers.

This year we have reviewed our supplier base and assessed the level of risk within our supply chain of exposure to modern slavery and human trafficking. Almost all of our suppliers are based in the UK and the majority are assessed as low risk. We have developed a number of clauses and these are being introduced into new contractual arrangements. We have implemented a supplier due diligence questionnaire which we are applying to all new suppliers, and will roll this out across existing suppliers.

Governance

We are committed to transparent reporting so that our stakeholders can make informed decisions. We are a member of the Better Buildings Partnership and continue to report annually to GRESB and EPRA.

Transparency and reporting

Our GRESB score for 2021 reduced from 65 to 61, and to one green star from two. This was due to a number of factors, including a fall in data coverage during the pandemic. These issues have been addressed with our sustainability advisers and we expect our score to improve in 2022.

This year we have appointed JLL Upstream to carry out data assurance on our published environmental data and GRESB submission. This will provide greater validation of our reported sustainability data.

Following the publication of our net zero carbon pathway we have become a signatory to the Better Buildings Partnership Climate Commitment.

We have maintained our Gold awards from EPRA for both our 2021 Annual and Sustainability Reports.

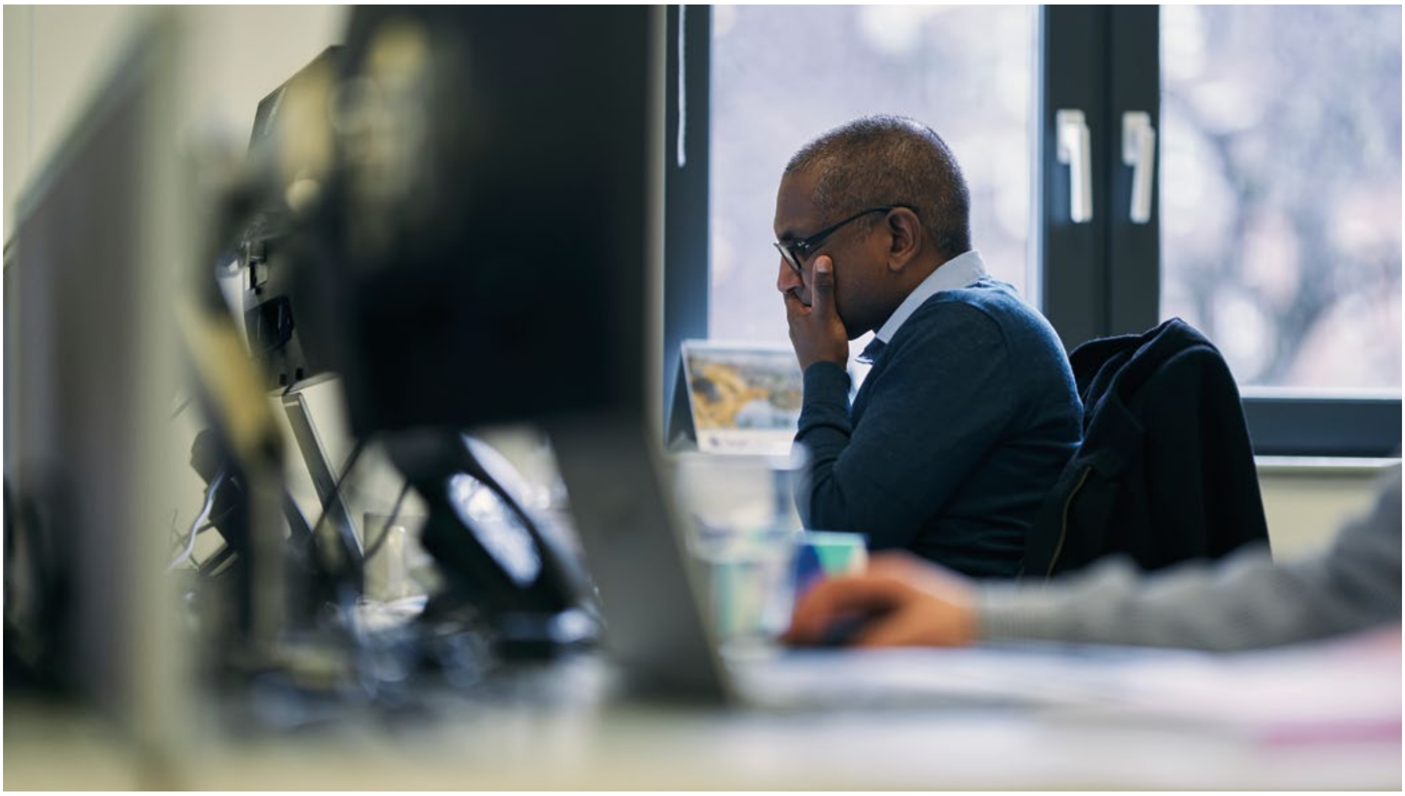
Read more on Governance **on pages 67-111**

What we have achieved this year

- Became a signatory to the Better Buildings Partnership Climate Commitment
- Completed assessment of climate-related risks to the business
- Achieved EPRA Gold awards for both Annual and Sustainability Reports
- Appointed a third party to carry out data assurance on our 2022 reporting
- Published our sustainability policy

What we will do next year

- Implementation of recommendations from climate-risk assessment
- Complete data assurance on all 2022 sustainability reporting
- Contribute to the Better Buildings Partnership Real Estate Environmental Benchmark in respect of our portfolio
- Ensure the issues identified with the 2021 GRESB score are incorporated into the 2022 submission



Welcome to Governance

The UK Corporate Governance Code 2018 (the Code) applied for the financial year ended 31 March 2022. Our Statement of Compliance is set out in the Directors' Report on page 109. A summary of the system of governance adopted by the Company and how we have applied the principles of the Code are set out in this section of the Annual Report.

Introduction to the Corporate Governance Report

On behalf of the Board, I am pleased to introduce our 2022 Corporate Governance Report.

Dear Shareholder

This year we have transitioned to a more normal working balance as we have moved out of the Covid-19 pandemic. We have maintained our schedule of Board and Committee meetings throughout the year and have started holding our main meetings in person. We intend to continue with a blend of physical and virtual meetings over the coming year to maximise productivity and social capital as a Board and with the wider team.

As with last year we held our Annual General Meeting virtually but also included a presentation to shareholders by the Executive team, which I hope was useful and informative.

Visit our website picton.co.uk

"

This year we will hold our Annual General Meeting in September, earlier than usual.

Lena Wilson CBE
Chair

Board activities

Under the Leadership section of this Report we have set out the activities of the Board and its Committees during the year. We have had a busy and productive year, with a particular focus on sustainability issues and the development of our pathway to net zero carbon, which is discussed more fully elsewhere within this Report and our Sustainability Report.

Board composition

There have been no changes in the composition of the Board this year.

UK Corporate Governance Code

Our Statement of Compliance with the Corporate Governance Code is set out within the Directors' Report. I am pleased to report that we have fully complied with the Code this year.

The following sections describe the workings of the Board and the Committees and how these interact with the provisions of the Corporate Governance Code.

Annual General Meeting

At last year's Annual General Meeting we put forward our new Directors' Remuneration Policy to shareholders for their approval. Although the new Policy received over 96% of votes in favour, our Annual Remuneration Report for 2020/21, while still approved, received some 72% of votes in favour. We recognised that the new remuneration proposals for our Executive Directors were being made at a time of increased sensitivities around executive pay, but we believe that the proposals are fair and justified in our particular circumstances. We have published an update to the voting outcome, and within this year's Remuneration Report there is a full response set out.

This year we will hold our Annual General Meeting in September, earlier than usual, and we will provide further information on this shortly.

Our people and culture

This year we have started to return to office working, whilst embracing more flexibility for our employees. The team are currently working in the office three days a week, with two from home. We will continue to keep this policy under review. In last year's employee survey, it was clear that flexible arrangements were valued and that the team would like to see them continued. Returning to physical Board meetings has also given the Directors the opportunity to meet the whole team on an informal basis, for the first time since the pandemic started. I believe that this will help us to maintain strong working relationships across the whole team, including the Board.

We have again carried out an employee engagement survey this year, and the feedback is set out on page 65. Due to the small number of employees it is possible that the results may be skewed from year-to-year, but overall the feedback was very positive.

Our stakeholders

Our occupier focused approach is a key part of our business culture. During the pandemic our engagement with occupiers was invaluable, ensuring that appropriate support was given when needed. We will continue to maintain this approach, which will become increasingly important as we seek to reduce carbon emissions, both our own and those of our occupiers, along our net zero carbon pathway.

Reporting

I am pleased to report that last year's Annual Report and Sustainability Report both received an EPRA Gold award, reflecting our aim to report our activities and results clearly and concisely.

Board evaluation

This year we have carried out a Board evaluation, the results of which are set out in the Composition, Succession and Evaluation section. It was appropriate that this year should be an internal review, since I had recently joined as Chair and the pandemic had created unusual working conditions. Leading the evaluation myself also gave me the opportunity for in-depth conversations with each Director. We intend for the next Board evaluation to be carried out externally.

Lena Wilson CBE
Chair
25 May 2022

We have the relevant skills and experience for future growth.

Lena Wilson CBE

Chair
Chair of the Nomination Committee

Appointed to the Board
January 2021

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
- Over a decade of Non-Executive, Senior Independent Director and Chair experience including FTSE 100 companies across the financial and industrial sectors
- Multi-disciplinary global career across private and public sectors
- Experienced CEO leading organisations with an international footprint

Principal external commitments
- Chair of Chiene + Tait LLP
- Non-Executive Director NatWest Group plc
- Non-Executive Director and Senior Independent Director Argentex Group PLC
- Chair of AGS Group

Previous experience and appointments
- Chief Executive of Scottish Enterprise
- Senior Investment Advisor at the World Bank
- Non-Executive Director Intertek PLC
- Non-Executive Director Scottish Power Renewables

Mark Batten

Chair of the 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 sub-sectors

Principal external commitments
- Chair, Assured Guaranty UK
- Non-Executive Director and Chair of the Audit and Risk Committee – Reliance National Insurance Company (Europe)
- Chair, Governing Body, Westminster School

Previous experience and appointments
- Partner, PricewaterhouseCoopers LLP (restructuring and corporate valuation practices)
- Non-Executive Director, L&F Indemnity
- Senior adviser to UK Government Investments
- Non-Executive adviser and Chair of the Finance Committee, Royal Brompton and Harefield NHS Clinical Group

Maria Bentley

Chair of the Remuneration 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 of BlueBay Asset Management LLP and Chair of the Remuneration Committee
- Non-Executive Director of Daiwa Capital Markets Europe Limited and Chair of the Remuneration Committee
- Non-Executive Director of Peel Hunt Limited

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

The Board is responsible for the long-term success of the business, providing leadership and direction with due regard and consideration to all stakeholders in the business.

Richard Jones
Chair of the Property Valuation Committee

Appointed to the Board
September 2020

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

Key strengths and skills
- Significant real estate investment experience
- Broad experience of property asset management
- Extensive experience of property valuation

Principal external commitments
- Investment Committee of Henley Secure Income Property Unit Trust
- Transport for London's Commercial Property Advisory Group
- Special Advisor to Clearbell UK Strategic Trust

Previous experience and appointments
- UK Managing Director on Aviva's Investors' Global Real Estate Board
- Special Director of Ribston UK Industrial Property Unit Trust
- Non-Executive Director of Royal Brompton and Harefield Hospital NHS Foundation Trust

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

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

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.

01 **Louisa McAleenan**
Research Analyst
Louisa has 15 years of experience in 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.

02 **James Forman**
Director of Accounting
James is a Certified Accountant and has worked with the Group since its launch in 2005 and has over 20 years of 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.

03 **Mark Alder**
Head of Occupier Services
Mark is a Chartered Surveyor with over 35 years of property management experience. He is responsible for delivering effective property management and strengthening our relationship with our occupiers.

04 **Michael Morris**
Chief Executive
Michael has over 25 years of experience within the UK commercial property sector and is responsible for the strategic direction and effective execution of the Group's business model.

05 **Melissa Ricardo**
Office Manager
Melissa joined in 2017 and is responsible for the day-to-day management of the office and oversees the administrative aspects of the Company.

06 **Tim Hamlin**
Director of Asset Management
Tim is a Chartered Surveyor with over 14 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.

07 **Andrew Dewhirst**
Finance Director
Responsible for the financial strategy and reporting for the Group, Andrew has over 30 years of experience within the financial services and real estate sectors.

08 **Jay Cable**
Senior Director and Head of Asset Management
A Chartered Surveyor with over 20 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.

09 **Lucy Stearman**
Assistant Accountant
Lucy has over ten years of experience within financial services and joined the Group in April 2019 to assist with the accounting and financial reporting.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Leadership and purpose

Purpose

Our purpose is to be a responsible owner of commercial real estate, helping our occupiers succeed and being valued by all our stakeholders.

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 70 and 71.

Our culture and values

Principled

We are professional, diligent and strategic.

Demonstrated through our transparent reporting, occupier focused approach, alignment with shareholders, delivery of our Picton Promise, our 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.

Board meetings

The Board has a regular schedule of meetings throughout the year. There are normally two scheduled Board meetings each quarter; the first to deal with regular operational matters such as approval of the dividend and to review key portfolio activity; and the second to consider more strategic matters and thematic discussions. Meetings are also scheduled for the approval of the annual and half-year results. External advisers are invited to attend Board meetings on a regular basis. Meetings this year have been a mixture of in person and virtual.

Attendance at Board and Committee meetings

Board members	Date appointed	Board	Audit and Risk	Remuneration	Property Valuation	Nomination
Lena Wilson	01.01.2021	9/10	–	5/5	4/4	2/2
Michael Morris	01.10.2015	10/10	–	–	–	–
Andrew Dewhirst	01.10.2018	10/10	–	–	–	–
Mark Batten	01.10.2017	10/10	4/4	5/5	4/4	2/2
Maria Bentley	01.10.2018	10/10	4/4	5/5	4/4	2/2
Richard Jones	01.09.2020	10/10	4/4	5/5	4/4	2/2
Total number of meetings		**10**	**4**	**5**	**4**	**2**

The above meetings were the scheduled Board and Committee meetings. Additional meetings were held to deal with other matters as required and are not included above. Lena Wilson was unable to attend one Board meeting due to a medical issue.

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.

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.

Board activities in 2021/22

The Board met on ten occasions during the year, as well as having a more informal Strategy Day. Here we have set out the key activities and approvals over the year. Throughout the year we have maintained a programme of Board education within the schedule of regular meetings, with relevant external input. How the Board has engaged with all its stakeholders is set out on pages 78 and 79, and consideration of Section 172 matters is described on pages 58 and 59.

2021	April/May	June/July	September
The following recurring matters were considered and discussed at these meetings	– Review of quarterly management accounts – Review of portfolio activity	– Review of portfolio and financial forecasts – Market update from the Company's brokers – Report from the Company Secretary – Review of quarterly management accounts – Review of portfolio activity – Health and safety matters across the portfolio	– Review of portfolio and financial forecasts – Market update from the Company's brokers – Report from the Company Secretary
The Board considered and approved the following matters	– The quarterly dividend for the January to March 2021 period at the rate of 0.8 pence per share – Acceptance of the recommendation from the Property Valuation Committee in respect of the 31 March 2021 independent valuation – The significant rent review at Washington, Tyne and Wear. – The new fee rates for the Non-Executive Directors with effect from 1 April 2021. – The Annual Report for the year ended 31 March 2021 and the Stock Exchange announcement of the results – The Directors' Remuneration Policy – The salary and bonus awards for the year ended 31 March 2021	– The disposal of Victoria Street Huddersfield – The updated Health and Safety policy – Deferred Bonus and LTIP share awards for the team – The acquisition of Madleaze Trading Estate Gloucester – The quarterly dividend for the April to June 2021 period at an increased rate of 0.85 pence per share – Acceptance of the recommendation from the Property Valuation Committee in respect of the 30 June 2021 independent valuation – Corporate bonus objectives for the Executive Directors for 2021/22	– The Company's Modern Slavery Statement for the year ended 31 March 2021
The Board discussed the following one-off items of business	– Actions arising from the previous Strategy Day and the agenda for the forthcoming Strategy Day – Initial salary review and bonus proposals for the team – Feedback from shareholders in relation to the Policy consultation	– Consideration of a corporate transaction proposal and feedback received from financial adviser – Review of independent benchmarking report on market remuneration levels, both for employees and directors – The appointment of JLL as consultant for the net zero and TCFD projects	– Results and action points from the previous Board evaluation – Format of the forthcoming Annual General meeting

2022

October	December	January	March
– Review of quarterly management accounts – Review of portfolio activity – Health and Safety matters across the portfolio – Review of the external auditor	– Review of portfolio and financial forecasts – Market update from the Company's brokers – Report from the Company Secretary	– Review of quarterly management accounts – Review of portfolio activity	– Review of portfolio and financial forecasts – Market update from the Company's brokers – Report from the Company Secretary
– The quarterly dividend for the July to September 2021 period at the rate of 0.85 pence per share – Acceptance of the recommendation from the Property Valuation Committee in respect of reappointments to the various Committees – Acceptance of the recommendation from the Nomination Committee in respect of the 30 September 2021 independent valuation – The updated ESG Policy – The acquisition of Mill Place Gloucester	– The Half Year Report to 30 September 2021 and the Stock Exchange announcement of the results – Capital expenditure at 180 West George Street Glasgow	– The quarterly dividend for the October to December 2021 period, increasing the rate to 0.875 pence per share – Acceptance of the recommendation from the Property Valuation Committee in respect of the 31 December 2021 independent valuation	– The acquisition of Charlotte Terrace London – The additional loan facility to be provided by Canada Life, and amendment to the terms of the existing facility – The proposed net zero carbon pathway, with a target date of 2040 – The annual approval of policies
– Options for increasing the Group's loan facilities – Consideration of resource within the team – Making the Better Buildings Partnership Climate Change Commitment once the net zero pathway has been completed – Arrangements for the forthcoming Annual General Meeting	– Progress on the development of the carbon net zero pathway – Feedback from the Annual General Meeting, and in particular the communications received from shareholders in respect of the Remuneration report – A presentation on property technology and how this could be of relevance to Picton – Consideration of corporate transaction proposal and offer letter	– The results of the Board Evaluation and actions arising – Review of feedback received on corporate proposal	– Reviewed the feedback from the latest employee engagement survey, and considered actions arising

Engagement with stakeholders

We believe that taking into account the views of our key stakeholders is critical to the long-term success of the business. We engage with all of our stakeholders to understand what is important to them. The following table sets out our key stakeholders and how we effectively engage with them.

Our section 172 statement for the year ended 31 March 2022 is on pages 58 to 59 and sets out how some of the key decisions made by the Board during the year were guided by stakeholder engagement.

Stakeholders and what is important to them

Our people

- Fair and equal treatment
- Career development
- Fair pay and conditions
- Good work/life balance
- Positive work culture and values

Local communities and charities

- Local employment opportunities
- Positive contribution to local economy
- Safe and clean environment

Our occupiers

- Cost effective space suited to their needs
- Fair lease terms
- Well-managed, efficiently run and sustainable buildings
- Good relationships

Our investors

- Clear strategy
- Regular dividends
- Financial performance
- Clear and transparent reporting

Suppliers

- Prompt payment
- Fair terms of business
- Long-term relationships

How we engage	What we have done this year
We have a small team and engage regularly with them. We have an appraisal process where each member of the team will discuss their performance and objectives with their line manager twice a year. We carry out an annual employee survey, and the results of this are discussed at a meeting held with our designated Non-Executive Director for employee engagement, Maria Bentley.	We have returned to the office this year on a flexible basis, so that the team spend three days a week in the office. The results of the employee survey showed the team remained positive and morale was good.
We are committed to improving local communities where we own buildings, whether providing space to local businesses, improvement of local areas or minimising the environmental impact of buildings themselves. We engage through our charity and community initiatives and through our occupier engagement programme.	Our charitable donations for the year were £16,000. We supported a range of charities, including the children's charity Coram. Tim Hamlin, our Director of Asset Management, successfully completed the London Marathon in October, raising funds for Coram.
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. Our asset managers, guided by our Picton Promise, maintain regular contact with occupiers and discuss with them any issues regarding the buildings and any future plans we have. Our Head of Occupier Services has developed an occupier engagement programme and attends occupier meetings and other events. We send out an occupier newsletter regularly with relevant and helpful information.	We have continued our engagement with occupiers this year as the impacts of the pandemic have still been felt. We have also engaged with occupiers on the impacts of climate change, and what actions can be taken to improve energy efficiency at our properties and reducing carbon emissions.
We value the views of all our shareholders and senior management hold regular meetings to update shareholders on progress and activity. We issue regular investor updates with key financial highlights and updates on the portfolio. Our website provides investors with up-to-date information about the Group. This year we again held the Annual General Meeting as a closed meeting but hope in the future that we will be able to return to open meetings and would welcome shareholder attendance.	We have increased the dividend on two occasions this year, and we have now restored it back to the pre-pandemic level, as our rent collection rates have returned to normal. We sought consultation from our major shareholders regarding our new Directors' Remuneration Policy ahead of it being put to the Annual General Meeting. We have subsequently had further discussions with shareholders following the meeting and will consult further ahead of this year's Annual General Meeting.
We seek to maintain productive and long-term relationships with our business partners. We have in place a framework for conducting business across the Group in a way that makes a positive contribution to society, while minimising any negative impact on people and the environment	We have continued to ensure that our suppliers are paid promptly and within payment terms.

The role of the Board and its Committees

The Board
Chair: Lena Wilson CBE
Comprises: 2 Executive Directors and 4 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
- 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

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

Property Valuation
Chair:
Richard Jones
Comprises:
4 Non-Executive Directors
Responsibilities:
- Oversees the independent valuation process
- Recommends the appointment and remuneration of the valuer
- Ensures compliance with applicable standards

Nomination
Chair:
Lena Wilson CBE
Comprises:
4 Non-Executive Directors
Responsibilities:
- Recommends Board appointments
- Considers succession planning
- Board evaluation
- Board composition and diversity

Management Committees

Executive Committee
Chair: Michael Morris
Comprises: 2 Executive Directors and 1 senior executive
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 portfolio transactions
- Monitors portfolio costs
- Reviews compliance with lending covenants

Responsibility
Chair: Andrew Dewhirst
Comprises: 1 Executive Director and senior management
Responsibilities:
- Determines sustainability policy and strategy
- Monitors compliance with relevant standards and legislation
- Oversees Health and Safety Committee
- Approves sustainability reporting
- Employee wellbeing

Responsibilities of the Directors

The roles and responsibilities of each of the Directors are explained below:

Role	Responsibilities
Chair Lena Wilson CBE	– 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 – Fosters productive 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
Senior Independent Director Mark Batten	– Leads the evaluation of the Chair – Available for communication with shareholders when other channels are not appropriate
Non-Executive Directors Mark Batten Maria Bentley Richard Jones	– 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 – Determine the remuneration policy for the Group and approve performance targets in line with strategy
Executive 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 Audit and Risk Committee and the Board

Board composition and diversity

These charts set out the Board's composition, tenure and diversity characteristics.

The Board currently comprises the Chair, two Executive Directors and 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 Directors. Each of the Non-Executive Directors is considered to be independent in character and judgement.

As at 31 March 2022 the Board comprised 50% independent Non-Executive Directors.

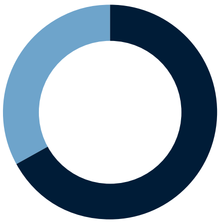
The biographies of the Directors can be found on pages 70 and 71, which set out their skills and experience, and their membership of each of the Committees.

Function

- Non-Executive Chair – 1 (17%)
- Executive Directors – 2 (33%)
- Independent Non-Executive Directors – 3 (50%)

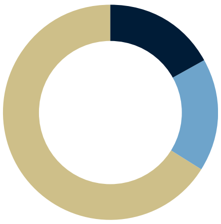
Tenure

- 0 to 3 years – 2 (33%)
- 3 to 6 years – 3 (50%)
- 6 to 9 years – 1 (17%)



Diversity

- Male – 4 (67%)
- Female – 2 (33%)



Age

- 45 to 50 years – 1 (17%)
- 55 to 60 years – 1 (17%)
- 60 to 65 years – 4 (66%)

Nomination Committee

The members of the Nomination Committee are Lena Wilson, Richard Jones, Mark Batten and Maria Bentley.

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.

It is also the Committee's role to consider succession planning for the Board and for the Executive team, and to lead on the appointment process, ensuring that this is formal, rigorous and transparent.

The Committee makes recommendations to the Board regarding the composition of the Remuneration, Audit and Risk, Nomination and Property Valuation Committees, taking into account individuals' time commitments and experience.

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.

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Activity

The Committee met twice during the year ended 31 March 2022 and considered the following matters:

- The reappointment of members to the Property Valuation, Audit and Risk and Nomination Committees;
- The recommendation of appointments to the Board;
- The process for carrying out this year's Board evaluation; and
- The results of the Board evaluation and the actions arising.

Board evaluation

In accordance with the requirements of the Code, the Board undertakes a review of the effectiveness of its performance and that of its Committees every year. An external review is normally carried out every three years, with internal reviews in the intervening years. This year the Board agreed that, notwithstanding that the previous external evaluation had been undertaken in 2019, an internal review would be performed as the Board's composition, including the Chair, had recently been refreshed. An internal review also gave the Chair the opportunity to deepen her relationships with the other Directors in her first year in office. It is intended that an external review will be carried out in 2023.

The aim of the review was to assess the effectiveness of the Board and to identify actions which would improve this. The review took the form of interviews between the Chair and each Director, following an agreed framework covering 12 focus areas. The results of the review were discussed at the Board meeting held in January 2022. The focus areas covered were:

- Engagement with shareholders
- Corporate strategy
- Governance and regulatory compliance
- Board focus and priorities
- Risk management
- Board composition
- Board culture
- Engagement with the management team
- Decision making
- Director performance
- Quality of Board materials
- Committee effectiveness

The process also covered the effectiveness of individual Directors, and the Senior Independent Director held one-to-one discussions with the other Directors in order to provide feedback to the Chair.

The discussions held were candid, open and constructive, with no significant divergence in views. The Board culture is positive, open and respectful, but appropriately challenging. No major weaknesses were identified.

The review concluded that the Board, its Committees and the individual Directors continue to operate effectively.

The actions that were identified following the review were:

- Establish an ongoing programme of shareholder engagement with clarity on roles
- Incorporate relevant external perspectives to Board meetings and strategy sessions
- Review strategy statements to ensure they reflect ambition
- Highlight relevant governance updates in Board packs
- Establish external annual review of governance and director training
- Prepare annual governance calendar
- Ensure proactive approach to governance topics
- Focus on key items in Board materials and discussions
- Reduce business as usual topics
- Implement thematic calendar for meetings
- Develop focused risk reporting for Board
- Undertake in-depth reviews of specific risk areas
- Ensure annual review of Board composition
- Establish programme of engagement with team

The Committee will review progress against the actions arising and will report on these in its next Report.

Tenure and re-election

The tenure of Non-Executive Directors, including the Chair, is limited to nine years in accordance with the Corporate Governance Code.

The provisions of the Corporate Governance Code recommend that all Directors be subject to annual re-election at the Annual General Meeting. The Board will 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.

Lena Wilson CBE
Chair of the Nomination Committee
25 May 2022

Audit, risks and internal controls

The Board has established procedures to manage risk, oversee the framework of internal controls and determine its risk appetite to achieve its long-term strategic objectives.

The Board and the Audit and Risk Committee are responsible for ensuring that the Group has an effective internal control and risk management system and that the Annual Report provides a fair reflection of the Group's activities during the year following its review of the methodology.

The Property Valuation Committee has oversight of the independent valuers and the valuation process. It recommends the adoption of the quarterly valuations by the Board, following its review of the methodology and assumptions used by CBRE Limited, the independent valuers.

Internal control and risk management

The Board is responsible for establishing and maintaining the Group's system of internal controls and reviewing its effectiveness. Internal control systems are designed to manage the achievement of business objectives, rather than eliminate the failure to achieve them 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 determined that additional procedures carried out by the external auditor in conjunction with the audit of the Group's accounts would provide the Board with sufficient assurance regarding the internal control systems in place. The Board continues to place reliance on the Company's Administrator's internal control systems.

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

The effectiveness of the internal control systems is reviewed annually by the Audit and Risk Committee and the Board. 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 representatives of senior management are excluded from that discussion.

Audit and Risk Committee

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

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.

> **The Committee was satisfied that the 2022 Annual Report is fair, balanced and understandable.**

Mark Batten
Chair of the Audit and Risk Committee

Terms of reference

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

– Financial reporting, including significant accounting judgements and accounting policies;
– Development of a comprehensive Risk Management Policy for the adoption by the Group;
– Evaluation of the Group's risk profile and risk appetite, and whether these are aligned with its investment objectives;
– Ensuring that key risks, including climate-related risks, are being effectively identified, measured, managed, mitigated and reported;
– Internal controls, controls testing and risk management systems;
– The Group's relationship with the external auditor, including effectiveness and independence;
– Internal audit; and
– Reporting responsibilities.

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Activity

The Audit and Risk Committee met four times during the year ended 31 March 2022 and considered the following matters:

– External audit strategy and plan;
– Audit and accounting issues of significance;
– The Annual and Interim Reports of the Group;
– Reports from the external auditor;
– The effectiveness of the audit process and the independence of KPMG Channel Islands Limited;
– Review of the Group's Risk Management Policy and appetite;
– Review of the risk matrix and mitigating controls;
– Review of internal audit services; 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 2022 Annual Report was fair, balanced and understandable and whether it provided the necessary information for shareholders to assess the Group's strategy, business model and performance.

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 members of the Picton team, meet with the independent valuer on a quarterly basis to review the valuations and underlying assumptions, including the year-end valuation process. The Chair of the Property Valuation Committee reported to the Audit and Risk Committee at its meeting in April 2022 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 Chair 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 2022 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 developed a comprehensive Risk Management Policy which has been adopted by the Group.

The purpose of the Risk Management Policy is to strengthen the proper management of risks through proactive risk identification, measurement, management, mitigation and reporting in respect of all activities undertaken by the Group. The Risk Management Policy is intended to:

– Ensure that major risks are reported to the Board for review;
– 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 identify risks at multiple levels within the Group; and
– Meet legal and regulatory requirements.

Internal controls and internal audit

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 2021, prepared in accordance with International Standard on Assurance Engagements 3402, in respect of property management accounting services provided to Picton Property Income Limited.

The Committee has reviewed the current arrangements in place for the testing of internal controls and has recommended to the Board that an internal audit service provided by a third party would provide greater assurance that the Group's internal controls are robust and are operating effectively. The Committee intends to make an appointment shortly for a third party provider to undertake internal audit services on behalf of the Group for the financial year 2022/23.

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:

	2022 £000	2021 £000
Audit fees	**174**	174
Interim review fees	**16**	16
Non-audit fees	**16**	16
	206	206

The non-audit fees include £16,000 for additional controls testing, 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 year-end reports and accounts.

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

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

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

KPMG Channel Islands Limited have been auditor to the Group since the year ended 31 December 2009. They were reappointed as the Group's auditor following a tender process in February 2020. The current audit engagement partner, Deborah Smith, has now served five years as audit partner, and will rotate away from the audit after this year.

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

Mark Batten
Chair of the Audit and Risk Committee
25 May 2022

Property Valuation Committee

The Property Valuation Committee is chaired by Richard Jones. The other members of the Committee are Lena Wilson, 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 Company's net asset value;
- Compliance with applicable standards and guidelines;
- Reviewing findings or recommendations of the valuers; and
- The appointment, remuneration and removal of the Company's valuers, making such recommendations to the Board as appropriate.

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Activity

The Committee met four times during the year ended 31 March 2022. 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.

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

Richard Jones
Chair of the Property Valuation Committee

External valuer

CBRE Limited are appointed as the external valuer of the Group and they carry out a valuation of the Group's property assets each quarter, the results of which are incorporated into the Group's half-year and annual financial statements, and the quarterly net asset statements. The valuations are done in accordance with the Royal Institution of Chartered Surveyors Red Book valuation standards.

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

The Committee is aware of the recent RICS Review of Real Estate Investment Valuations and the proposed recommendations. We have responded to the consultation and will be monitoring the results.

Richard Jones
Chair of the Property Valuation Committee
25 May 2022

Remuneration Committee

The Remuneration Committee is chaired by Maria Bentley. The other members of the Committee are Lena Wilson, Mark Batten and Richard Jones.

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

“

Our objective is to provide straightforward remuneration packages for our Executive Directors, fair and reasonable for all stakeholders.

Maria Bentley
Chair of the
Remuneration Committee

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.

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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 £36,150 (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.

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 2022.

This report comprises three sections:

– This annual statement;
– A Summary of the Directors' Remuneration Policy; and
– The Annual Report on Remuneration for the year ended 31 March 2022.

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

Implementation of the Remuneration Policy in 2022/23

Our objective is to provide straightforward remuneration packages for our Executive Directors, fair and reasonable for all stakeholders, which are designed so as to attract and retain the right talent and to fairly reward delivery of strategic priorities and enhanced shareholder value. In last year's Remuneration Report, I explained why we had not met aspects of this objective. I also set out a three-year transitional plan to address those issues whereby the Executive Directors' remuneration packages would be adjusted to more fairly reflect their responsibilities as Directors of a listed company (an adjustment that did not take place when we transitioned to a UK REIT in 2018). That transitional plan was the subject of a prior consultation in early 2021 with larger shareholders, proxy agencies and other stakeholders and I would like to again thank all those who were willing to engage in this exercise.

At the 2021 Annual General Meeting, we sought shareholder support for our transitional three-year plan. The resolution approving the new Remuneration Policy had near unanimous support (97% in favour) but the resolution approving the Remuneration Report for the year ended 31 March 2021 was passed albeit with lower overall support (72% in favour).

The Committee was pleased by the high level of shareholder support for the new Policy and also that a majority of shareholders were supportive of the Remuneration Report. The Remuneration Committee gave careful consideration to executive remuneration during the early part of 2021 and sought external input including a prior consultation with larger shareholders, proxy agencies and other stakeholders prior to determining its proposals for Executive Directors under the new Remuneration Policy. The views of all our shareholders are important to us and as such we have taken feedback from shareholders whom we are were aware voted against the Remuneration Report resolution to better understand their specific concerns. The feedback that we received indicated some concerns primarily related to the proposed phased three-year transition of the Executive Directors' remuneration packages and specifically to the proposed percentage salary increases, despite the proposed reduction in annual variable pay, which was intended to offset these increases.

“

In order to appropriately align executive remuneration with business performance we incorporate KPIs within our incentive schemes.

Maria Bentley
Chair of the Remuneration Committee

Recognising these concerns, the Committee has carefully considered the Company’s and the Executive Directors’ performance in the last year to ensure that the approved Policy terms for 2022/23 remain appropriate.

The key performance highlights noted by the Committee included:

- The Group’s profit for the year was £147 million, giving a total return of 28%, significantly higher than the previous year;
- The Group’s net asset value increased by 24% to £657 million, or 120 pence per share;
- The total property return was ahead of the MSCI UK Quarterly Property Index for the year, and our long-term record of outperformance has been maintained over one, three, five and ten years, and since inception;
- EPRA earnings rose by 5% compared to 2020/21, reflecting an increase in occupancy, reduced provisions against debtors and additional income from acquisitions;
- Dividends were increased twice during the year, returning to the pre-pandemic level;
- One of the loan facilities was re-financed, increasing the term and re-setting the interest to a lower rate;
- The net zero carbon pathway has been published;
- An assessment of the Group’s climate-related risks has been undertaken;
- The proportion of the portfolio’s EPC ratings (A to C) has increased to 71% from 64% last year;
- The number of green leases in place increased by 42 over the year, and
- Scope 1 and 2 greenhouse gas emissions fell by -27% compared to the 2019 baseline.

The Committee is satisfied that it is appropriate for the second stage of the transition to proceed. Accordingly, as outlined in last year’s Remuneration Report, the base salaries of the Chief Executive and Finance Director will be increased by 15% to £330,625 and £224,825 respectively from 1 April 2022 and their annual bonus opportunity for 2022/23 will be reduced to 155% of salary (2021/22: 165%). The Committee will undertake a similar review next year ahead of the proposed final stage of the transitional plan.

Group performance and alignment

We have set out on pages 28 to 31, 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 2021/22 and 2022/23 the KPIs that we are using to determine variable remuneration are set out below.

Measure	Comparator	Annual bonus	Long-term Incentive Plan
Total return	Relative to comparator group	✓ (30% weighting)	
Total property return	Relative to MSCI UK Quarterly Property index	✓ (30% weighting)	✓ (33% weighting)
Total shareholder return	Relative to comparator group		✓ (33% weighting)
EPRA EPS	Absolute target range		✓ (33% weighting)

The remaining 40% of the annual bonus is determined by corporate objectives.

Annual bonus awards for 2021/22

The Executive Directors were set a number of challenging targets for this year, comprising a combination of financial measures and corporate and personal objectives.

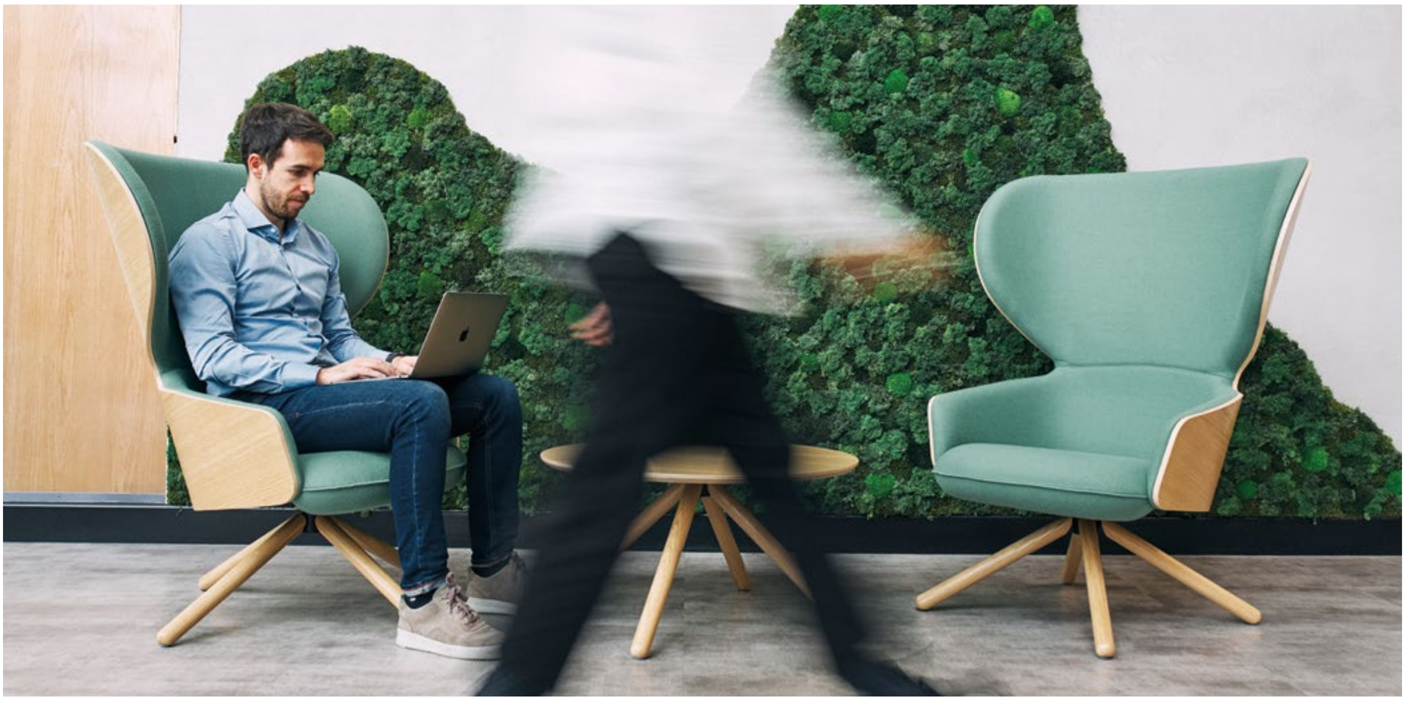
The two financial measures were total return and total property return. The actual outcomes are set out in the Annual Remuneration Report, but the overall result was that the Directors earned an estimated 46% of the maximum award available under these financial measures.

The corporate objectives were set to ensure that specific key strategic targets were reached. These included targets relating to ESG matters, such as the publication of a net zero carbon pathway. The Committee considered that the Executive Directors had largely met the corporate objectives, evidenced by the record profit, growth in earnings and environmental progress. More detail is provided later in this Remuneration Report, but overall the Committee considered that outcomes of 90% of the maximum award for the two Executive Directors were merited against the corporate objectives.

In aggregate, annual bonus awards for the two Executive Directors are 64% of the maximum award (2020/21 – 76% of maximum).

The Committee considered the formulaic bonus outcome in the context of the Group’s overall performance for the year. The key highlights of performance for the year are set out earlier in this Statement.

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 2022)

The awards made under the Long-term Incentive Plan (LTIP) in June 2019 were based on three performance conditions measured over the three-year period ended on 31 March 2022. 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 54% of the maximum granted. As explained above, the Committee concluded that it was satisfied the formulaic outcome was a fair reflection of overall Group performance over the performance period.

Employee remuneration and engagement

As in prior years, the Committee received an independent benchmarking report covering each of the roles, which detailed market trends. Having considered the report, the Committee determined that, for the team as a whole (excluding the Executive Directors), there would be an overall average rise of 8.8% in base salaries with effect from 1 April 2022. The average employee bonus (excluding the Executive Directors) increased by 13.2% reflecting alignment between employee pay and our strong business performance.

In my role as designated Non-Executive Director with responsibility for employee engagement I had an informal meeting with the whole team, excluding the Executive Directors, in May 2021, which covered a number of topics including the remuneration process and how the Committee considered market data and other factors in determining salary and bonus awards. Additionally, we have carried out the annual employee survey, the results of which are set out elsewhere in the Report.

Corporate Governance Code 2018

We have considered the provisions of the 2018 Code in respect of remuneration and believe that our approach remains compliant. In particular, we operate a consistent level of pension provision across our workforce; LTIP awards are only released to Executive Directors five years after award; and malus and clawback provisions apply to all incentive awards. We have provisions in the rules of our remuneration share plans that prevent, other than in exceptional circumstances, accelerated vesting of awards when an employee leaves Picton. We also have post-employment shareholding guidelines in place.

> **Our remuneration structure will be in accordance with the Policy for the year to 31 March 2023.**
>
> **Maria Bentley**
> Chair of the Remuneration Committee

The remuneration arrangements provide alignment with shareholders through the use of financial metrics and corporate objectives. All members of the team participate in the annual bonus and LTIP, not just the Executive Directors. The Remuneration Policy and its components are clearly set out in this Report and the rules of the variable remuneration schemes are available to the whole team. We use standard performance metrics, which are also key performance indicators for the business, to determine awards. There are clear target and maximum levels for each metric.

The Committee believes that the variable remuneration schemes in place are fair and proportionate and align the remuneration of the team with the Group's performance. We are also satisfied that the remuneration structure does not encourage inappropriate risk-taking. The Committee does retain discretion over formulaic outcomes if it considers that these are not a fair reflection of the Group's performance.

Implementation of Policy

Our remuneration structure will be in accordance with the Policy for the year to 31 March 2023.

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 maximum annual bonus potential for 2022/23 will fall to 155% from 165% of base salary for the Executive Directors as outlined above. As in previous years the annual bonus will be determined 60% by financial metrics and 40% by corporate objectives. For 2022/23 we will continue to use two financial metrics, being total return, relative to a comparator group, and total property return, relative to the MSCI UK Quarterly Property Index.

The awards under the Long-term Incentive Plan will be at a level consistent with last year. For the awards to be made in June 2022 for the three-year period to 31 March 2025 we will retain the three performance measures used previously, being:

- Total shareholder return, compared to a comparator group
- Total property return, compared to the MSCI UK Quarterly Property Index
- Growth in EPRA earnings per share

For the growth in EPRA earnings per share, we intend to use an absolute range of targets based on forecasts over the performance period.

As a Committee, we are committed to ongoing dialogue with our shareholders and welcome any feedback regarding our remuneration practices. We look forward to receiving your continued support at the forthcoming Annual General Meeting.

Maria Bentley
Chair of the Remuneration Committee
25 May 2022

Remuneration at a glance

The components of remuneration for 2021/22 are:

Fixed pay

Read more on pages **101–107**

Base salary

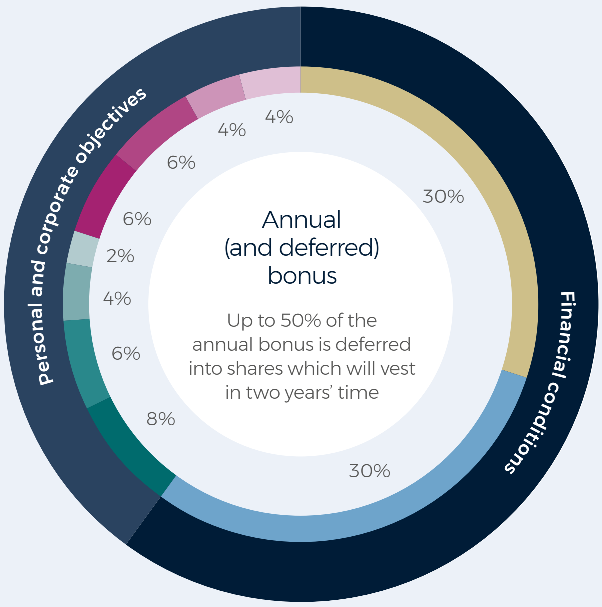
Benefits

Pension contributions

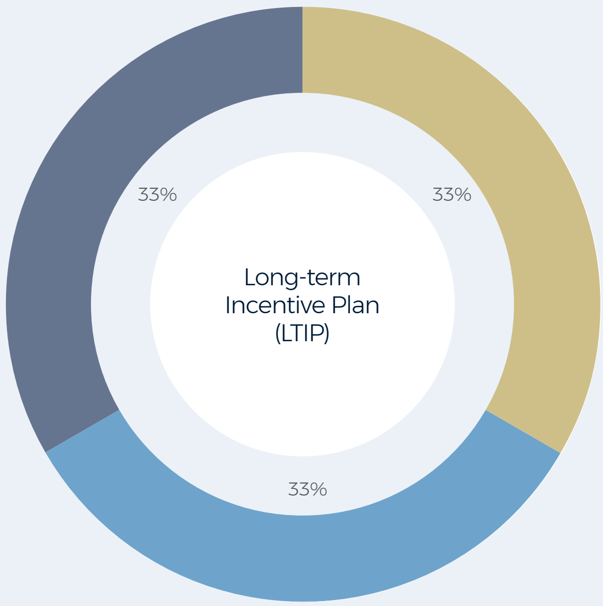
+

Variable pay

The annual bonus for 2021/22 is determined by:



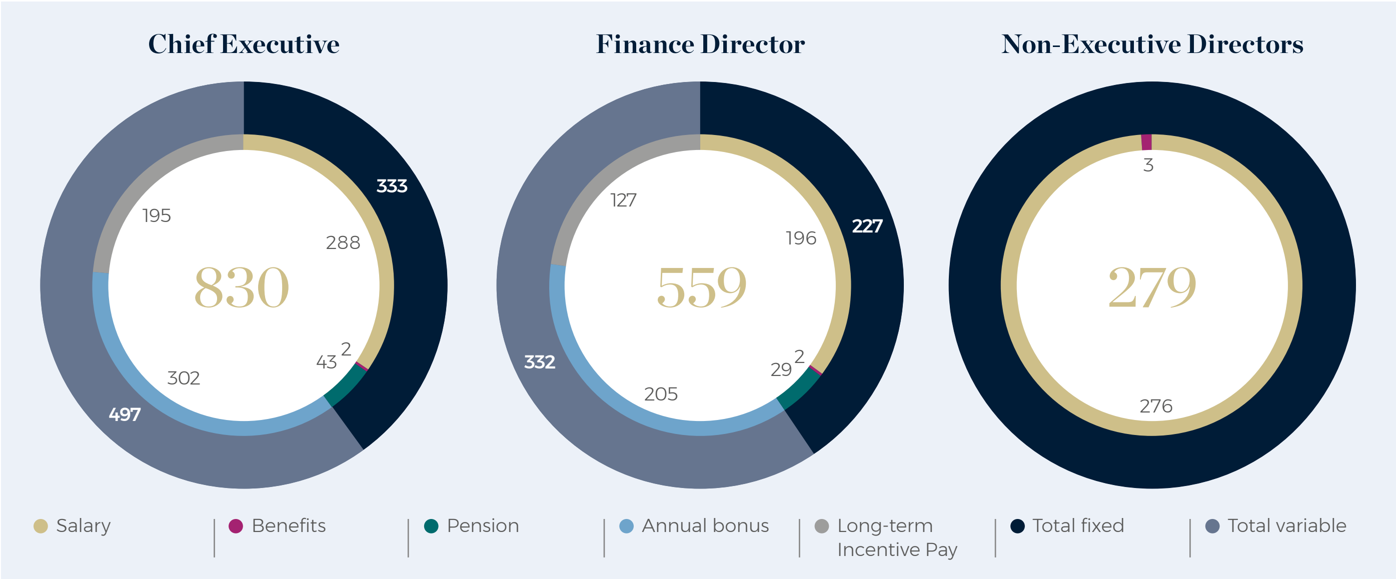
The LTIP is based on three financial metrics, each measured over three years:



Personal and corporate objectives
- Improve occupancy and income profile
- Devise and publish net zero carbon pathway
- Improve portfolio environmental factors
- Embed Picton flexi-leasing on smaller assets
- Complete key refurbishment projects on budget and on time
- Consider options to improve operating efficiency
- Positive stakeholder engagement
- Identify and evaluate growth opportunities

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

The single figure of remuneration for the Directors for the year 2021/22 (in £ thousands) is:

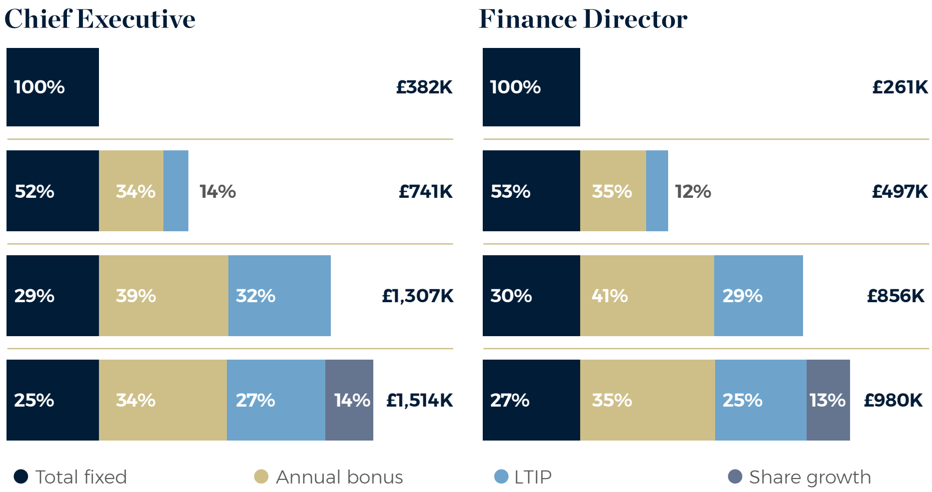


The potential remuneration of the Executive Directors for the year to 31 March 2023 is:

The following charts show the composition of the Executive Directors' remuneration at three performance levels:

- **Fixed pay** – base salary from 1 April 2022, benefits and pension salary supplement of 15% of base salary
- **On target** – fixed pay plus target vesting for the annual bonus (at 50% of maximum opportunity for illustrative purposes) and threshold vesting for the LTIP (at 25% of maximum award)
- **Maximum** – fixed pay plus maximum vesting for both the annual bonus (155% of base salary) and the LTIP (125% (Chief Executive) and 110% (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.



Percentage change in remuneration

The table below shows the percentage change in total remuneration for each of the Directors between the years 2019/20 to 2020/21 and 2020/21 to 2021/22 compared to the average remuneration of the employees of the Group.

	Change from 31 March 2021 to 31 March 2022			Change from 31 March 2020 to 31 March 2021		
	Base salary/ Fees	Benefits	Annual bonus	Base salary/ Fees	Benefits	Annual bonus
Michael Morris	15.0%	15.8%	-9.4%	0%	0.6%	14.4%
Andrew Dewhirst	15.0%	16.1%	-9.4%	0%	0.8%	8.6%
Lena Wilson	11.2%	–	–	n/a	n/a	n/a
Mark Batten	10.5%	–	–	0%	–	–
Maria Bentley	16.7%	–	–	0%	–	–
Richard Jones	16.7%	–	–	n/a	n/a	n/a
Nicholas Thompson	n/a	n/a	n/a	0%	–	–
Roger Lewis	n/a	n/a	n/a	0%	–	–
Average of all other employees	6.4%	15.0%	13.2%	4.6%	8.1%	15.4%

The Non-Executive Director fees were last reviewed in 2018, and then in 2021.

Summary of Directors' Remuneration Policy

Principles

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.

A summary of the Directors' Remuneration Policy approved by shareholders at the 2021 Annual General Meeting is set out below. The full Policy is contained in our 2021 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	Part of competitive remuneration package.
Operation	The Company has established defined contribution pension arrangements for all employees. For Executive Directors the Company pays a monthly salary supplement in lieu of Company pension contributions.
Maximum	A consistent rate of pension provision (15% of base salary) applies to all employees including Executive Directors.
Performance measures	None
Clawback	None

Benefits

Purpose	Part of 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 will be paid at the end of the deferral period (in the form of shares or cash).
Maximum	The maximum bonus permitted under the Policy will be 175% of base salary. The level of bonus opportunity within this maximum will be determined by the Committee each year. In 2022/23, the maximum opportunity will be limited to 155% of base salary.
Performance measures	The annual bonus is based on a range of financial, strategic, ESG, operational and individual targets (measured over a period of up to one year) set by the Committee. 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 may be applied in the event (within two years of bonus determination/grant of the deferred bonus shares) of a material misstatement of the audited financial results, an error in assessing a performance condition applicable to the award or in the information or assumptions on which the award was granted or is released, a material failure of risk management, material misconduct on the part of the award holder or a corporate failure.

Long-term Incentive Plan

Purpose	A long-term incentive plan to align Executive Directors' interests with those of shareholders and to promote the long-term success of the Company.
Operation	Awards are granted annually usually 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 (in the form of shares or cash) on awards that vest. The Committee will usually 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	Vesting will be subject to performance conditions, aligned to the corporate strategy, as determined by the Committee on an annual basis. There will 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 each award. For threshold levels of performance up to 25% of the award vests, rising usually on a straight-line basis to 100% for maximum performance.
Clawback	Malus and clawback provisions may be applied in the event (within five years of grant) of a material misstatement of the audited financial results, an error in assessing a performance condition applicable to the award or in the information or assumptions on which the award was granted or is released, a material failure of risk management, material misconduct on the part of the award holder or a corporate failure.

Shareholding guidelines

Purpose	To align Executive Directors with the interests of shareholders.
Operation	Whilst in employment, Executive Directors are expected to build up and thereafter maintain a minimum shareholding equivalent to 200% of base salary. The Committee will review progress towards the guideline on an annual basis and has the discretion to adjust the guideline in what it feels are appropriate circumstances. Executive Directors will also be expected to remain compliant with the above guideline for a period of two years post-employment.
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 Chair, and annual base fees for other Non-Executive Directors. Additional fees for those Directors with additional responsibilities such as chairing a Board Committee. All fees will be payable monthly 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 Director 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 an adjustment is appropriate (for example, if the outcomes are not deemed by the Committee to be a fair and accurate reflection of business performance). In the event that the Committee was to make an adjustment of this sort, a full explanation would be provided in the next Remuneration Report.
2. Performance measures – annual bonus. The annual bonus measures are reviewed annually and chosen to focus executive rewards on delivery of key financial targets for the forthcoming year as well as key strategic or operational goals relevant to an individual. Specific targets for bonus measures are set at the start of each year by the Remuneration Committee based on a range of relevant reference points, including for Group financial targets, the Company's business plan and are designed to be appropriately stretching.
3. The Committee may amend the terms of awards granted under the share schemes referred to above in accordance with the rules of the relevant plans.
4. Performance measures – LTIP. The LTIP performance measures will be chosen to provide alignment with our longer-term strategy of growing the business in a sustainable manner that will be in the best interests of shareholders and other key stakeholders in the Company. Targets are considered ahead of each grant of LTIP awards by the Remuneration Committee taking into account relevant external and internal reference points and are designed to be appropriately stretching.
5. The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out above where the terms of the payment were agreed (i) before the Policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder approved Remuneration Policy in force at the time they were agreed; 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 usually participate in the Long-term Incentive Plan, and in the annual bonus. The weighting of individual and corporate measures is 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

The table below sets out the total remuneration receivable by each of the Directors who held office during the year to 31 March 2022, with a comparison to the previous financial year:

		Salary/ fees £000	Benefits £000	Pension salary supplement £000	**Total fixed £000**	Annual bonus £000	Deferred bonus £000	Long-term Incentive Plan £000	**Total variable £000**	**Total £000**
Executive										
Michael Morris	2022	288	2	43	**333**	151	151	195	**497**	**830**
	2021	250	2	38	**290**	167	166	213	**546**	**836**
Andrew Dewhirst	2022	196	2	29	**227**	103	102	127	**332**	**559**
	2021	170	2	26	**198**	113	113	125	**351**	**549**
Non-Executive										
Lena Wilson	2022	117	3	–	**120**	–	–	–	**–**	**120**
	2021	21	–	–	**21**	–	–	–	**–**	**21**
Mark Batten	2022	53	–	–	**53**	–	–	–	**–**	**53**
	2021	48	–	–	**48**	–	–	–	**–**	**48**
Maria Bentley	2022	53	–	–	**53**	–	–	–	**–**	**53**
	2021	45	–	–	**45**	–	–	–	**–**	**45**
Richard Jones	2022	53	–	–	**53**	–	–	–	**–**	**53**
	2021	26	–	–	**26**	–	–	–	**–**	**26**
Nicholas Thompson	2022	–	–	–	**–**	–	–	–	**–**	**–**
	2021	82	–	–	**82**	–	–	–	**–**	**82**
Roger Lewis	2022	–	–	–	**–**	–	–	–	**–**	**–**
	2021	22	–	–	**22**	–	–	–	**–**	**22**
Nicholas Wiles	2022	–	–	–	**–**	–	–	–	**–**	**–**
	2021	6	–	–	**6**	–	–	–	**–**	**6**
Total (audited)	2022	760	7	72	**839**	254	253	322	**829**	**1,668**
	2021	670	4	64	**738**	280	279	338	**897**	**1,635**

Lena Wilson and Richard Jones were new appointments to the Board during the financial year to 31 March 2021.

Benefits for the Executive Directors comprise private medical insurance and life assurance. Non-Executive Directors are reimbursed expenses incurred in connection with travel and attendance at Board meetings. These expenses are taxable where the meetings take place at the Company's main office. The Company settles the tax on behalf of the Non-Executive Directors.

Executive Directors receive a salary supplement of 15% of base salary in lieu of company pension contributions.

The above figures for 2021 for the Executive Directors for annual bonus and LTIP awards have been re-stated. The estimated figures for annual bonus included in last year's report were £348,600 (Michael Morris) and £237,000 (Andrew Dewhirst). The estimates included an outcome of 100% for the relative total return metric. The final outcome was determined to be 82% and the awards were adjusted to £332,600 (Michael Morris) and £226,000 (Andrew Dewhirst). The above 2021 LTIP figures for the Executive Directors have been restated to reflect the actual share price at vesting (87.1 pence) rather than the average for the quarter ended 31 March 2021 (84.7 pence). This restatement represents an increase in the value of the 2021 LTIP awards of £5,000 for Michael Morris and of £3,000 for Andrew Dewhirst.

The value of LTIP awards for 2022 is based on the number of shares to be awarded to the Executive Directors in respect of the June 2019 LTIP awards and the average share price over the quarter ended 31 March 2022 of 100.06 pence, and the estimated value of dividend equivalents.

Annual bonus for 2021/22

The annual bonus for the year ended 31 March 2022 for the Executive Directors was based on a combination of financial metrics (60%) and corporate objectives (40%).

The targets set for the year ended 31 March 2022 and the assessment of actual performance achieved are set out in the table below.

The financial metrics comprised two equally weighted components: total return relative to a comparator group of similar companies, set out later in this Report; and total property return compared to the MSCI UK Quarterly Property Index.

At the date of this Report not all of the companies in the total return comparator group had announced their results to 31 March 2022 and the Committee has estimated, based on the results to date, that this condition will not be met, resulting in an award of 0%. 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	Awarded (% of maximum)	Awarded (% of salary)
Total return versus comparator group **Bonus weighting: 30%**	Less than median – 0% Equal to median – 50% Equal to upper quartile – 100%	Not yet available	28.3%	0% (estimate)	0% (estimate)
Total property return versus MSCI Index **Bonus weighting: 30%**	Less than median – 0% Equal to median – 50% Equal to upper quartile – 100%	Median 20.9% Upper quartile 24.9%	24.3%	92.5%	45.8%

The corporate objectives for the Executive Directors for the year to 31 March 2022 were determined by the Remuneration Committee and accounted for 40% of the maximum award.

The corporate objectives applying to both Executives, and the assessment of performance against these, are as follows:

Performance condition	Assessment	Awarded (% of maximum)	Awarded (% of salary)
Improve occupancy and income profile **Bonus weighting: 8%**	Occupancy has increased from 91% to 93% and rental income has increased by nearly 10% this year. EPRA earnings have risen by 5%.	100%	13.2%
Devise and publish net zero carbon pathway **Bonus weighting: 6%**	The net zero carbon pathway has been completed and was published in April 2022.	95%	9.4%
Improve portfolio environmental factors **Bonus weighting: 4%**	The portfolio's EPC weightings have improved this year, with 71% rated A to C on an ERV basis. There are 42 more green leases in place. Scope 1 and 2 GHG emissions have reduced by over 27% compared to the 2019 baseline. More biodiversity initiatives have been introduced.	90%	5.9%
Embedded Picton flexileasing on smaller assets **Bonus weighting: 2%**	SwiftSpace was developed and launched in the year and five short form leases have been completed at four properties.	70%	2.3%
Complete key refurbishment projects on budget and on time **Bonus weighting: 6%**	Some projects have been subject to inflationary increases and additional works in certain cases. Key projects at Regency Wharf, Birmingham and at 180 West George Street, Glasgow have been completed on time and on budget.	80%	7.9%
Consider options to improve operating efficiencies **Bonus weighting: 6%**	The Group's weighted average interest rate has been reduced to 3.7% following the refinancing of the Canada Life facility. The EPRA cost ratios are both lower this year, although the Group cost ratio remained at 1.0%.	85%	8.4%
Positive stakeholder engagement **Bonus weighting: 4%**	The dividend has now been restored to its pre-pandemic level, and there has been positive share price growth. Employee satisfaction remains high at 82%.	90%	5.9%
Identify and evaluate growth opportunities **Bonus weighting: 4%**	Opportunities have been considered and progressed during the year.	90%	5.9%

As discussed in the Committee Chair's statement on pages 91 to 95, 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 that the formulaic bonus outcome was a fair reflection of overall Group performance during the year. The Committee was also satisfied that the above performance was achieved within an acceptable risk profile.

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 60%)	Corporate objectives (out of maximum 40%)	Overall bonus % of maximum	Bonus % of salary	Total bonus £
Michael Morris	27.8	35.8	63.6	104.9	301,500
Andrew Dewhirst	27.8	35.8	63.6	104.9	205,000

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 in cash when the awards vest.

Long-term Incentive Plan

The LTIP awards granted on 19 June 2019 were subject to performance conditions for the three years ended 31 March 2022. 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 – 5.0% Upper quartile – 31.8%	18.4%	33.3%	62.5%
Total property return versus MSCI Index	Less than median – 0% Equal to median – 25% Equal to upper quartile – 100%	Median – 7.7% Upper quartile – 9.7%	12.0% (above upper quartile)	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% – 4.65p 9% – 5.51p	3.88p	33.3%	0%

The Committee was satisfied that the above performance was achieved within an acceptable risk profile. As discussed in the Committee Chair's statement on pages 91 to 95, the Committee considered the formulaic LTIP outcome in the context of the Group's overall performance over the performance period and concluded that it was satisfied the formulaic outcome was a fair reflection of overall Group performance during the period. Based on the vesting percentage above, the shares awarded and their estimated values, using an average share price of 100.06 pence for the quarter ended 31 March 2022, are:

Director	Maximum number of shares at grant	Number of shares vesting	Number of lapsed shares	Estimated value[1,2] £
Michael Morris	328,153	177,760	150,393	194,980
Andrew Dewhirst	214,218	116,041	98,177	127,280

1. The estimated value includes dividend equivalent awards which will be made in relation to vested LTIP awards at the point of vesting. The value of the dividend equivalent awards is £17,109 (Michael Morris) and £11,169 (Andrew Dewhirst).

2. £8,586 (Michael Morris) and £5,605 (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 22 June 2021:

	Number of shares	Basis (% of salary)	Face value per share (£)	Award face value (£)	Performance period	Threshold vesting
Michael Morris	403,339	125%	0.8910	359,375	1 April 2021 to 31 March 2024	25%
Andrew Dewhirst	241,358	110%	0.8910	215,050	1 April 2021 to 31 March 2024	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 three equally weighted performance conditions (relative total shareholder return, relative total property return and EPRA EPS). The vesting schedule for the relative measures will be as applied to the June 2019 LTIP set out above. The EPS element will vest at 25% for achievement of EPRA EPS of 3.85 pence in the year ended 31 March 2024 increasing on a straight line basis to 100% vesting for EPRA EPS of 4.25 pence.

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 share awards under the Long-term Incentive Plan and Deferred Bonus Plan:

	Date of grant	Performance period	Market value on date of grant	At 1 April 2021	Granted in year	Exercised in year	Lapsed in year	**As at 31 March 2022**
Michael Morris								
2018 LTIP	8 June 2018	1 April 2018 to 31 March 2021	90.80p	330,396	–	(220,264)	(110,132)	**–**
2019 LTIP	19 June 2019	1 April 2019 to 31 March 2022	95.23p	328,153	–	–	–	**328,153**
2020 LTIP	29 June 2020	1 April 2020 to 31 March 2023	70.73p	309,275	–	–	–	**309,275**
2021 LTIP	22 June 2021	1 April 2021 to 31 March 2024	89.10p	–	403,339	–	–	**403,339**
2019 DBP	19 June 2019	1 April 2018 to 31 March 2019	95.23p	175,137	–	(175,137)	–	**–**
2020 DBP	29 June 2020	1 April 2019 to 31 March 2020	70.73p	215,333	–	–	–	**215,333**
2021 DBP	22 June 2021	1 April 2020 to 31 March 2021	89.10p	–	186,666	–	–	**186,666**
				1,358,294	**590,005**	**(395,401)**	**(110,132)**	**1,442,766**
Andrew Dewhirst								
2018 LTIP	8 June 2018	1 April 2018 to 31 March 2021	90.80p	193,833	–	(129,222)	(64,611)	**–**
2019 LTIP	19 June 2019	1 April 2019 to 31 March 2022	95.23p	214,218	–	–	–	**214,218**
2020 LTIP	29 June 2020	1 April 2020 to 31 March 2023	70.73p	185,070	–	–	–	**185,070**
2021 LTIP	22 June 2021	1 April 2021 to 31 March 2024	89.10p	–	241,358	–	–	**241,358**
2019 DBP	19 June 2019	1 April 2018 to 31 March 2019	95.23p	116,758	–	(116,758)	–	**–**
2020 DBP	29 June 2020	1 April 2019 to 31 March 2020	70.73p	154,312	–	–	–	**154,312**
2021 DBP	22 June 2021	1 April 2020 to 31 March 2021	89.10p	–	126,933	–	–	**126,933**
				864,191	**368,291**	**(245,980)**	**(64,611)**	**921,891**

Awards under the Long-term Incentive Plan normally vest three years after the grant date. Awards from 2019 onwards are subject to a further two-year holding period. Awards under the Deferred Bonus Plan normally vest two years after the grant date.

Comparator group

The Committee has agreed that the following companies will be used as a comparator group for the total shareholder return and total return metrics in determining variable remuneration for 2022/23 awards. A smaller group is used for the total return metric due to the different reporting periods of some companies.

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	✓	✓
Industrial REIT Limited	✓	✓
NewRiver 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	✓	✓

The above group was also used for previous awards with the following amendments:

- Supermarket Income REIT and Warehouse REIT were added to the group for awards made from 2019 onwards;
- McKay Securities PLC was included in the group for awards made up to and including 2021;
- Hansteen Holdings plc and Mucklow (A.&J.) PLC were additionally included in the group for awards made up to and including 2019; and
- LondonMetric Property PLC and RDI REIT plc were additionally included in the group for awards made up to and including 2020.

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 2022, were as follows:

	Beneficial holding 2022	Beneficial holding 2021	Holding as a % of salary	Outstanding LTIP awards	Outstanding DBP awards
Michael Morris	537,673	328,485	184	1,040,767	401,999
Andrew Dewhirst	332,113	201,978	167	640,646	281,245
Lena Wilson	30,000	30,000			
Mark Batten	–	–			
Maria Bentley	74,436	74,436			
Richard Jones	53,845	53,845			

The percentage holding for the Executive Directors is based on base salaries as at 31 March 2022 and a share price of £0.983. The beneficial holdings of shares include any held by connected persons.

Executive Directors are 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.

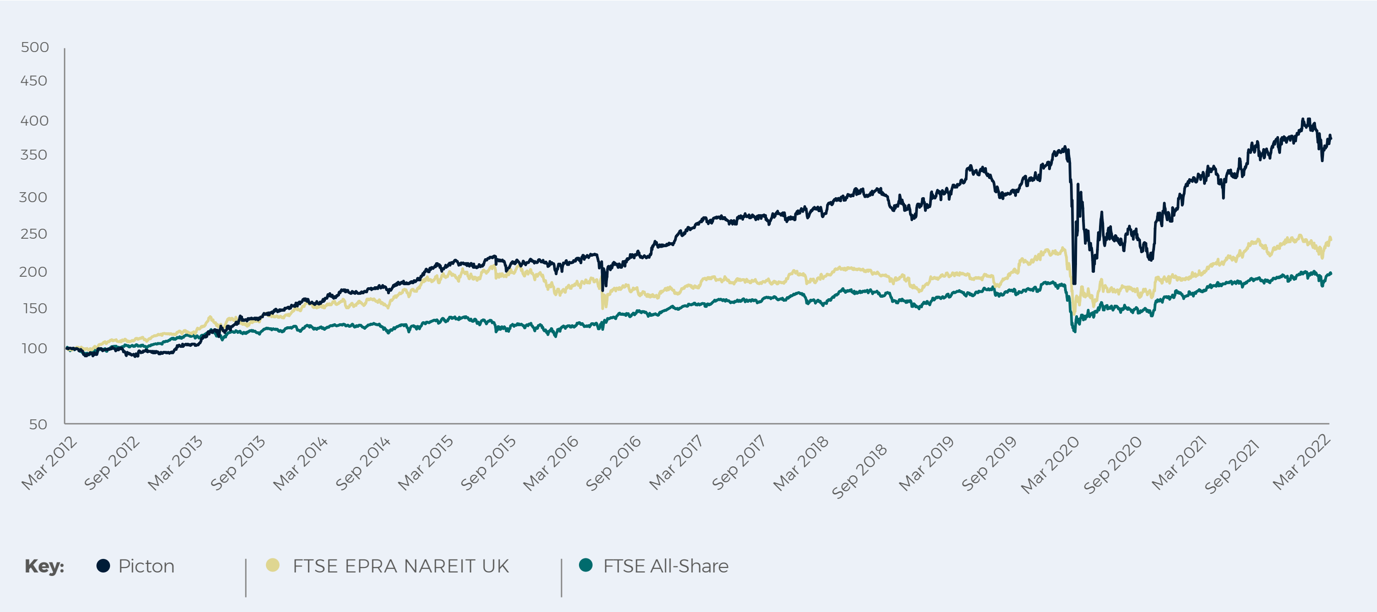
Payments to past Directors or payments for loss of office

There were no payments to past Directors or payments for loss of office to Directors during the year ended 31 March 2022.

Historical total shareholder return performance

The graph below shows the Company's total shareholder return (TSR) since 31 March 2012 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.

TSR chart



The table below shows the remuneration of the Chief Executive for the past four years, together with the annual bonus percentage and LTIP vesting level. The Company has only had a Chief Executive since 1 October 2018 and therefore the table below shows his remuneration for the past four years.

	Total remuneration (£000)	Annual bonus (% of maximum)	LTIP vesting (% of maximum award)
2022	830	64%	54%
2021	836	76%	67%
2020	769	70%	67%
2019	920	79%	83%

Relative importance of spend on pay

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

	31 March 2022 £000	31 March 2021 £000	% change
Employee costs	**3,415**	3,219	6.1%
Dividends	**18,425**	15,002	22.8%
EPRA earnings	**21,188**	20,072	5.6%

Implementation of Remuneration Policy in 2022/23

		Change from prior year
Executive Directors		
Base salaries	Michael Morris (Chief Executive) – £330,625 Andrew Dewhirst (Finance Director) – £224,825	As outlined in last year's Remuneration Report base salaries for the Executive Directors are being transitioned over a three-year period – 2022/23 will be the second year of that transition. The average increase for the rest of the workforce is 8.8%.
Pension and benefits	15% salary supplement in lieu of pension plus standard other benefits	No change. All employees receive company pension contributions at the rate of 15% of base salary or 15% salary supplement in lieu of company contributions.
Annual bonus*	Maximum bonus of 155% of salary with 50% of any bonus deferred in shares for two years 60% of bonus to be determined by corporate financial metrics of relative total return and relative total property return (using the same performance target ranges as in 2021/22) with the remaining 40% determined by corporate and personal measures	As outlined in last year's Remuneration Report the maximum bonus potential for Executive Directors will decrease from 165% of salary to 155% of salary this year.
LTIP*	Award of shares worth: – Michael Morris (Chief Executive) 125% of salary – Andrew Dewhirst (Finance Director) 110% of salary Shares released after three-year performance and two-year holding period. Vesting of shares based equally on relative total shareholder return, relative total property return and growth in EPRA earnings per share measures. Target ranges for the relative measures are as set out on page 103. Targets for the EPS measure for the year ended 31 March 2025 are: Less than 4.15 pence per share – 0% Equal to 4.15 pence per share – 25% Greater than 4.50 pence per share – 100% A result between 4.15 pence and 4.50 pence will be calculated on a straight-line basis between 25% and 100%	No change
Non-Executive Directors		
Fees	Chair – £116,800 Director – £45,000 Supplementary fee for Committee Chairs – £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

The following table sets out the voting for the Remuneration Report and Remuneration Policy, which were approved by shareholders at the Annual General Meeting held on 17 November 2021, representing 63% of the issued share capital of the Company.

	Remuneration Report		Remuneration Policy	
	Votes cast	%	Votes cast	%
For	246,927,948	72.2	333,280,593	96.5
Against	95,213,590	27.8	12,044,009	3.5
Votes cast	**342,141,538**	**100.0**	**345,324,602**	**100.0**
Withheld	3,487,899		304,835	

Discussion of the vote relating to the Remuneration Report resolution and subsequent actions taken by the Board are set out in the Committee Chair's statement.

Maria Bentley
Chair of the Remuneration Committee
25 May 2022

Directors' Report

The Directors of Picton Property Income Limited present the Annual Report and audited financial statements for the year ended 31 March 2022.

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.

The Company is a UK Real Estate Investment Trust (REIT) and must distribute to its shareholders at least 90% of the profits on 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 in the year, one at 0.8 pence per share, two at 0.85 pence per share and one at 0.875 pence per share, making a total dividend for the year ended 31 March 2022 of 3.375 pence per share (2021: 2.75 pence). All four interim dividends were paid as PIDs.

Directors

The Directors of the Company who served throughout the year are:

– Lena Wilson
– Maria Bentley
– Mark Batten
– Andrew Dewhirst
– Richard Jones
– Michael Morris

The Directors' interests in the shares of the Company as at 31 March 2022 are set out in the Remuneration Report.

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

2018 UK Corporate Governance Code Compliance Statement

The Board confirms that for the year ended 31 March 2022 the principles of good corporate governance contained in the 2018 UK Corporate Governance Code have been consistently applied.

The Company is fully compliant with the Code.

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 2022 was 547,605,596 (2021: 547,605,596) ordinary shares of no par value, including 1,974,253 ordinary shares which are held by the Trustee of the Company's Employee Benefit Trust (2021: 2,052,269 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 2021 Annual General Meeting shareholders gave the Directors authority to issue up to 54,760,558 shares (being 10% of the Company's issued share capital as at 15 October 2021) without having to first offer those shares to existing shareholders. No ordinary shares have been issued under this authority, which 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 1,974,253 ordinary shares in the Company in a trust to satisfy awards made under the Long-term Incentive Plan and the Deferred Bonus Plan. During the year the Trustee acquired 750,000 ordinary shares at an average price of 97.2 pence per share. The Trustee has waived its right to receive dividends on the shares it holds.

Statement of going concern

The Directors have focused on assessing whether the going concern basis remains appropriate for the preparation of the financial statements for the year ended 31 March 2022. In making their assessment the Directors have considered the principal and emerging risks relating to the Group, its loan covenants, access to funding and liquidity position. They have also considered a number of scenarios in particular regarding the impact of different levels of rent collection across the portfolio and over varying timescales, and the potential consequences on financial performance, asset values, capital projects and loan covenants. Leasing and investment transactions have been assumed to be curtailed throughout the assessment period. Future lease events over the assessment period have been considered on a case-by-case basis to determine the range of most likely outcomes. More details regarding the Group's business activities, together with the factors affecting performance, investment activities and future development are set out in the Strategic Report.

Further information on 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.

Under all of these scenarios the Group has sufficient cash resources to continue its operations, and remain within its loan covenants, for a period of at least 12 months from the date of these financial statements.

Based on their assessment and knowledge of the portfolio and market, the Directors have therefore continued to adopt the going concern basis in preparing the financial statements.

Viability assessment and statement

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

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

The major risks identified were those relating to rising inflation, geopolitical tensions and the legacy effects of the Covid-19 pandemic on the UK economy and commercial property market over the period of the assessment. In the ordinary course of business, the Board reviews a detailed financial model on a quarterly basis, including forecast market returns. This model allows for different assumptions regarding lease expiries, breaks and incentives. For the purposes of the viability assessment of the Group, the model covers a five-year period and is stress tested under various scenarios.

The Board considered a number of scenarios and their impact on the Group's property portfolio and financial position. These scenarios included different levels of rent collection, occupier defaults, void periods and incentives within the portfolio, and the consequential impact on property costs and loan covenants. All lease events and assumptions were reviewed over the period under the different scenarios including their impact on revenue and cash flow. Forecast movements in capital values were included in these scenarios including their potential impact on the Group's loan covenants. The Group's long-term loan facilities are contracted to be in place throughout the assessment period, while the Board has assumed that the Group will continue to have access to its short-term facilities. The Board considered the impact of these scenarios on its ability to continue to pay dividends at different rates over the assessment period.

These matters were assessed over the period to 31 March 2027 and will continue to be assessed over rolling five-year periods.

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 2027.

Substantial shareholdings

Based on notifications received and on information provided by the Company's brokers, the Company understands the following shareholders held a beneficial interest of 3% or more of the Company's issued share capital as at 5 May 2022.

	% of issued share capital
Investec Wealth & Investment Limited	16.2
Ameriprise Financial Inc.	9.3
BlackRock Inc.	5.6
The Vanguard Group Inc.	4.1
Tilney Smith & Williamson	3.8
Brewin Dolphin Limited	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 or she ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

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

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they are required 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 and Company'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 the Company 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 Group 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 Company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Issuer, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

By Order of the Board

Andrew Dewhirst

25 May 2022

Welcome to our Financial Statements

This section sets out the Group's Financial Statements for the year ended 31 March 2022.

Independent Auditor's Report to the Members of Picton Property Income Limited

Our opinion is unmodified

We have audited the consolidated 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 2022, 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 consolidated financial statements:

- give a true and fair view of the financial position of the Group as at 31 March 2022, and of the Group's financial performance and cash flows for the year then ended;
- are prepared in accordance with International Financial Reporting Standards; 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 the FRC Ethical Standard as required by the Crown Dependencies' Audit Rules and Guidance. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Key audit matters: our assessment of the risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the consolidated 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 consolidated financial statements as a whole, and informing 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 2021):

Valuation of investment properties	**The risk**	**Our response**
£830 million (2021: £665.4 million) Refer to page 87 of the Audit and Risk Committee Report, Note 2 significant accounting policies and Note 13 investment properties disclosures	**Basis:** The Group's investment properties accounted for 93% (2021: 93%) of the Group's total assets as at 31 March 2022. The fair value of investment properties at 31 March 2022 was assessed by the Board of Directors based on independent valuations prepared by the Group's third party independent valuer (the 'Valuer'). **Risk:** 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 in view of the significance of the estimates and judgements that may be involved in the determination of their fair value.	*Our audit procedures included:* **Control Evaluation:** We assessed the design, implementation and operating effectiveness of controls over the valuation of investment properties including 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 – 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 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 consolidated 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.

Independent Auditor's Report to the Members of Picton Property Income Limited continued

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

Materiality for the consolidated financial statements as a whole was set at £8.96 million, determined with reference to a benchmark of group total assets of £895.8 million, of which it represents approximately 1.0% (2021: 1%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole. Performance materiality for the Group was set at 75% (2021: 75%) of materiality for the financial statements as a whole, which equates to £6.72 million. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £447,000, 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.

Going concern

The Directors have prepared the consolidated financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the consolidated financial statements (the 'going concern period').

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group and the Company's business model and analysed how those risks might affect the Group and the Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to affect the Group and the Company's financial resources or ability to continue operations over this period were:

- Availability of capital to meet operating costs and other financial commitments;
- The ability to successfully refinance or repay debt; and
- The ability of the Company to comply with debt covenants

We considered whether these risks could plausibly affect the liquidity in the going concern period by comparing severe, but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources indicated by the Group's financial forecasts.

We considered whether the going concern disclosure in Note 2 to the financial statements gives a full and accurate description of the Directors' assessment of going concern.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the consolidated financial statements is appropriate;
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group and the Company's ability to continue as a going concern for the going concern period; and
- we have nothing material to add or draw attention to in relation to the Directors' statement in the notes to the consolidated financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and the Company's use of that basis for the going concern period, and that statement is materially consistent with the consolidated financial statements and our audit knowledge.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group and the Company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ('fraud risks') we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- enquiring of management as to the Group's policies and procedures to prevent and detect fraud as well as enquiring whether management have knowledge of any actual, suspected or alleged fraud;
- reading minutes of meetings of those charged with governance; and
- using analytical procedures to identify any unusual or unexpected relationships.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because the Group's revenue streams are simple in nature with respect to accounting policy choice, and are easily verifiable to external data sources or agreements with little or no requirement for estimation from management. We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing any identified entries to supporting documentation; and
- incorporating an element of unpredictability in our audit procedures.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the consolidated financial statements from our sector experience and through discussion with management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence, if any, and discussed with management the policies and procedures regarding compliance with laws and regulations. As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

The Group is subject to laws and regulations that directly affect the consolidated financial statements including financial reporting legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

The Group is subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the consolidated financial statements, for instance through the imposition of fines or litigation or impacts on the Group and the Company's ability to operate. We identified financial services regulation as being the area most likely to have such an effect, recognising the regulated nature of the Group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the consolidated financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the consolidated financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remains a higher risk of non-detection of fraud, as this may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Disclosures of emerging and principal risks and longer term viability

We are required to perform procedures to identify whether there is a material inconsistency between the Directors' disclosures in respect of emerging and principal risks and the viability statement, and the consolidated financial statements and our audit knowledge. We have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the Viability assessment and statement (page 110) that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the emerging and principal risks disclosures describing these risks and explaining how they are being managed or mitigated;
- the Directors' explanation in the Viability assessment and statement (page 110) 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.

We are also required to review the Viability assessment and statement, set out on page 110 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the consolidated financial statements and our audit knowledge.

Independent Auditor's Report to the Members of Picton Property Income Limited continued

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the directors' corporate governance disclosures and the consolidated financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the consolidated financial statements and our audit knowledge:

- the Directors' statement that they consider that the annual report and consolidated financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- the section of the annual report describing the work of the Audit Committee, including the significant issues that the audit committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the Company's risk management and internal control systems.

We are required to review the part of Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

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 consolidated 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 111, the Directors are responsible for: the preparation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Company'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 the Company 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 consolidated 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 consolidated 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
25 May 2022

Consolidated statement of comprehensive income
for the year ended 31 March 2022

	Notes	2022 £000	2021 £000
Income			
Revenue from properties	3	**46,543**	43,331
Property expenses	4	**(11,098)**	(9,877)
Net property income		**35,445**	33,454
Expenses			
Administrative expenses	6	**(5,755)**	(5,388)
Total operating expenses		**(5,755)**	(5,388)
Operating profit before movement on investments		**29,690**	28,066
Investments			
Profit on disposal of investment properties	13	**42**	868
Investment property valuation movements	13	**129,801**	12,861
Total profit on investments		**129,843**	13,729
Operating profit		**159,533**	41,795
Financing			
Interest received		**–**	5
Interest paid	8	**(8,502)**	(7,999)
Debt prepayment fees	18	**(4,045)**	–
Total finance costs		**(12,547)**	(7,994)
Profit before tax		**146,986**	33,801
Tax	9	**–**	–
Profit after tax		**146,986**	33,801
Other comprehensive income			
Revaluation of owner-occupied property	14	**434**	–
Total other comprehensive income for the year		**434**	–
Total comprehensive income for the year		**147,420**	33,801
Earnings per share			
Basic	11	**27.0p**	6.2p
Diluted	11	**26.9p**	6.2p

All items in the above statement derive from continuing operations.

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

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

Consolidated statement of changes in equity

for the year ended 31 March 2022

	Notes	Share capital £000	Retained earnings £000	Other reserves £000	Revaluation reserve £000	Total £000
Balance as at 31 March 2020		**164,400**	**345,667**	**(784)**	**–**	**509,283**
Profit for the year		–	33,801	–	–	33,801
Dividends paid	10	–	(15,002)	–	–	(15,002)
Share-based awards		–	–	758	–	758
Purchase of shares held in trust	7	–	–	(643)	–	(643)
Balance as at 31 March 2021		**164,400**	**364,466**	**(669)**	**–**	**528,197**
Profit for the year		–	146,986	–	–	146,986
Dividends paid	10	–	(18,425)	–	–	(18,425)
Share-based awards		–	–	668	–	668
Purchase of shares held in trust	7	–	–	(730)	–	(730)
Other comprehensive income for the year	14	–	–	–	434	434
Balance as at 31 March 2022		**164,400**	**493,027**	**(731)**	**434**	**657,130**

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

Consolidated balance sheet

as at 31 March 2022

	Notes	2022 £000	2021 £000
Non-current assets			
Investment properties	13	**830,027**	665,418
Property, plant and equipment	14	**4,383**	4,111
Total non-current assets		**834,410**	669,529
Current assets			
Accounts receivable	15	**22,850**	19,584
Cash and cash equivalents	16	**38,547**	23,358
Total current assets		**61,397**	42,942
Total assets		**895,807**	712,471
Current liabilities			
Accounts payable and accruals	17	**(19,138)**	(18,805)
Loans and borrowings	18	**(1,068)**	(944)
Obligations under leases	22	**(114)**	(107)
Total current liabilities		**(20,320)**	(19,856)
Non-current liabilities			
Loans and borrowings	18	**(215,764)**	(162,711)
Obligations under leases	22	**(2,593)**	(1,707)
Total non-current liabilities		**(218,357)**	(164,418)
Total liabilities		**(238,677)**	(184,274)
Net assets		**657,130**	528,197
Equity			
Share capital	20	**164,400**	164,400
Retained earnings		**493,027**	364,466
Other reserves		**(731)**	(669)
Revaluation reserve		**434**	–
Total equity		**657,130**	528,197
Net asset value per share	23	**120p**	97p

These consolidated financial statements were approved by the Board of Directors on 25 May 2022 and signed on its behalf by:

Andrew Dewhirst
Director
25 May 2022

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

Consolidated statement of cash flows

for the year ended 31 March 2022

	Notes	2022 £000	2021 £000
Operating activities			
Operating profit		**159,533**	41,795
Adjustments for non-cash items	21	**(129,010)**	(12,964)
Interest received		**–**	5
Interest paid		**(8,102)**	(7,515)
Tax received		**–**	56
Increase in accounts receivable		**(3,305)**	(1,983)
Increase/(decrease) in accounts payable and accruals		**897**	(825)
Cash inflows from operating activities		**20,013**	18,569
Investing activities			
Purchase of investment properties	13	**(25,005)**	–
Capital expenditure on investment properties	13	**(9,551)**	(4,961)
Disposal of investment properties		**726**	3,928
Purchase of tangible assets	14	**(3)**	(268)
Cash outflows from investing activities		**(33,833)**	(1,301)
Financing activities			
Borrowings repaid	18	**(26,917)**	(1,258)
Borrowings drawn	18	**79,545**	–
Debt prepayment fees	18	**(4,045)**	–
Financing costs	18	**(419)**	(574)
Purchase of shares held in trust	7	**(730)**	(643)
Dividends paid	10	**(18,425)**	(15,002)
Cash inflows/(outflows) from financing activities		**29,009**	(17,477)
Net increase/(decrease) in cash and cash equivalents		**15,189**	(209)
Cash and cash equivalents at beginning of year		**23,358**	23,567
Cash and cash equivalents at end of year	16	**38,547**	23,358

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

Notes to the consolidated financial statements

for the year ended 31 March 2022

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 domiciled investment company and entered the UK REIT regime on 1 October 2018. The consolidated financial statements are prepared for the year ended 31 March 2022 with comparatives for the year ended 31 March 2021.

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 the Companies (Guernsey) Law, 2008.

The Directors have assessed whether the going concern basis remains appropriate for the preparation of the financial statements. They have reviewed the Group's principal and emerging risks, existing loan facilities, access to funding and liquidity position and then considered a number of scenarios around different levels of rent collection, (and the potential consequences on financial performance), asset values, capital projects and loan covenants. Under all of these scenarios the Group has sufficient resources to continue its operations, and remain within its loan covenants, for a period of at least 12 months from the date of these financial statements.

Based on their assessment and knowledge of the portfolio and market, the Directors have therefore continued 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.

- Interest Rate Benchmark Reform – Phase 2
- Covid-19 Related Rent Concessions (Amendment to IFRS 16)

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

At the date of approval of these financial statements there are a number of new and amended standards in issue but not yet effective for the financial year ended 31 March 2022 and thus have not been applied by the Group.

- Classification of liabilities as current or non-current (Amendments to IAS 1)
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
- Definition of Accounting Estimate (Amendment to IAS 8)
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment to IFRS 10 and IAS 28)
- Onerous Contracts – Cost of fulfilling a Contract (Amendments to IAS 37)
- Annual Improvements to IFRS Standards 2018-2020

The adoption of these new and amended standards, together with any other IFRSs or IFRIC interpretations that are not yet effective, are not expected to have a material impact on the financial statements of 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 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 judgements and estimates

Judgements made by management in the application of IFRSs that have a significant effect on the financial statements and major sources of estimation uncertainty are disclosed in Note 13.

The critical estimates and assumptions relate to the investment property and owner-occupied property valuations applied by the Group's independent valuer. 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.

Notes to the consolidated financial statements continued

for the year ended 31 March 2022

2. Significant accounting policies continued

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 control 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 Group's assets and liabilities is 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 head 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 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 investment property is derecognised for accounting purposes 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 asset is derecognised. Investment properties are not depreciated.

The majority of the investment properties are charged by way of a first ranking mortgage as security for the loans made to the Group; see Note 18.

2. Significant accounting policies continued

Property, plant and equipment

Owner-occupied property

Owner-occupied property is stated at its revalued amount, which is determined in the same manner as investment property. It is depreciated over its remaining useful life (in this case 40 years) with the depreciation included in administrative expenses. On revaluation, any accumulated depreciation is eliminated against the gross carrying amount of the property concerned, and the net amount restated to the revalued amount. Subsequent depreciation charges are adjusted based on the revalued amount. Any difference between the depreciation charge on the revalued amount and that which would have been charged under historic cost is transferred between the revaluation reserve and retained earnings as the property is used. Any gain arising on this remeasurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in other comprehensive income and presented in the revaluation reserve. Any loss is recognised in profit or loss. However, to the extent that an amount is included in the revaluation surplus for that property, the loss is recognised in other comprehensive income and reduces the revaluation surplus within equity.

Plant and equipment

Plant and equipment is depreciated on a straight-line basis over the estimated useful lives of each item of plant and equipment. The estimated useful lives are between three and five years.

Leases

Where the Group holds interest in investment properties other than as freehold interests (e.g. as a head lease), these are accounted for as right of use assets, which is recognised at its fair value on the Balance Sheet, within the investment property carrying value. Upon initial recognition, a corresponding liability is included as a finance lease liability. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining finance lease liability. Contingent rent payable, being the difference between the rent currently payable and the minimum lease payments when the lease liability was originally calculated, are charged as expenses within property expenditure in the years in which they are payable.

The Group leases its investment properties under commercial property leases which are held as operating leases. An operating lease is a lease other than a finance lease. A finance lease is one whereby substantially all the risks and rewards of ownership are passed to the lessee. Lease income is recognised as 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. 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 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.

Lease incentive payments are amortised on a straight-line basis over the period from the date of lease inception to the end of the lease term and presented within accounts receivable. Lease incentives granted are recognised as a reduction of the total rental income, over the term of the lease.

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 retirement 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.

Notes to the consolidated financial statements continued
for the year ended 31 March 2022

2. Significant accounting policies continued
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, when these are to be 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. Where the awards are equity settled, the fair value is recognised as an expense, with a corresponding increase in equity. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised under the category 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 for accounting purposes, 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, accruals, other creditors, and deferred rental income, which are not interest bearing are stated at their nominal value.

Share capital
Ordinary shares are classified as equity.

Revaluation reserve
Any surplus or deficit arising from the revaluation of owner-occupied property is taken to the revaluation reserve.

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.

2. Significant accounting policies continued

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 related 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.

3. Revenue from properties

	2022 £000	2021 £000
Rents receivable (adjusted for lease incentives)	**40,133**	36,558
Surrender premiums	**59**	202
Dilapidation receipts	**21**	1,195
Other income	**118**	82
Service charge income	**6,212**	5,294
	46,543	43,331

Rents receivable have been adjusted for lease incentives recognised of £2.8 million (2021: £2.0 million).

4. Property expenses

	2022 £000	2021 £000
Property operating costs	**2,477**	2,384
Property void costs	**2,409**	2,199
Recoverable service charge costs	**6,212**	5,294
	11,098	9,877

5. Operating segments

The Board is responsible for setting the Group's strategy and business model. 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 Consolidated 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 47 commercial properties, which are in the industrial, office, retail and leisure sectors.

6. Administrative expenses

	2022 £000	2021 £000
Director and staff costs	**3,415**	3,219
Auditor's remuneration	**206**	206
Other administrative expenses	**2,134**	1,963
	5,755	5,388

Notes to the consolidated financial statements continued
for the year ended 31 March 2022

6. Administrative expenses continued

Auditor's remuneration comprises:	2022 £000	2021 £000
Audit fees:		
Audit of Group financial statements	**92**	92
Audit of subsidiaries' financial statements	**82**	82
Audit-related fees:		
Review of half-year financial statements	**16**	16
	190	190
Non-audit fees:		
Additional controls testing	**16**	16
	16	16
	206	206

7. Director and staff costs

	2022 £000	2021 £000
Wages and salaries	**1,765**	1,724
Non-Executive Directors' fees	**275**	250
Social security costs	**402**	358
Other pension costs	**27**	28
Share-based payments – cash settled	**201**	166
Share-based payments – equity settled	**745**	693
	3,415	3,219

The emoluments of the Directors are set out in detail within the Remuneration Committee report, including the audited totals on page 101.

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 is determined by the movement in the Company's share price and dividends paid over the vesting period. For Executive Directors, awards are equity settled and also vest after two years. On 22 June 2021, awards of 531,108 notional shares were made which vest in June 2023 (2021: 599,534 notional shares). The next awards are due to be made in June 2022 for vesting in June 2024.

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.

Vesting date	Units at 31 March 2020	Units granted in the year	Units cancelled in the year	Units redeemed in the year	Units at 31 March 2021	Units granted in the year	Units cancelled in the year	Units redeemed in the year	Units at 31 March 2022
31 March 2020	242,509	–	–	(242,509)	–	–	–	–	**–**
19 June 2021	438,907	–	–	–	438,907	–	–	(438,907)	**–**
29 June 2022	–	599,534	–	–	599,534	–	–	–	**599,534**
22 June 2023	–	–	–	–	–	531,108	–	–	**531,108**
	681,416	599,534	–	(242,509)	1,038,441	531,108	–	(438,907)	**1,130,642**

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 22 June 2021, awards for a maximum of 1,107,155 shares were granted to employees in respect of the three-year period ending on 31 March 2024. In the previous year, awards of 860,740 shares were made on 29 June 2020 for the period ending 31 March 2023.

7. Director and staff costs continued

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 share 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	**22 June 2021**	29 June 2020
Share price at date of grant	**87.3p**	68.4p
Exercise price	**Nil**	Nil
Expected term	**3 years**	3 years
Risk-free rate – TSR condition	**0.23%**	(0.05)%
Share price volatility – TSR condition	**28.3%**	24.2%
Median volatility of comparator group – TSR condition	**31.8%**	24.5%
Correlation – TSR condition	**29.4%**	37.8%
TSR performance at grant date – TSR condition	**0.3%**	(11.4)%
Median TSR performance of comparator group at grant date – TSR condition	**10.7%**	(10.7)%
Fair value – TSR condition (Monte Carlo method)	**37.7p**	26.7p
Fair value – TPR condition (Black-Scholes model)	**87.3p**	68.4p
Fair value – EPS condition (Black-Scholes model)	**87.3p**	68.4p

The Trustee of the Company's Employee Benefit Trust acquired 750,000 ordinary shares during the year for £730,000 (2021: 958,000 shares for £643,000).

The Group employed nine members of staff at 31 March 2022 (2021: ten). The average number of people employed by the Group for the year ended 31 March 2022 was ten (2021: nine).

8. Interest paid

	2022 £000	2021 £000
Interest payable on loans	**8,134**	7,574
Interest on obligations under finance leases	**129**	114
Non-utilisation fees	**239**	311
	8,502	7,999

The loan arrangement costs incurred to 31 March 2022 are £3,325,000 (2021: £4,590,000). These are amortised over the duration of the loans with £967,000 amortised in the year ended 31 March 2022 and included in interest payable on loans (2021: £531,000).

9. Tax

The charge for the year is:

	2022 £000	2021 £000
Tax expense in year	**–**	–
Total tax charge	**–**	–

Notes to the consolidated financial statements continued

for the year ended 31 March 2022

9. Tax continued

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

	2022 £000	2021 £000
Profit before taxation	**146,986**	33,801
Expected tax charge on ordinary activities at the standard rate of taxation of 19% (2021: 19%)	**27,927**	6,422
Less:		
UK REIT exemption on net income	**(3,257)**	(3,813)
Revaluation movement not taxable	**(24,662)**	(2,444)
Gains on disposal not taxable	**(8)**	(165)
Total tax charge	**–**	–

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 are also required 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.

10. Dividends

	2022 £000	2021 £000
Declared and paid:		
Interim dividend for the period ended 31 March 2020: 0.625 pence	**–**	3,409
Interim dividend for the period ended 30 June 2020: 0.625 pence	**–**	3,410
Interim dividend for the period ended 30 September 2020: 0.7 pence	**–**	3,819
Interim dividend for the period ended 31 December 2020: 0.8 pence	**–**	4,364
Interim dividend for the period ended 31 March 2021: 0.8 pence	**4,365**	–
Interim dividend for the period ended 30 June 2021: 0.85 pence	**4,644**	–
Interim dividend for the period ended 30 September 2021: 0.85 pence	**4,640**	–
Interim dividend for the period ended 31 December 2021: 0.875 pence	**4,776**	–
	18,425	15,002

The interim dividend of 0.875 pence per ordinary share in respect of the period ended 31 March 2022 has not been recognised as a liability as it was declared after the year-end. This dividend of £4,774,000 will be paid on 31 May 2022.

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:

	2022	2021
Net profit attributable to ordinary shareholders of the Company from continuing operations (£000)	**147,420**	33,801
Weighted average number of ordinary shares for basic profit per share	**545,904,197**	545,590,722
Weighted average number of ordinary shares for diluted profit per share	**547,295,589**	546,793,381

12. Investments in subsidiaries

The Company had the following principal subsidiaries as at 31 March 2022 and 31 March 2021:

Name	Place of incorporation	Ownership proportion
Picton UK Real Estate Trust (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 Financing UK Limited	England & Wales	100%
Picton Financing UK (No 2) Limited (established on 28 February 2022)	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 Trust (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.

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.

	2022 £000	2021 £000
Fair value at start of year	**665,418**	654,486
Capital expenditure on investment properties	**9,551**	4,961
Acquisitions	**25,005**	–
Disposals	**(687)**	(3,928)
Transfer to owner-occupied property	**–**	(3,830)
Acquisition of right of use asset	**897**	–
Realised gains on disposal	**42**	868
Unrealised movement on investment properties	**129,801**	12,861
Fair value at the end of the year	**830,027**	665,418
Historic cost at the end of the year	**654,370**	625,359

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

	2022 £000	2021 £000
Appraised value	**849,325**	682,410
Valuation of assets held under head leases	**2,237**	1,313
Owner-occupied property	**(4,168)**	(3,830)
Lease incentives held as debtors	**(17,367)**	(14,475)
Fair value at the end of the year	**830,027**	665,418

The investment properties were valued by independent valuers, CBRE Limited, Chartered Surveyors, as at 31 March 2022 and 31 March 2021 on the basis of fair value in accordance with the version of the RICS Valuation – Global Standards (incorporating the International Valuation Standards) and the UK national supplement (the Red Book) current as at the valuation date. 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.

Notes to the consolidated financial statements continued

for the year ended 31 March 2022

13. Investment properties continued

In addition, the Group's investment properties are valued quarterly by 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 Board will also consider whether 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 2022 and 31 March 2021 all of the Group's properties, including owner-occupied property, are Level 3 in the fair value hierarchy as it involves use of significant judgement. 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, as derived from prices).

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

	2022			2021		
	Office	**Industrial**	**Retail and Leisure**	Office	Industrial	Retail and Leisure
Appraised value (£000)	**251,125**	**509,730**	**88,470**	245,385	360,740	76,285
Area (sq ft, 000s)	**828**	**3,240**	**692**	828	2,570	706
Range of unobservable inputs:						
Gross ERV (sq ft per annum)						
– range	**£10.96 to £82.32**	**£2.82 to £26.77**	**£3.23 to £28.49**	£11.00 to £78.05	£3.75 to £21.18	£3.46 to £29.65
– weighted average	**£35.10**	**£11.47**	**£11.83**	£34.10	£10.39	£11.84
Net initial yield						
– range	**0.92% to 9.00%**	**0.00% to 6.75%**	**3.07% to 25.00%**	0.00% to 7.98%	2.79% to 7.63%	3.07% to 29.58%
– weighted average	**4.64%**	**3.25%**	**7.33%**	4.35%	4.38%	7.64%
Reversionary yield						
– range	**4.29% to 9.63%**	**3.04% to 7.37%**	**6.19% to 12.89%**	4.34% to 10.83%	3.68% to 8.59%	7.01% to 26.95%
– weighted average	**7.00%**	**4.24%**	**7.42%**	7.02%	4.97%	7.95%
True equivalent yield						
– range	**4.09% to 9.95%**	**3.00% to 7.00%**	**6.25% to 13.02%**	4.42% to 9.95%	3.73% to 8.39%	7.80% to 14.03%
– weighted average	**6.49%**	**4.11%**	**7.55%**	6.82%	5.02%	8.99%

An increase/decrease in ERV will increase/decrease valuations, while an increase/decrease to yield decreases/increases valuations. We have reviewed the ranges used in assessing the impact of changes in unobservable inputs on the fair value of the Group's property portfolio and concluded these were still reasonable. The table below sets out the sensitivity of the valuation to changes of 50 basis points in yield.

Sector	Movement	**2022 Impact on valuation**	2021 Impact on valuation
Industrial	Increase of 50 basis points	**Decrease of £55.2m**	Decrease of £36.3m
	Decrease of 50 basis points	**Increase of £69.0m**	Increase of £45.4m
Office	Increase of 50 basis points	**Decrease of £11.9m**	Decrease of £20.3m
	Decrease of 50 basis points	**Increase of £12.5m**	Increase of £24.5m
Retail and Leisure	Increase of 50 basis points	**Decrease of £5.1m**	Decrease of £5.2m
	Decrease of 50 basis points	**Increase of £5.9m**	Increase of £6.7m

14. Property, plant and equipment

Property, plant and equipment principally comprises the fair value of owner-occupied property. The fair value of these premises is based on the appraised value at 31 March 2022.

	Owner Occupied Property £000	Plant and equipment £000	Total £000
At 1 April 2020	–	20	20
Additions	3,830	268	4,098
Depreciation	–	(7)	(7)
Revaluation	–	–	–
At 31 March 2021	**3,830**	**281**	**4,111**
Additions	–	3	3
Depreciation	(96)	(69)	(165)
Revaluation	434	–	434
At 31 March 2022	**4,168**	**215**	**4,383**

15. Accounts receivable

	2022 £000	2021 £000
Tenant debtors (net of provisions for bad debts)	**4,618**	4,326
Lease incentives	**17,367**	14,475
Other debtors	**865**	783
	22,850	19,584

The estimated fair values of receivables are the discounted amount of the estimated future cash flows expected to be received and the approximate value 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 2022, tenant debtors of £302,000 (2021: £1,874,000) were considered impaired and provided for.

16. Cash and cash equivalents

	2022 £000	2021 £000
Cash at bank and in hand	**38,542**	23,353
Short-term deposits	**5**	5
	38,547	23,358

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 to their fair value.

17. Accounts payable and accruals

	2022 £000	2021 £000
Accruals	**4,994**	4,496
Deferred rental income	**8,399**	7,596
VAT liability	**1,638**	1,780
Trade creditors	**357**	596
Other creditors	**3,750**	4,337
	19,138	18,805

Notes to the consolidated financial statements continued
for the year ended 31 March 2022

18. Loans and borrowings

	Maturity	2022 £000	2021 £000
Current			
Aviva facility	–	**1,372**	1,314
Capitalised finance costs	–	**(304)**	(370)
		1,068	944
Non-current			
Canada Life facility	24 July 2031	**129,045**	80,000
Aviva facility	24 July 2032	**83,518**	84,894
NatWest revolving credit facility	26 May 2025	**4,900**	–
Capitalised finance costs	–	**(1,699)**	(2,183)
		215,764	162,711
		216,832	163,655

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

	2022 £000	2021 £000
Balance at start of year	**163,655**	165,136
Changes from financing cash flows		
Proceeds from loans and borrowings	**79,545**	–
Repayment of loans and borrowings	**(26,917)**	(1,258)
Financing costs paid	**(419)**	(574)
	52,209	(1,832)
Other changes		
Amortisation of financing costs	**967**	531
Change in accrued financing costs	**1**	(180)
	968	351
Balance as at 31 March	**216,832**	163,655

The Group has refinanced its existing loan facility with Canada Life increasing borrowings to £129.0 million and extending the maturity date until July 2031. Interest is now fixed at 3.25% (previously 4.08%) over the remaining life of the loan. A debt prepayment fee of £4.0 million was incurred during the year to reset the interest rate on the existing debt. 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 £415.2 million (2021: £330.0 million).

Additionally, the Group has a £95.3 million term loan facility with Aviva Commercial Finance Limited which matures in July 2032. The loan is for a term of 20 years and was fully drawn on 24 July 2012 with approximately one-third repayable over the life of the loan in accordance with a scheduled amortisation profile. The Group has repaid £1.3 million in the year (2021: £1.3 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 £208.1 million (2021: £184.9 million).

The Group also has a £50 million revolving credit facility ('RCF') with National Westminster Bank Plc which matures in May 2025. There is currently £4.9 million drawn under the facility, interest is charged at 150 basis points over SONIA from 20 January 2022 (previously 150 basis points over LIBOR) on drawn balances and there is an undrawn commitment fee of 60 basis points. The facility is secured on properties held by Picton UK Real Estate Trust (Property) Limited, valued at £163.2 million (2021: £131.7 million).

The fair value of the drawn loan facilities at 31 March 2022, estimated as the present value of future cash flows discounted at the market rate of interest at that date, was £225.6 million (2021: £187.2 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 2022 was 3.7% (2021: 4.2%).

19. Contingencies and capital commitments

The Group has entered into contracts for the refurbishment of six properties with commitments outstanding at 31 March 2022 of approximately £2.4 million (2021: £6.7 million). No further obligations to construct or develop investment property or for repairs, maintenance or enhancements were in place as at 31 March 2022 (2021: £nil).

20. Share capital and other reserves

	2022 £000	2021 £000
Authorised:		
Unlimited number of ordinary shares of no par value	**–**	–
Issued and fully paid:		
547,605,596 ordinary shares of no par value (31 March 2021: 547,605,596)	**–**	–
Share premium	**164,400**	164,400

The Company has 547,605,596 ordinary shares in issue of no par value (2021: 547,605,596).

No new ordinary shares were issued during the year ended 31 March 2022.

	2022 Number of shares	2021 Number of shares
Ordinary share capital	**547,605,596**	547,605,596
Number of shares held in Employee Benefit Trust	**(1,974,253)**	(2,052,269)
Number of ordinary shares	**545,631,343**	545,553,327

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 1,974,253 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.

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

	2022 £000	2021 £000
Profit on disposal of investment properties	**(42)**	(868)
Movement in investment property valuation	**(129,801)**	(12,861)
Share-based provisions	**668**	758
Depreciation of tangible assets	**165**	7
	(129,010)	(12,964)

Notes to the consolidated financial statements continued

for the year ended 31 March 2022

22. Obligations under leases

The Group has entered into a number of head 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.

Lease liabilities in respect of rents on leasehold properties were payable as follows:

	2022 £000	2021 £000
Future minimum payments due:		
Within one year	**185**	116
In the second to fifth years inclusive	**740**	466
After five years	**9,083**	7,150
	10,008	7,732
Less: finance charges allocated to future periods	**(7,301)**	(5,918)
Present value of minimum lease payments	**2,707**	1,814

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

	2022 £000	2021 £000
Current		
Within one year	**114**	107
	114	107
Non-current		
In the second to fifth years inclusive	**410**	379
After five years	**2,183**	1,328
	2,593	1,707
	2,707	1,814

Operating leases where the Group is lessor

The Group leases its investment properties under commercial property leases which are held as operating leases.

At the reporting date, the Group's future income based on the unexpired lease length was as follows (based on annual rentals):

	2022 £000	2021 £000
Within one year	**41,928**	37,744
One to two years	**39,244**	33,954
Two to three years	**35,416**	32,008
Three to four years	**29,972**	27,937
Four to five years	**24,748**	23,235
After five years	**99,788**	91,294
	271,096	246,172

These properties are measured under the fair value model as the properties are held to earn rentals. Commercial property leases typically have lease terms between five and ten years and include clauses to enable periodic upward revision of the rental charge according to prevailing market conditions. Some leases contain options to break before the end of the lease term.

23. Net asset value

The net asset value per share calculation uses the number of shares in issue at the year-end and excludes the actual number of shares held by the Employee Benefit Trust at the year-end; see Note 20.

24. Financial instruments

The Group's financial instruments comprise cash and cash equivalents, accounts receivable, secured loans, obligations under head leases and accounts payable that arise from its operations. The Group does not have exposure to any derivative financial instruments. Apart from the secured loans, as disclosed in Note 18, the fair value of the financial assets and liabilities is not materially different from their carrying value in the financial statements.

Categories of financial instruments

31 March 2022	Notes	**Held at fair value through profit or loss £000**	**Financial assets and liabilities at amortised cost £000**	**Total £000**
Financial assets				
Debtors	15	**–**	**5,483**	**5,483**
Cash and cash equivalents	16	**–**	**38,547**	**38,547**
		–	**44,030**	**44,030**
Financial liabilities				
Loans and borrowings	18	**–**	**216,832**	**216,832**
Obligations under head leases	22	**–**	**2,707**	**2,707**
Creditors and accruals	17	**–**	**9,101**	**9,101**
		–	**228,640**	**228,640**

31 March 2021	Notes	Held at fair value through profit or loss £000	Financial assets and liabilities at amortised cost £000	Total £000
Financial assets				
Debtors	15	–	5,109	5,109
Cash and cash equivalents	16	–	23,358	23,358
		–	28,467	28,467
Financial liabilities				
Loans and borrowings	18	–	163,655	163,655
Obligations under head leases	22	–	1,814	1,814
Creditors and accruals	17	–	9,429	9,429
		–	174,898	174,898

25. Risk management

The Group invests in commercial properties in the United Kingdom. The following describes the risks involved and the risk management framework applied by the Group. 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 optimising its capital structure. The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The capital structure of the Group consists of debt, as disclosed in Note 18, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves, retained earnings and revaluation reserve. The Group is not subject to any external capital requirements.

The Group monitors capital on the basis of its gearing ratio. This ratio is calculated as the principal borrowings outstanding, as detailed under Note 18, divided by the gross assets. There is a limit of 65% as set out in the Articles of Association of the Company. Gross assets are calculated as non-current and current assets, as shown in the Consolidated Balance Sheet.

Notes to the consolidated financial statements continued

for the year ended 31 March 2022

25. Risk management continued

At the reporting date the gearing ratios were as follows:

	2022 £000	2021 £000
Total borrowings	**218,835**	166,208
Gross assets	**895,807**	712,471
Gearing ratio (must not exceed 65%)	**24.4%**	23.3%

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 with different maturities, which will enable the Group to manage its borrowings in an orderly manner over the long-term. The Group also has a revolving credit facility which provides greater flexibility in managing the level of borrowings.

The Group's net debt to equity ratio at the reporting date was as follows:

	2022 £000	2021 £000
Total liabilities	**238,677**	184,274
Less: cash and cash equivalents	**(38,547)**	(23,358)
Net debt	**200,130**	160,916
Total equity	**657,130**	528,197
Net debt to equity ratio at end of year	**0.30**	0.30

Credit risk

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

31 March 2022	Notes	Held at fair value through profit or loss £000	Financial assets and liabilities at amortised cost £000	Total £000
Financial assets				
Tenant debtors	15	–	**4,618**	**4,618**
Cash and cash equivalents	16	–	**38,547**	**38,547**
		–	**43,165**	**43,165**

31 March 2021	Notes	Held at fair value through profit or loss £000	Financial assets and liabilities at amortised cost £000	Total £000
Financial assets				
Tenant debtors	15	–	4,326	4,326
Cash and cash equivalents	16	–	23,358	23,358
		–	27,684	27,684

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 to and credit ratings of, its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Tenant 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 tenant debtors and, where appropriate, credit guarantees or rent deposits are acquired. 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 Group does not have any significant concentration risk whether in terms of 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 strong credit ratings assigned by international credit rating agencies.

25. Risk management continued

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk. The Board continues to monitor the Group's overall exposure to credit risk.

The Group has a panel of banks with which it makes deposits, based on credit ratings assigned by international credit rating agencies and with set counterparty limits that are reviewed regularly. The Group's main cash balances are held with National Westminster Bank Plc ('NatWest'), Nationwide International Limited ('Nationwide') and Lloyds Bank Plc ('Lloyds'). 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, Nationwide and Lloyds are rated by all the major rating agencies. If the credit quality of any of these banks were to deteriorate, the Group would look to move the relevant 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 2022 and at 31 March 2021, Standard & Poor's short-term credit rating for each of the Group's bankers were A-1.

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 put in place 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, loan maturity profiles 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 2022	Less than 1 year £000	1 to 5 years £000	More than 5 years £000	Total £000
Cash and cash equivalents	**38,547**	**–**	**–**	**38,547**
Debtors	**5,483**	**–**	**–**	**5,483**
Capitalised finance costs	**304**	**934**	**765**	**2,003**
Obligations under head leases	**(185)**	**(740)**	**(9,083)**	**(10,008)**
Fixed interest rate loans	**(8,524)**	**(37,049)**	**(242,891)**	**(288,464)**
Floating interest rate loans	**(113)**	**(5,031)**	**–**	**(5,144)**
Creditors and accruals	**(9,101)**	**–**	**–**	**(9,101)**
	26,411	**(41,886)**	**(251,209)**	**(266,684)**

31 March 2021	Less than 1 year £000	1 to 5 years £000	More than 5 years £000	Total £000
Cash and cash equivalents	23,358	–	–	23,358
Debtors	5,109	–	–	5,109
Capitalised finance costs	370	1,355	828	2,553
Obligations under head leases	(116)	(466)	(7,150)	(7,732)
Fixed interest rate loans	(8,332)	(33,329)	(184,927)	(226,588)
Floating interest rate loans	(300)	(346)	–	(646)
Creditors and accruals	(9,429)	–	–	(9,429)
	10,660	(32,786)	(191,249)	(213,375)

The Group expects to meet its financial liabilities through the various available liquidity sources, including a secure rental income profile, asset sales, undrawn committed borrowing facilities and, in the longer-term, debt refinancing.

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 costs and capital expenditure, the Group's operating performance 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.

Notes to the consolidated financial statements continued

for the year ended 31 March 2022

25. Risk management continued

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 investment in real estate (such as external financing costs 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 mitigate the risk profile of the portfolio effectively. 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 £42.5 million (2021: £34.1 million).

Interest rate risk management

Interest rate risk arises on interest payable on the revolving credit facility only. The Group's senior debt facilities have fixed interest rates over the terms of the loans. The amount drawn under the revolving credit facility makes up a small proportion of the overall debt, therefore the Group has limited exposure to interest rate risk on 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 2022	**Less than 1 year £000**	**1 to 5 years £000**	**More than 5 years £000**	**Total £000**
Floating				
Cash and cash equivalents	**38,547**	**–**	**–**	**38,547**
Secured loan facilities	**–**	**(4,900)**	**–**	**(4,900)**
Fixed				
Secured loan facilities	**(1,372)**	**(6,127)**	**(206,436)**	**(213,935)**
Obligations under leases	**(114)**	**(410)**	**(2,183)**	**(2,707)**
	37,061	**(11,437)**	**(208,619)**	**(182,995)**

31 March 2021	Less than 1 year £000	1 to 5 years £000	More than 5 years £000	Total £000
Floating				
Cash and cash equivalents	23,358	–	–	23,358
Fixed				
Secured loan facilities	(1,314)	(5,867)	(159,027)	(166,208)
Obligations under leases	(107)	(379)	(1,328)	(1,814)
	21,937	(6,246)	(160,355)	(144,664)

Concentration risk

As discussed above, all of the Group's investments are in the UK and therefore the Group is exposed to macroeconomic changes in the UK economy. Furthermore, the Group derives its rental income from around 400 occupiers with the single largest occupier accounting for only 5.0% of the Group's annual contracted rental income.

Currency risk

The Group has no exposure to foreign currency risk.

26. Related party transactions

The total fees earned during the year by the Non-Executive Directors of the Company amounted to £275,000 (2021: £250,000). As at 31 March 2022, the Group owed £nil to the Non-Executive Directors (2021: £nil).

Picton Property Income Limited has no controlling parties.

27. Events after the Balance Sheet date

A dividend of £4,774,000 (0.875 pence per share) was approved by the Board on 26 April 2022 and will be paid on 31 May 2022.

The Group has completed on the acquisition of one property for £13.7 million.

Supplementary disclosures (unaudited)

for the year ended 31 March 2022

The European Public Real Estate Association (EPRA) is the industry body representing listed companies in the real estate sector. EPRA publishes Best Practices 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.

	2022 £000	2021 £000	2020 £000
Profit for the year after taxation	**146,986**	33,801	22,508
Exclude:			
Investment property valuation movement	**(129,801)**	(12,861)	882
Gains on disposal of investment properties	**(42)**	(868)	(3,478)
Debt prepayment fees	**4,045**	–	–
EPRA earnings	**21,188**	20,072	19,912
Weighted average number of shares in issue (000s)	**545,904**	545,591	544,193
EPRA earnings per share	**3.9p**	3.7p	3.7p

EPRA NRV per share

The EPRA net reinstatement value measure highlights the value of net assets on a long-term basis. 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 are therefore excluded. Since the aim of the metric is to also reflect what would be needed to recreate the Company through the investment market based on its current capital and financing structure, related costs such as real estate transfer taxes should be included.

	2022 £000	2021 £000	2020 £000
Balance Sheet net assets	**657,130**	528,197	509,283
Purchasers' costs	**57,449**	46,029	44,847
Fair value of debt	**–**	–	–
Deferred tax	**–**	–	–
EPRA NRV	**714,579**	574,226	554,130
Shares in issue (000s)	**545,631**	545,553	545,502
EPRA NRV per share	**131p**	105p	102p

EPRA NTA per share

The EPRA net tangible assets calculation assumes entities buy and sell assets, thereby crystallising certain levels of deferred tax liability. EPRA NTA is regarded as the most relevant metric for the business as this focuses on reflecting a company's tangible assets.

	2022 £000	2021 £000	2020 £000
Balance Sheet net assets	**657,130**	528,197	509,283
Fair value of financial instruments	**–**	–	–
Deferred tax	**–**	–	–
EPRA NTA	**657,130**	528,197	509,283
Shares in issue (000s)	**545,631**	545,553	545,502
EPRA NTA per share	**120p**	97p	93p

Supplementary disclosures (unaudited) continued

for the year ended 31 March 2022

EPRA NDV per share

The EPRA net disposal value shows the impact to shareholder value if company assets are sold and/or liabilities are not held until maturity.

	2022 £000	2021 £000	2020 £000
Balance Sheet net assets	**657,130**	528,197	509,283
Fair value of debt	**(6,766)**	(21,012)	(29,569)
EPRA NDV	**650,364**	507,185	479,714
Shares in issue (000s)	**545,631**	545,553	545,502
EPRA NDV per share	**119p**	93p	88p

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.

	2022 £000	2021 £000	2020 £000
Investment property valuation	**849,325**	682,410	664,615
Allowance for estimated purchasers' costs	**57,449**	46,029	44,847
Gross up property portfolio valuation	**906,774**	728,439	709,462
Annualised cash passing rental income	**38,676**	36,504	36,236
Property outgoings	**(1,721)**	(1,860)	(2,017)
Annualised net rents	**36,955**	34,644	34,219
EPRA net initial yield	**4.1%**	4.8%	4.8%

EPRA 'topped-up' net initial yield

The EPRA 'topped-up' NIY is calculated by making an adjustment to the EPRA NIY in respect of the expiration of rent-free periods (or other unexpired lease incentives such as discounted rent periods and step rents).

	2022 £000	2021 £000	2020 £000
EPRA NIY annualised net rents	**36,955**	34,644	34,219
Annualised cash rent that will apply at expiry of lease incentives	**6,415**	5,411	3,910
Topped-up annualised net rents	**43,370**	40,055	38,129
EPRA 'topped-up' NIY	**4.8%**	5.5%	5.4%

EPRA vacancy rate

The EPRA vacancy rate is the estimated rental value (ERV) of vacant space divided by the ERV of the whole property, expressed as a percentage.

	2022 £000	2021 £000	2020 £000
Annualised potential rental value of vacant premises	**3,594**	3,980	5,179
Annualised potential rental value for the complete property portfolio	**49,776**	45,357	45,224
EPRA vacancy rate	**7.2%**	8.8%	11.5%

EPRA cost ratio

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

	2022 £000	2021 £000	2020 £000
Property operating costs	**2,477**	2,384	2,293
Property void costs	**2,409**	2,199	3,005
Administrative expenses	**5,755**	5,388	5,563
Less:			
Ground rent costs	**(283)**	(207)	(259)
EPRA costs (including direct vacancy costs)	**10,358**	9,764	10,602
Property void costs	**(2,409)**	(2,199)	(3,005)
EPRA costs (excluding direct vacancy costs)	**7,949**	7,565	7,597
Gross rental income	**40,133**	36,558	37,780
Less ground rent costs	**(283)**	(207)	(259)
Gross rental income	**39,850**	36,351	37,521
EPRA cost ratio (including direct vacancy costs)	**26.0%**	26.9%	28.3%
EPRA cost ratio (excluding direct vacancy costs)	**19.9%**	20.8%	20.2%

Capital expenditure

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

	2022 £000	2021 £000
Acquisitions	**25,005**	–
Development	**–**	–
Like-for-like portfolio	**9,551**	4,961
Other	**–**	–
Total capital expenditure	**34,556**	4,961

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	
	2022 £000	2021 £000	**2022 £000**	2021 £000	**2022 £000**	2021 £000	**2022 £000**	2021 £000
Like-for-like rental income	**14,363**	13,720	**17,400**	16,254	**7,752**	6,124	**39,515**	36,098
Properties acquired	**–**	–	**523**	–	**–**	–	**523**	–
Properties sold	**–**	(1)	**–**	–	**95**	461	**95**	460
	14,363	13,719	**17,923**	16,254	**7,847**	6,585	**40,133**	36,558

Supplementary disclosures (unaudited) continued
for the year ended 31 March 2022

Loan to value
The loan to value ratio (LTV) is calculated by taking the Group's total borrowings, net of cash, as a percentage of the total portfolio value.

	2022 £000	2021 £000	2020 £000
Total borrowings	**218,835**	166,207	167,465
Less:			
Cash and cash equivalents	**(38,547)**	(23,358)	(23,567)
Total net borrowings	**180,288**	142,849	143,898
Investment property valuation	**849,325**	682,410	664,615
Loan to value	**21.2%**	20.9%	21.7%

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.

	2022 £000	2021 £000	2020 £000
Administrative expenses	**5,755**	5,388	5,563
Average net asset value over the year	**598,022**	514,574	511,868
Cost ratio	**1.0%**	1.0%	1.1%

Property portfolio

Properties valued in excess of £100 million

– Parkbury Industrial Estate, Radlett, Herts.

Properties valued between £50 million and £75 million

– River Way Industrial Estate, River Way, Harlow, Essex

Properties valued between £30 million and £50 million

– Datapoint, Cody Road, London E16
– Lyon Business Park, Barking, Essex
– Stanford Building, Long Acre, London WC2
– Express Business Park, Shipton Way, Rushden, Northants.
– Angel Gate, City Road, London EC1

Properties valued between £20 million and £30 million

– Tower Wharf, Cheese Lane, Bristol
– 50 Farringdon Road, London EC1
– Sundon Business Park, Dencora Way, Luton, Beds.
– 30 & 50 Pembroke Court, Chatham, Kent
– Nonsuch Industrial Estate, Kiln Lane, Epsom, Surrey
– The Business Centre, Molly Millars Lane, Wokingham, Berks.
– Grantham Book Services, Trent Road, Grantham, Lincs.

Properties valued between £10 million and £20 million

– Colchester Business Park, The Crescent, Colchester, Essex
– Metro, Salford Quays, Manchester
– B&Q, Queens Road, Sheffield
– Parc Tawe North Retail Park, Link Road, Swansea
– Vigo 250, Birtley Road, Washington, Tyne and Wear
– 180 West George Street, Glasgow
– Gloucester Retail Park, Eastern Avenue, Gloucester
– Madleaze Trading Estate, Bristol Road, Gloucester
– 401 Grafton Gate East, Milton Keynes, Bucks.
– Easter Court, Europa Boulevard, Warrington
– Swiftbox, Haynes Way, Rugby, Warwickshire
– Units 1 & 2, Kettlestring Lane, York
– Mill Place Trading Estate, Bristol Road, Gloucester
– Units 1 & 2, Western Industrial Estate, Downmill Road, Bracknell, Berks.

Properties valued between £5 million and £10 million

– Angouleme Retail Park, George Street, Bury, Greater Manchester
– Trident House, Victoria Street, St Albans, Herts.
– Longcross, Newport Road, Cardiff
– Queens House, St Vincent Place, Glasgow
– Regency Wharf, Broad Street, Birmingham
– Atlas House, Third Avenue, Marlow, Bucks.
– Thistle Express, The Mall, Luton, Beds.
– Sentinel House, Harvest Crescent, Fleet, Hants.

Properties valued under £5 million

– Scots Corner, High Street, Kings Heath, Birmingham
– Crown & Mitre Complex, English Street, Carlisle, Cumbria
– Waterside House, Kirkstall Road, Leeds
– Abbey Business Park, Mill Road, Newtownabbey, Belfast
– 53-57 Broadmead, Bristol
– Magnet Trade Centre, 6 Kingstreet Lane, Winnersh, Reading
– 78-80 Briggate, Leeds
– 17-19 Fishergate, Preston, Lancs.
– 72-78 Murraygate, Dundee
– 7-9 Warren Street, Stockport
– 6-12 Parliament Row, Hanley, Staffs.

Five year financial summary

	2022	2021	2020	2019	2018
Income statements					
Net property income	**35.4**	33.5	33.6	38.3	38.5
Administrative expenses	**(5.7)**	(5.4)	(5.6)	(5.6)	(5.3)
Exceptional costs	**–**	–	–	(0.2)	(0.3)
	29.7	28.1	28.0	32.5	32.9
Net finance costs	**(8.5)**	(8.0)	(8.2)	(9.1)	(9.7)
Income profit before tax	**21.2**	20.1	19.8	23.4	23.2
Tax	**–**	–	0.1	(0.5)	(0.5)
Income profit	**21.2**	20.1	19.9	22.9	22.7
Property gains and losses	**129.8**	13.7	2.6	11.3	41.5
Revaluation of owner-occupied property	**0.4**	–	–	–	–
Debt prepayment fee	**(4.0)**	–	–	(3.2)	–
Profit/loss after tax	**147.4**	33.8	22.5	31.0	64.2
Dividends paid	**18.4**	15.0	19.0	18.9	18.5

	2022	2021	2020	2019	2018
Balance Sheets					
Investment properties	**830.0**	665.4	654.5	676.1	670.7
Borrowings	**(216.8)**	(166.2)	(167.5)	(194.7)	(214.0)
Other assets and liabilities	**43.9**	29.0	22.3	18.0	30.7
Net assets	**657.1**	528.2	509.3	499.4	487.4
Net asset value per share (pence)	**120**	97	93	93	90
EPRA net tangible asset per share (pence)	**120**	97	93	93	90
Earnings per share (pence)	**27.0**	6.2	4.1	5.7	11.9
Dividends per share (pence)	**3.4**	2.8	3.5	3.5	3.4
Dividend cover (%)	**115**	134	105	122	122
Share price (pence)	**98.3**	85.8	89.0	89.2	84.3

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 tenant, relieving the landlord from all liability for the cost of insurance and repairs.
Group	Picton Property Income Limited and its subsidiaries.
IASB	International Accounting Standards Board.
IFRS	International Financial Reporting Standards.
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.
MEES	Minimum Energy Efficiency Standards.
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.
Property income return	The ungeared income return of the portfolio as calculated by MSCI.
Reversionary yield	The estimated rental value as a percentage of the gross property value.
TCFD	Task Force on Climate-related Financial Disclosures.
Total property return	Combined income and capital return from the property portfolio.
Total return	The change in the Group's net asset value, in accordance with IFRS, plus dividends paid.
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	26 May 2022
Annual results posted to shareholders	June 2022
June 2022 NAV announcement	July 2022
Annual General Meeting	September 2022
2022 half-year results to be announced	November 2022
December 2022 NAV announcement	January 2023
Dividend payment dates	August/November/February/May

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Andrew Dewhirst
Richard Jones
Michael Morris

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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 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

Notes

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