PICTON

PICTON PROPERTY INCOME LIMITED

Annual Report 2015

OCCUPIER FOCUSED
OPPORTUNITY LED

WELCOME TO OUR 2015 ANNUAL REPORT

WHO WE ARE

Picton Property Income Limited is an income focused, internally managed investment company, which invests in commercial property across the United Kingdom. Established in 2005, Picton has a main market listing on the London Stock Exchange.

The portfolio is predominantly invested in the office and industrial sectors (72%) and is biased towards London and the South East (60%). We invest in assets where we believe there are opportunities to enhance either income or value and this is primarily achieved by providing space that meets our occupiers' requirements.

OUR STRUCTURE

The Board of Picton Property Income Limited is fully responsible for the direction and control of the Company, including **investment policy** and **strategy**.

Picton Capital Limited, a wholly owned subsidiary company, is the investment manager to the Group and implements investment policy once determined by the Board. Our investment management team comprises 12 permanent employees and includes six property professionals, three qualified accountants and three further support employees. The team's **entrepreneurial leadership style and complementary set of skills** enable them to implement effective investment policies and strategies that drive sustainable long-term growth. The team is led by its Chief Executive, Michael Morris, and his review of the year is set out on pages 18 and 19.

One of the benefits of the Company's structure is that management costs are not linked to the size of the Company, which is unlike most traditional investment companies. This means that, with growth, the Company benefits from increasing economies of scale, which in turn enhance returns for investors.

Read more about **Our Business Model** on page 6

We have recently relaunched our website aiming to improve our communication with all our stakeholders. We hope you like the new site and would value your feedback. Please send your comments to:

enquiries@picton.co.uk

Why invest in us?

Our investment objective is to provide shareholders with an attractive level of income, together with the potential for capital growth, by investing in the principal commercial property sectors.

We have a portfolio of UK commercial property valued at £541 million, comprising 57 assets with around 400 occupiers. We differentiate Picton from its peer group by:

1. Offering diversified exposure to the UK commercial property market.
2. Having one of the highest and fully covered dividend yields within the sector and significantly ahead of the UK REIT average.
3. Utilising gearing to enhance returns over the long term.
4. Actively managing our assets with an occupier focused and opportunity led approach. This has continued to deliver outperformance at a portfolio level, ahead of the IPD Quarterly Benchmark.
5. Having an internalised management structure creating alignment with shareholders and generating economies of scale through growth.

Picton and EPRA best practice recommendations

The European Public Real Estate Association's (EPRA) mission is to promote, develop and represent the European public real estate sector.

EPRA provides effective and continuous leadership in matters of common interest by publishing research and encouraging discussion of issues impacting the property industry, both within the membership and with a wide range of stakeholders, including the EU institutions, governmental and regulatory bodies and business partners.

We support EPRA's drive to bring parity to the comparability and quality of information provided to investors and other key stakeholders of this Report. With this in mind, for our 2015 Report we have aimed to allow our audience to navigate to key areas of narrative in the Report and have highlighted these areas within our Report using the EPRA logo to aid identification.

The six key performance measures are set out on page 5, with supporting calculations and further disclosures, including sustainability measures, on pages 94 to 98. We have also highlighted other specific metrics throughout the Report.

EPRA

aic We are a member of the Association of Investment Companies (AIC).

Strategic Report

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Other Information

Look out for these icons:

Read more information in this Report

Visit **www.picton.co.uk** for more details

Chairman's statement

“As a business we have continued with our occupier focused, opportunity led approach. We are invested across the UK commercial property market, both geographically and by sector.”

“We are fortunate to have a talented team of committed individuals that have helped drive success over the last 12 months.”

Another year of considerable progress

During the last financial year, we have made considerable progress and delivered strong returns for shareholders. Our profit for the year was £69 million, the largest we have reported since 2006. For the 12 months to 31 March 2015, we have delivered a total return of 27%, while the return to shareholders was 32%.

At a portfolio level we have grown occupancy from 91% to 95%, which reflects the improving occupier market and a continuation of our occupier focused strategy, and has helped contribute to another year of outperformance against the IPD Quarterly Benchmark.

Our growth this year has allowed us to benefit from efficiencies created by the Company's internalised management structure, which have resulted in our Ongoing Charges ratio falling significantly, by 29%, from 1.7% to 1.2%.

I believe the success of our overall strategy has been demonstrated by the results this year and the shareholder support for our Placing Programme, which together have contributed to a £170 million increase in our market capitalisation.

Our strategy

As a business we have continued with our occupier focused, opportunity led approach. We are invested across the UK commercial property market, both geographically and by sector.

Our strategy enables us to acquire and dispose of assets on a selective basis, looking to exploit mis-pricing in the market and providing flexibility to acquire assets in better value sectors. We have taken advantage of a tightening market and a limited supply of suitable investments to make a number of selective disposals, having completed previously identified asset management initiatives, which have further enhanced performance.

Our use of debt has again enhanced our returns and the property portfolio continues to provide a yield higher than our cost of debt. During the year we established a revolving credit facility, which provides us with greater flexibility as we look ahead to the maturity of our zero dividend preference shares next year, and further details are provided in the Financial Review.

Successful placing programme

In May last year, we established a Placing Programme to raise new equity with the aim of investing this in the portfolio and a re-priced property market. This has enabled us to take advantage of opportunities arising in the market, and the improving economic conditions.

During the year we successfully raised £102 million, utilising the majority of the Placing Programme. We have acquired five assets, investing £62 million, with a further £20 million committed following the financial year end.

Growing and diversifying our portfolio

The property portfolio has increased in value by 28% to £541 million over the past 12 months, taking into account both valuation gains and the impact of new acquisitions. Sector weightings remain broadly similar and the Company continued to be overweight to the industrial sector, whilst remaining underweight to retail, relative to the IPD Quarterly Benchmark. Whilst we have continued to make acquisitions, we have taken advantage of improved market liquidity to dispose of a number of non-core assets. This has led to an increase in the average lot size within the portfolio, from £7.4 million to £9.5 million.

Find out more:

How our **Investment Management Team** are implementing our strategy on pages 18 to 19

Read about **Our Business Model** on page 6

How we are **Measuring our performance** on pages 20 and 21

Governance

During the year, Trust Associates was commissioned to carry out an independent evaluation of Picton's Board. In addition to concluding that the Board was operating effectively, Trust Associates recognised the length of service of a number of the Directors and made a recommendation that the Board should expedite further its provisions for succession planning. As a result, a Nominations Committee has been created to formalise our plan for Board succession. At the same time it has been agreed that Trevor Ash will stand down from the Board in September 2015, ahead of the forthcoming Annual General Meeting. On behalf of the Board I would like to thank Trevor for his longstanding and valuable service to the Company. I am pleased to announce that it is our intention that Michael Morris, the Chief Executive of Picton Capital Limited, will join the Board as a non-executive director from 1 October 2015.

I would also like to thank shareholders for their overwhelming support for the resolutions at last year's Annual General Meeting. The next Annual General Meeting will take place in November and details will be provided in due course.

We have noted that a number of our immediate peers have adopted UK REIT status. This is an issue that we continue to keep under review, but have no immediate plans to change the Company's position.

Dividends and income

Income is a significant factor for the Company and its shareholders, and we are pleased to remain one of the higher yielding, fully covered property investment companies. Our EPRA earnings increased by £2 million to £15.3 million, and our dividend cover remained at a healthy 117%.

I am very pleased to be able to report that we have been able to increase the dividend following the year end. This reflects the success we have had over recent years and also the more favourable conditions in which we are now operating.

The increase of 10% means that the current annualised dividend is 3.3 pence per annum and, based on the share price of 70.75 pence on 5 June, reflects a dividend yield of 4.7%.

Our dedicated team

We are fortunate to have a talented team of committed individuals that have helped drive success over the last 12 months. Whilst we have grown net assets by over 70%, we have only needed to recruit one further asset manager, again demonstrating the benefits of our internalised management structure. The investment management team is entirely focused on Picton, and has complete alignment with the interests of our shareholders.

The team is partly remunerated though our Long Term Incentive Plan, linked to the Company's share price, and we believe this alignment of interests is fundamental to our success.

Outlook

During the last 12 months we have seen a marked positive rebound within the commercial property market. We view the improvement in occupier markets and general economic sentiment positively, especially given the backdrop of increasingly tight supply. Whilst we expect another year of double digit returns for UK commercial property in 2015, we expect the rate of growth to be lower than in 2014.

We believe our ability to invest across the whole UK market will enable us to continue to take advantage of attractive investment opportunities and accretive asset management transactions. I believe we are well placed, recognising our diverse portfolio and bias towards the office and industrial sectors, and we remain confident about our prospects.

Nicholas Thompson
Chairman
8 June 2015

Increase in EPRA NAV per share
23.2%

Total property return
19.0%

Total shareholder return
32.3%

Total Return (%)

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2015 Highlights

Property Assets net of lease incentives (£m)

£532.9m

2015	**532.9**
2014	**417.6**
2013	**382.7**

Profit after Tax (£m)

£68.9m

2015	**68.9**
2014	**37.3**
2013	**(14.6)**

Dividends per Share (p)

3.0p

2015	**3.0**
2014	**3.0**
2013	**3.5**

Net Assets (£m)

£370m

2015	**370.0**
2014	**214.1**
2013	**169.4**

NAV per Share (p)

69.0p

2015	**69.0**
2014	**56.0**
2013	**49.0**

Earnings per Share (p)

15.4p

2015	**15.4**
2014	**10.4**
2013	**(4.2)**

Dividend Cover (%)

117%

2015	**117**
2014	**124**
2013	**122**

Total Shareholder Return (%)

32.3%

2015	**32.3**
2014	**50.2**
2013	**6.2**

Total Return (%)

27.4%

2015	**27.4**
2014	**21.6**
2013	**(7.6)**

Financial highlights

- Profit for the year of £68.9 million
- Total return of 27.4%
- Growth in net assets by 73% to £370 million
- Increase in EPRA NAV per share of 23%, to 69 pence per share
- Reduction in net gearing to 30.1%
- Established new three year revolving credit facility of £26 million
- £102 million of new equity raised through a Placing Programme
- Reduction in Ongoing Charges ratio by 29% to 1.2%

Operational highlights

- Total Property return of 19.0%, outperforming IPD
- Improved portfolio occupancy from 91% to 95%
- Invested £62.1 million in five new property assets during the year
- Sold four assets for £4.4 million, on average 14% ahead of the March 2014 valuation
- Over £4 million invested into refurbishment projects
- 26 lease renewals and re-gears retaining £2.2 million per annum
- 68 lettings completed securing £4.4 million in additional annual income

EPRA Performance Measures (EPM) – An Explanation

EPRA Best Practices Recommendations recognise the six key performance measures detailed below, something we fully support. We aim to be as transparent with our EPRA Best Practices Recommendation reporting as possible, and for this year's Report we felt the inclusion of the purpose against each measure would be helpful for our audiences and help give context. We have also cross-referenced these specific measures to more detailed information found in our Report.

EPRA

EPRA performance measures and purpose

	2015	2014	2013
EPRA earnings	**£15.3m**	£13.3m	£14.7m
EPRA earnings per share	**3.4p**	3.7p	4.3p
EPRA NAV per share	**69p**	56p	49p
EPRA NNNAV per share	**65p**	61p	51p
EPRA cost ratio (including direct vacancy costs)	**24.9%**	23.5%	22.5%
EPRA cost ratio (excluding direct vacancy costs)	**19.1%**	18.0%	17.2%
EPRA net initial yield	**5.9%**	6.5%	7.0%
EPRA 'topped-up' net initial yield	**6.5%**	6.7%	7.4%
EPRA vacancy rate	**4.8%**	8.7%	12.4%

EPRA earnings:
A key measure of a company's underlying operating results and an indication of the extent to which current dividend payments are supported by earnings.

See page 94 for more details

EPRA NAV:
Makes adjustments to IFRS NAV to provide stakeholders with the most relevant information on the fair value of the assets and liabilities within a true real estate investment company with long-term investment strategy.

See page 94 for more details

EPRA NNNAV:
Makes adjustments to EPRA NAV to provide stakeholders with the most relevant information on the current fair value of all the assets and liabilities within a real estate company.

See page 94 for more details

EPRA net initial yield and 'topped-up' net initial yield:
A comparable measure for portfolio valuations. This measure should make it easier for investors to judge for themselves, how the valuation of a portfolio compares with others. The EPRA NIY is based on the passing rents at the balance sheet date, the EPRA 'topped-up' NIY also includes rents where there are unexpired lease incentives at the balance sheet date.

See page 95 for more details

EPRA vacancy rate:
A "pure" (%) measure of investment property space that is vacant, based on ERV.

See page 95 for more details

EPRA cost ratios:
A ratio to enable meaningful measurement of the changes in a company's operating costs as a percentage of rental income.

See page 95 for more details

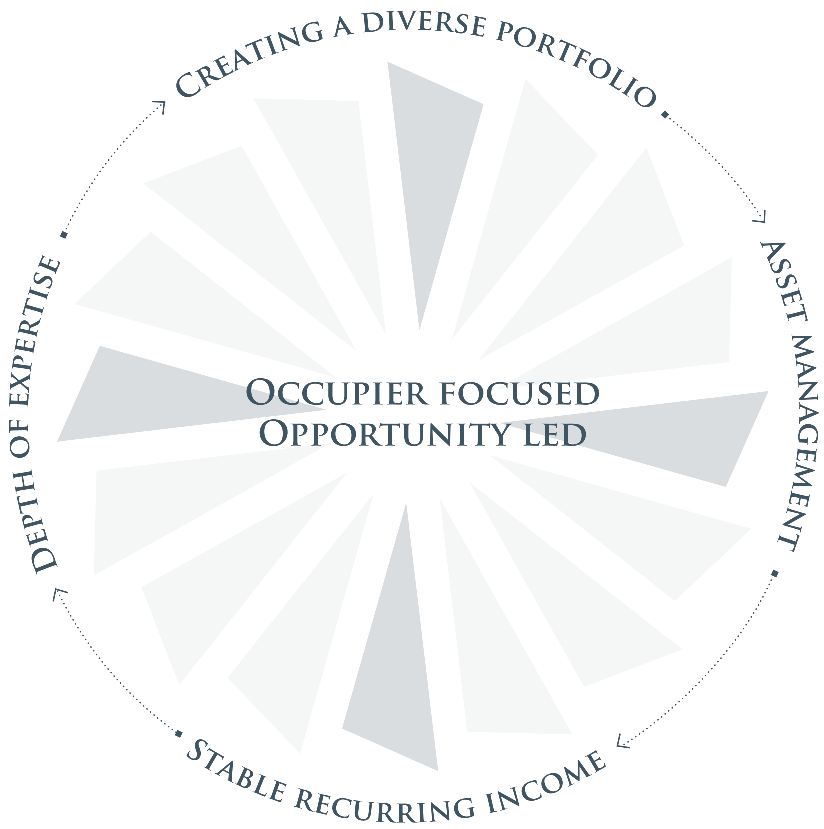
Our Business Model

We invest in commercial property and own a portfolio of **57 assets** located throughout the United Kingdom.

The portfolio covers the main commercial property sectors of office, industrial, retail, retail warehouse and leisure, and has around 400 occupiers providing a diversified income stream from a wide range of businesses. The majority of this income is paid out to investors in the form of quarterly dividends, after deducting operating and financing costs.

The Group is managed and controlled by its Board which is based in Guernsey. The Company's Investment Restrictions are set out on our website at **www.picton.co.uk**

Read more in our **Investment Manager's Report** on pages 29 to 45



See **Our Business Model in Action** on pages 8 to 15

Creating a diverse portfolio

Our portfolio is diversified, not only in terms of sector and geographic allocation, but also by income concentration, which reduces the risk profile. Our investment objective enables us to consider opportunities across the UK. We look to invest in assets where we believe we can drive either income or value in the medium term, and remain focused on total returns.

Asset management

Our asset management team has a hands on approach and maintains a direct relationship with our occupiers. Our aim, using our experience and knowledge, is to create space that meets occupier needs, which in turn will help to maintain occupancy. We are continually looking at innovative ways to add value to our assets through refurbishment, higher value uses or the restructuring of leases.

Stable recurring income

Through such a diverse occupier base, the rental income from the property portfolio remains relatively stable and we aim to grow income though active asset management and capturing market rental uplifts. We have a covered dividend policy which allows us to invest surplus cash flow back into the portfolio.

Depth of expertise

Alongside our experienced Board, the investment management team has over 100 years' experience within the commercial property sector and comprises 12 permanent employees with six property professionals, three qualified accountants and three further support staff. Our talented team is fully focused on delivering the Group's strategy.

Enabling us to deliver long term shareholder value

We believe long term shareholder value is achieved though good sector and asset allocation, managing occupiers and in turn the underlying cashflow. Prudent use of gearing, not only in the short term, enhances the income position but used effectively will enhance shareholder value over the long term.

Read more in **Our Key Performance Indicators** on pages 20 and 21

Our Strategy

The Company's objective is to provide investors with an attractive level of income, with the potential for capital growth.

This is achieved by creating a portfolio of assets with a high income bias. Assets are managed to maximise the potential for both income and, where appropriate, capital growth. This is achieved through, amongst other things, improving the quality of accommodation, extending income longevity and exploring the potential to create value through refurbishment, change of use or redevelopment.

In addition, we look to recycle capital where opportunities exist for better risk adjusted returns. The ability to invest across the UK market and across sectors means that we can be opportunity led. Equally, understanding and meeting the needs of new and existing occupiers is paramount.

Read about our **Strategic Priorities** on pages 18 and 19

Our 5 key strategic priorities

Growth of net income

We aim to grow net income over the long term through the active management of the property portfolio. We aim to add additional annual income from new lettings, lease renewals and re-gears. We also strive to reduce the portfolio voids by attracting new occupiers, and by investing in our assets to make them attractive to occupiers to help drive rental growth.

Progress

- Overall net income has grown by £2.6 million compared to 2014. We expect this to grow further as cash is invested into new acquisitions and the benefits of increased occupancy reduce operating costs.

Working with our occupiers

We maintain regular communication with our occupiers. By doing this, we understand their needs and can work to meet their requirements in a timely manner. Our successful occupier focused initiatives include the 'Picton Promise' – eight commitments to quality and service that underpin every aspect of our occupier experience. We believe that these initiatives will lead to enhanced occupancy and retention rates.

Progress

- Our increase in occupancy from 91% to 95% reflects the success of our occupier initiatives. We have also undertaken a number of surrender transactions through working with our occupiers.

Operational efficiency

Picton is an internally managed investment company. The Investment Manager, Picton Capital Limited, is a wholly owned subsidiary company and has 12 permanent staff, as at 31 March 2015. We believe this efficient operating model will allow Picton to benefit from economies of scale as it grows. We constantly review property operating costs and employ strategies to reduce costs where possible.

Progress

- Our Ongoing Charges ratio has fallen this year to 1.2% from 1.7% in 2014.

Portfolio and asset management

Active asset management is core to our approach and will continue to be implemented to enhance the value of our assets. In addition, we will seek to acquire new assets for the portfolio that offer the potential of income and value enhancement whilst disposing of assets that have been identified as contributing less in terms of performance.

Progress

- We have outperformed the IPD Quarterly Benchmark on both a total return and income return basis.

Effective use of debt

Over the long term we believe that effective use of gearing will increase returns to shareholders. The income return from the portfolio will be enhanced by the low, long term fixed interest rates in place on our borrowings. At this stage of the property cycle, gearing is proving accretive to returns from the property portfolio. The Board reviews the level of gearing in place on a regular basis so that the Group can adapt to changing market conditions as necessary.

Progress

- Gearing has again contributed positively to performance, our geared return of 27% for the year is well ahead of the IPD Quarterly Benchmark.

Our business model in action

Gloucester retail park

Creating a diverse portfolio – strengthening our total returns

The opportunity we recognised

We recognised the opportunity to acquire a well-located retail warehouse park at an attractive entry price with good income longevity and low overall rental levels.

Located on a seven acre site, this four unit scheme had undergone significant re-positioning in prior years following a number of occupier defaults. The new occupier line-up, along with re-based rental levels, is attractive and we believe will enable medium term growth.

In addition, we believe the potential exists to develop a pod unit on the site, which is currently being explored. Equally, we intend to restructure some of the existing leasing arrangements and aim to improve footfall, making the park even more attractive to occupiers.

Key property details

Acquisition Price £14,650,000	Number of Occupiers 4
Net Initial Yield 6.9%	Annual Rent £1,067,000
Size 112,400 sq ft	


AHF
NOW OPEN
Coffee Shop
Garden Centre

Our business model in action

Parkbury industrial estate, Radlett

Asset management – driving higher occupancy rates

The opportunity we recognised

When we acquired Parkbury in 2014, we felt we would be able to enhance income and value with a coordinated letting campaign and through proactive asset management.

Our objective was to quickly secure occupiers for the vacant units and start to build relationships with the existing occupiers to establish where further asset management could be undertaken.

The value we added

Through leasing four vacant units during the year and undertaking a further simultaneous surrender and re-letting, we have improved occupancy (now 100%) and have extended income longevity. As a result, this property increased in value by 15% over the period and, in nominal terms, was the second largest single uplift within the portfolio.

Key property details

Size 336,700 sq ft	Annual Rent £2,405,000
Number of Occupiers 22	


www.picton.co.uk
Stock code: PCTN

Our business model in action

Citylink, Croydon

Asset management – strong occupier relationships

The opportunity we recognised

We wanted to maximise value by creating best in class space and securing a key flagship occupier.

Using proceeds from our Placing Programme we completed the internal refurbishment of all floors to complement a re-configuration of the reception area previously undertaken.

The value we added

We secured leading education provider BPP as occupier for the entire west wing of Citylink following refurbishment of the building which completed in late 2014.

Our relationship with BPP, a previous occupier within the portfolio, helped us secure this transaction. We worked alongside BPP, their fit-out contractors and planning consultants to enable them to occupy the space within two weeks of our refurbishment completing.

Key property details

Size	Annual Rent
48,300 sq ft	£865,000
Number of Occupiers	
2	


ACCOMMODATION

Our business model in action

Angel gate office village, london EC1

Asset management – meeting occupier needs

The opportunity we recognised

With increasingly discerning businesses in this technology belt to the north of the City we have re-positioned this estate to meet occupier needs. We have undertaken an architect-led refurbishment scheme, which we are rolling out across the estate, alongside re-invigorating the external areas with a more contemporary feel.

The value we added

The like-for-like capital gain over the last year was 44% and in nominal terms was the largest single uplift within the portfolio. The two refurbished units were both let within a month of the refurbishment works completing, at an annual rent over 40% higher than standard space on the estate. The most recent letting set a rental record for the estate at £40 per sq ft. We continue to refurbish units when occupiers vacate and capitalise on rental growth while occupational demand remains strong for the City fringe.

A further unit was acquired following the year end at a low capital value of £350 per sq ft, enabling a further continuation of this strategy to acquire the few remaining units at the property outside our ownership.

Key property details

Size	Annual Rent
61,300 sq ft	£1,090,000
Number of Occupiers	
23	

www.picton.co.uk
Stock code: PCTN

Our marketplace

IPD All Property total returns	17.1%
IPD capital value growth	11.2%
IPD rental growth	3.1%
IPD occupancy	91.8%

The relative certainty afforded by a majority government following the General Election in May is, we believe, helpful in many respects. Whilst in the medium term the impact of a referendum on Europe may affect investment decisions, at present it very much appears to be business as usual.

Economic backdrop

The annual growth rate for GDP has been reassuring, recording a 2.4% rise for the year to March 2015 and is now 4% higher than the first quarter of 2008, the pre-crisis peak. A strengthening in confidence in industry and employment surveys together with a pick-up in lending and low interest rates are encouraging.

Whilst CPI inflation in the year to April 2015 was -0.1%, its first fall since records began in 1960, the Monetary Policy Committee (MPC) is confident that inflation is unlikely to remain negative for very long. The Retail Price Index in the year to April 2015 was 0.9%, down from 2.5% in April 2014 and at its lowest since 2009.

In terms of employment, the Office for National Statistics reported that in the three months to March 2015, 73.5% of people aged from 16 to 64 were in work, a rise from 72.5% for the same period a year earlier and its highest level since records began in 1971. Pay, excluding bonuses, rose by 2.2% when comparing the period January 2015 to March 2015 with the same period a year earlier.

The recently published De Montfort annual lending survey showed that new loans to the commercial property sector rose by more than 50% in the year to £45.2 billion. Total new loans in the second half of the year were particularly strong, almost a third higher than the first half of the year. Traditional lenders continued to reduce their exposure to property but insurance companies and non-bank lenders increased their share of total net lending to £11.5 billion, accounting for 25% of all new loans in 2014. The total value of distressed loans at the end of 2014 stood at £21.1 billion, down from £44.7 billion in the previous year.

As at 29 May 2015, ten year gilt yields were 1.9%, compared to 2.6% at the end of March 2014. The Bank of England base rate remains unchanged at 0.5%.

UK property market

As measured by the IPD Quarterly Digest, All Property total returns for the year to March 2015 were 17.1%. Capital movements contributed 11.2% and the income return 5.3%. Despite this growth, on average, IPD All Property values still remain 25% lower than the June 2007 peak. This is an improvement from a year ago where values were 33% lower.

The IPD Quarterly Digest recorded an 11.2% rise in capital values in the year to March 2015. Capital values in the office sector grew by 15.9%, industrial by 14.9% and retail by 7.5%. The strongest rise was recorded in West End Retail at 24.2% and the weakest in Northern Ireland Retail at 2.4%. In the year to March 2015, all of the 37 IPD segments recorded positive capital growth, which compares to 34 in March 2014.

The IPD Quarterly Digest recorded a 3.1% rise in rents in the year to March 2015. Rents in the office sector grew by 7.3%, industrial by 3.0% while retail rents grew by only 0.6%. The strongest rise in rents was seen in Inner London Offices at 14.6% and the weakest in Wales retail at -1.5%. In the year to March 2015, 27 of the 37 IPD segments recorded positive rental growth, which compares to only 16 in March 2014.

The IPD Quarterly Digest in March 2015 had an occupancy rate of 91.8%, an improvement from 90.9% recorded in March 2014.

Read more in our **Investment Manager's Report** on pages 29 to 45

Current trends in the UK property market

Investors continue to see the UK as a safe haven and the returns offered by the property market as attractive, as the economic recovery spreads from London to the regions. This contributed to net inflows into the commercial property sector strengthening during the year. This is supported by figures from the Investment Association which shows that for the year to 31 March 2015, investment into UK property funds totalled £4.7 billion, higher than the £2.4 billion recorded for the year to March 2014.

At an All Property level, capital value growth has been positive for 24 consecutive months. However, many assets, especially those outside of London, have only recently started to see an uplift in occupier demand, which would suggest rental growth in these areas will play a bigger part in capital value growth going forwards.

Rental growth in the year to March 2015 was 3.1% and has been positive for 21 consecutive months. Rental growth in central London and the South East has been the strongest but rents in the retail sector have struggled to gain momentum in the last year.

How we see these trends affecting our specific sector profiles

We continue to recognise the structural changes taking place within the market and in particular the impact of technology in the way that space is utilised. Our overweight stance to the industrial sector, which includes warehousing and logistics, alongside our underweight position to retail is a reflection of these themes. In the retail sector we are seeing a change in the balance between supply and demand, alongside a marked re-pricing in rental levels. Whilst this starts to reflect these more structural changes, we believe that, following a prolonged writedown in this sector, we are close to the floor on rental levels.

Industrial market

According to IPD, total returns for the year to March 2015 were 21.6%, of which income contributed 5.9% and capital growth 14.9%. Returns were strongest in West Midlands at 23.6% and weakest in North East at 17.3%, but still ahead of the All Property average of 17.1%.

Capital movements by geographic region ranged from 17.0% for London to 9.6% for North East Industrial.

Overall, industrial rents grew by 3.0%. Rental growth was strongest for West Midlands, which rose by 4.6%, and weakest for Yorkshire and Humberside at 0.8%.

Occupancy rates for industrial at the end of March 2015 were 90.9%, higher than the 88.8% recorded for March 2014.

Office market

According to IPD, total returns for the year to March 2015 were 21.2%, of which income contributed 4.6% and capital growth 15.9%. Returns were strongest in Mid-town at 27.3% and weakest for the North East at 11.4%.

Capital movements by geographic region ranged from 22.8% for Mid-town Offices to 4.4% for North East Offices.

Overall, office rents rose by 7.3% over the year. Rental rises were best for Inner London Offices at 14.6% and worst for North East Offices at 0.1%.

Occupancy rates for offices at the end of March 2015 were 86.8%, higher than the 85.9% recorded in March 2014.

Retail market

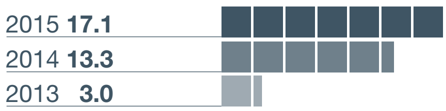
According to IPD, total returns for the year to March 2015 were 13.3%, of which income contributed 5.4% and capital growth 7.5%. The strongest returns were recorded in West End at 28.4% and the weakest was Northern Ireland at 9.7%.

Capital movements by geographic region ranged from 24.2% for West End Retail to 2.4% for Northern Ireland Retail.

Overall, retail rents grew by 0.6% in the year. Rental growth was strongest for West End Retail at 9.6%, and weakest for Wales Retail at -1.5%.

Occupancy rates for retail at the end of March 2015 were 95.0%, higher than the 94.4% recorded in March 2014.

IPD All Property total returns (%)



All Property sector returns 2015 (%)

Chief executive's review

"As we report our largest profit since 2006, we must not be complacent as there is still much to build on."

Benchmarked against our five key strategic priorities, Picton has had a very successful 12 months.

The team continues to work well and their efforts are evident from the Key Performance Indicators that have been reported. The total property return of 19%, ahead of the IPD Benchmark for the year, and a total return of 27.4%, are particular highlights.

As we have grown the business we have continued to reshape the portfolio through a combination of disposing of non-core assets and making new acquisitions. This has resulted in a 28% increase in the average lot size to £9.5 million.

Growth in net income

The starting point for growing net income in a sustainable way is to increase occupancy.

Net income has risen by over £2 million this year primarily reflecting the larger portfolio and improved occupancy. During the year we have held a higher level of cash compared to previous years, which will reduce with the investments announced following the year end. There is a lag effect in terms of reducing void holding costs, following letting activity, and we expect these benefits to become further apparent in the next financial year.

In addition, the Company has taken advantage of more buoyant occupier markets to make a number of transactions that have not, in the short term, grown net income, but have secured income longevity or enhanced value (our activity at Chancery Lane for example, which is further detailed in the Investment Manager's Report). Therefore we do not see the lower EPRA earnings per share this year as significant in the context of overall returns.

Equally, we are starting to see emerging signs of rental growth, which are no longer confined to the core areas within central London. Whilst this will not immediately lead to an increase in income until it is captured at lease expiry or at the next rent review, conditions in the occupier market are certainly the best they have been, in our view, since 2008.

We are utilising gearing to enhance returns, recognising that we believe there is still further momentum within the property cycle and there remains a positive arbitrage between the portfolio yield and our cost of debt, which further improves our net income.

Working with our occupiers

Within our portfolio, occupancy continues to be above that recorded by the IPD Index. We have had considerable success increasing occupancy to 95%, up from 91% 12 months ago.

Key to this success has been our ability to attract new occupiers while retaining existing ones through our occupier focused approach. We have, over the course of the year, worked with numerous occupiers to help them 'right size' their business and I genuinely believe this personal hands-on approach and attention to detail is key as we manage our assets and improve their attractiveness for occupiers. This approach has really started to show results since we internalised the investment management function in 2012.

Operational efficiency

Whilst the net assets of the Group have risen considerably this year, by over 70% to £370 million, our management team has only seen the addition of one new asset manager. Our cost base does not rise in proportion to assets, unlike most externally managed investment companies and, as such, the Ongoing Charges ratio, a measure of how efficiently the business is run, has fallen from 1.7% to 1.2%.

Find out more:

How we are **Measuring our performance** on pages 20 and 21

How we are **Managing our risks** on pages 22 and 23

Portfolio and asset management

As demonstrated not only by our total property performance relative to IPD, but also in the detail of the following pages, we have achieved many asset management successes across the portfolio. In addition, our acquisitions and disposals have contributed to performance, while our overweight position relative to the industrial sector has also helped.

Effective use of debt

As we have seen positive valuation gains across the portfolio over the year, we have also seen a positive effect from the gearing, with a property return of 19% giving rise to a total return of 27% for the year. We continue to be mindful of the need to manage gearing effectively and to reduce it in a structured and disciplined way as we progress through the cycle.

Currently gearing stands at 30%, but this is expected to rise modestly as monies are invested into higher income producing property assets during the coming months, with a corresponding positive impact on dividend cover.

We believe the right mid-cycle gearing for a company such as Picton is around 35%. Our current level, a reduction from 48% a year ago, remains appropriate under the circumstances.

As we look forward, the revolving credit facility that has been established is expected to reduce financing costs by in excess of £1 million per annum when the zero dividend preference shares mature in 2016.

As we head into our tenth year

We have a strong, committed and aligned team at Picton and we remain confident about our prospects as we continue to build on the accomplishments of the last 12 months. We have a good pipeline of occupational activity and continue to see good access to investment opportunities.

As we report our largest profit since 2006, we must not be complacent as there is still much to build on. We have to continue to treat our occupiers well, manage our lease expiry profile and cash flow and continually look at ways in which we can maximise overall total returns from within the portfolio.

As markets continue to improve and asset values rise, we believe further opportunities will be unlocked. As such, I believe we continue to employ the right strategy for the prevailing market conditions.

Michael Morris
Chief Executive, Picton Capital Limited
8 June 2015

Average lot size
£9.5 million

Occupancy
95%

Net assets
£370 million

Total Property Return (%)

1 year
2015 **19.0**

3 years
2015 **10.4**

5 years
2015 **8.9**

Property Income Return (%)

1 year
2015 **6.1**

3 years
2015 **6.7**

5 years
2015 **6.8**

Our key performance indicators

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

They also play a key role in determining remuneration strategy for the Picton Capital team, as set out in the Remuneration Report.

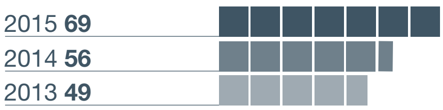
Read about our **Remuneration** on pages 62 and 63

Linking our performance to EPRA best practice recommendations

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

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

EPRA Net Asset Value per Share (pence)



Why we use this indicator

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

Our Performance in 2015

The EPRA NAV per share has continued to grow strongly throughout the year.

Are we on target? ✓

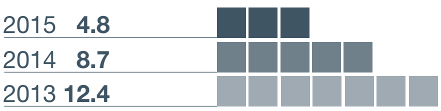
Linked to remuneration? ✓

Strategic link

Our 5 strategic priorities

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

EPRA Vacancy Rate (%)



Why we use this indicator

The vacancy rate measures the amount of vacant space in the portfolio at the end of each financial period.

Our Performance in 2015

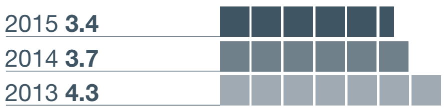
The EPRA vacancy rate has continued to fall as the asset management team have focused on letting vacant space in improving market conditions. It is at its lowest level since June 2007.

Are we on target? ✓

Linked to remuneration? ✓

Strategic link

EPRA Earnings per Share (pence)



Why we use this indicator

The earnings per share, calculated in accordance with EPRA, measures the operational profit generated by the business that is attributable to our shareholders.

Our Performance in 2015

The lower EPRA earnings per share is partly due to the impact of new equity prior to investment, and also to re-based rental levels coming through on lease expiries.

Are we on target? ✓

Linked to remuneration? ✓

Strategic link

Total Property Return (%)

2015 **19.0**
2014 **14.0**
2013 **(0.7)**

Why we use this indicator

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

Our Performance in 2015

For the second year running we have outperformed IPD, delivering a return of 19.0% compared to the IPD Quarterly Benchmark return of 17.1% for the year.

Are we on target? ✓

Linked to remuneration? ✓

Strategic link

Property Income Return (%)

2015 **6.1**
2014 **7.1**
2013 **7.0**

Why we use this indicator

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

Our Performance in 2015

With our portfolio biased towards income generation, this is an important indicator. The return for the year of 6.1% was ahead of the IPD Quarterly Benchmark of 5.1%, and we have also outperformed on a three and five year basis.

Are we on target? ✓

Linked to remuneration? ✓

Strategic link

Total Shareholder Return (%)

2015 **32.3**
2014 **50.2**
2013 **6.2**

Why we use this indicator

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

Our Performance in 2015

The positive movement in the share price has generated a very healthy 32.3% return to investors.

Are we on target? ✓

Linked to remuneration? ✓

Strategic link £

Loan to Value Ratio (%)

2015 **30.1**
2014 **47.7**
2013 **54.5**

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. See the Supplementary Disclosures section for further details.

Our Performance in 2015

The loan to value ratio has fallen as the portfolio values have increased, and also due to cash held at 31 March 2015, ahead of investment in the portfolio.

Are we on target? ✓

Linked to remuneration? ✗

Strategic link £

Ongoing Charges (%)

2015 **1.2**
2014 **1.7**
2013 **1.7**

Why we use this indicator

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

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

Our Performance in 2015

The Ongoing Charges ratio has fallen significantly this year, as the economies of scale arising from the growth in our net assets have flowed into the results. Operating expenses, principally the management costs of Picton Capital Limited, have not grown at the same rate as the increase in assets, thus enhancing shareholder returns.

Are we on target? ✓

Linked to remuneration? ✓

Strategic link

Total Return (%)

2015 **27.4**
2014 **21.6**
2013 **(7.6)**

Why we use this indicator

The Total Return measures the change in the Group's net asset value, calculated in accordance with IFRS, over the year, plus dividends paid. This measure shows the performance of the Group based on its published results.

Our Performance in 2015

Driven by valuation gains and the increase in net income, the result for the year of 27.4% is the highest return reported since 2006.

Are we on target? ✓

Linked to remuneration? ✓

Strategic link £

Strategic Report
Governance
Financial Statements
Other Information

How we manage our risks

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

Risk management provides a structured approach to the decision making process such that the identified risks can be mitigated and the uncertainty surrounding expected outcomes can be reduced. The Board reviews its policy to risk management on a regular basis. The Risk Committee oversees investment risk management and the Audit Committee considers operational risks and mitigating controls. 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.

Risk trend key

↑ Increase in risk

↓ Decrease in risk

→ No change in risk

Risk and Impact	Mitigation	Risk Trend
Corporate Strategy and Performance		
The property market is cyclical and returns can be volatile. Failure to react appropriately to changing market conditions could have a significant impact on our results.	The Board reviews the Group's strategy on a regular basis and considers whether any change is needed, in light of current market conditions and forecast changes.	→
Returns can vary significantly between different geographical areas and sectors. Our properties could underperform as a result of a poor portfolio strategy.	We maintain a diversified portfolio in order to minimise exposure to any one geographical area or market sector.	→
Investment and Property Management		
Decisions to buy or sell assets based on incorrect assumptions, poor research or incomplete due diligence could result in lower investment returns.	The Investment Manager prepares business plans for each asset on an annual basis. All investment decisions are made by the Board following a formal appraisal and due diligence process.	→
Active management initiatives or capital expenditure decisions do not enhance values due to flawed analysis or assumptions.	All asset management and investment decisions are subject to a formal internal review process with clear authority limits.	→
Poor asset management can lead to long void periods, low occupier retention, high occupier arrears and defaults, and cash flow problems.	Our asset managers are focused on income generation and maintain close contact with occupiers to ensure their space requirements are understood and addressed proactively. Creditworthiness checks of potential occupiers are carried out prior to letting.	→
Operational		
A failure to attract and retain employees of a suitable calibre to manage our affairs could lead to poor shareholder returns. The increase in risk this year reflects an increasingly competitive employment market.	We have a remuneration policy in place which incentivises performance and is aligned to our results. The Board commissions independent reviews of market remuneration to ensure salary levels are competitive.	↑
We could fail to anticipate legal, fiscal or regulatory changes, which may lead to an adverse financial or regulatory impact.	We employ various professional advisers who provide regular updates in relevant laws and regulations.	→
Health and safety management processes could fail, leading to financial or reputational loss.	The Group's property manager is required to carry out all necessary health and safety checks, and is subject to the oversight of the Investment Manager.	→

Risk and Impact	Mitigation	Risk Trend
Financial		
The assumptions used in the valuation of property assets include many external factors, including prevailing economic conditions. In adverse conditions there can be a reduction in property values leading to a fall in the Group's net asset value and potentially failure to meet financing covenants.	We maintain detailed forecasts of our property portfolio, which are subject to regular scenario testing. In this way we will be able to react to expected changes in economic conditions in a timely manner.	↓
A fall in our investment property values could lead to a breach of our loan covenants, and leave the Group without sufficient long-term funding.	Covenant headroom and sensitivity to forecast asset values are regularly monitored by the Board.	↓
An increase in interest rates could lead to a fall in our earnings.	We have entered into long-term fixed rate loan facilities and hence has certainty over interest cost for the foreseeable future.	→
We operate a geared capital structure, which will magnify returns from the property portfolio, both positively and negatively. An inappropriate level of gearing for the property cycle could lead to lower investment returns.	We have a gearing strategy in place and the Board regularly reviews property market forecasts, so that it is able to amend its strategy in the light of changing market conditions.	→
Fluctuations in cash flows from operating activities can have a detrimental impact on debt servicing, asset management initiatives and shareholder returns.	Cash flow forecasts are regularly prepared and reviewed by the Board to ensure sufficient cash resources are available to meet the operating needs of the business. Debt covenants are continually monitored and reported to the Board.	→

Our Risk Committee

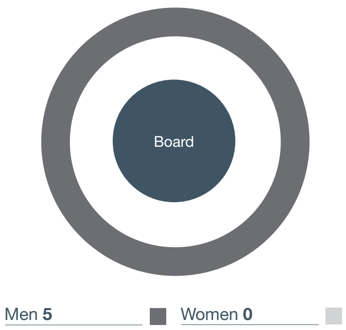
Our key activities during the year

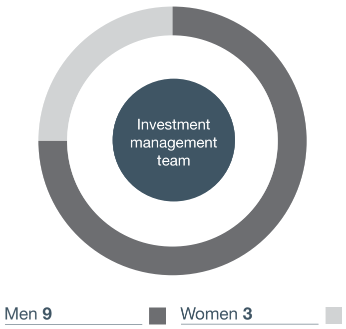
The Risk Committee was established in 2014 to assist the Board in discharging its responsibilities with regard to risk management. It advises the Board on our risk profile and appetite in setting future strategy within its investment objectives. The Committee also oversees the effectiveness of risk management procedures and the steps being taken to mitigate the principal risks and uncertainties relating to the Group. The Committee has developed a Risk Management Policy to strengthen the management of risks through proactive identification, management and acceptance of risks from all activities undertaken by the Group.

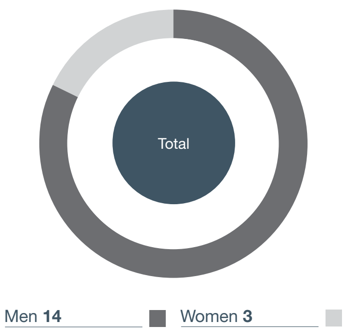
Read about our **Risk Committee** on pages 64 and 65

BEING RESPONSIBLE

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







Why this is important to us

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

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

Our people

Fairness and equality

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

This is accomplished by:

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

Employee alignment

Unlike traditional investment companies we have a dedicated internal investment management team whose entire focus is on creating long term value for our shareholders. Our employees are fully aligned through our remuneration policy and Long Term Incentive Plan, ensuring that outperformance is suitably recognised in bonus awards.

Diversity

We recognise the benefits of diversity and the value this brings to the Group. We aim to maintain the right blend of skills, experience and knowledge in the Board and investment management team.

Performance and development

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

This is attained through the following key principles:

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

Health and well-being

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

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

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

Celebrating our 10th anniversary

WATERLOO
200 Years • 10th Anniversary • 235 Miles

The Company was launched in October 2005 and as we approach our tenth anniversary it is fitting to link this into the 200th anniversary of the Battle of Waterloo, also this year, where General Sir Thomas Picton fought under Wellington.

In July seven members of the Picton team cycled the 235 miles from Waterloo Station in London to the site of the battle in Belgium, raising funds for three very different charities: War Child, LandAid and The Funding Network.

Further information on the team's progress is available on the Company's website:

www.picton.co.uk

Pictured:
The team at the memorial to General Picton after completing the ride.

Being responsible

Reporting against EPRA sustainability best practice

For last year's Annual Report we reported for the first time our overall energy, greenhouse gas, water and waste usage by sector. In the EPRA Disclosures section we have disclosed the absolute and intensity performance measures as set out by the EPRA Sustainability Best Practice Recommendations. These will allow the Group to identify and target key impact areas across the portfolio, contributing to better management of the overall environmental performance and to formulate indicator targets to track sustainability performance.

Read about our **EPRA Sustainability Reporting** on pages 96 to 98

EPRA

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

Issue Type	Sustainability Performance Measure
Energy	Total electricity consumption
	Like-for-like total electricity consumption
	Total fuel consumption
	Like-for-like total fuel consumption
	Building energy intensity
Greenhouse gas emissions	Total direct GHG emissions
	Total indirect GHG emissions
	Like-for-like total direct GHG emissions
	Like-for-like total indirect GHG emissions
	GHG intensity from building energy
Water	Total water consumption
	Like-for-like total water consumption
	Building water intensity
Waste	Total weight of waste by disposal route
	Like-for-like total weight of waste by disposal route

There is no district heating or cooling consumption within the portfolio and so there is nothing to report against these sustainability measures.

One asset within the portfolio has a sustainability certification (ISO 14001), representing 1.7% of the total.

The environment

It is recognised that certain natural resources are finite and must therefore be used responsibly. This is achieved by controlling any environmental burdens caused by our activities.

Assessment of the environmental performance of our portfolio is ongoing. In order to continue to improve, we work closely with our property managers and occupiers to develop cost-effective measures to increase energy efficiency. We also use our consultants at CBRE to engage with property managers and create sustainability improvements at each asset.

We continue to assess the environmental performance of the portfolio and work closely with both property managers and occupiers to find pragmatic, cost-effective solutions for energy reduction. We have also offered energy audits to our largest occupiers to help improve sustainability within the portfolio beyond the boundaries of our operational control.

In addition, sustainability considerations have been incorporated into all maintenance schedules at multi-let sites to help reduce occupancy costs as well as deliver significant environmental impact reductions. Improvements include:

- Replacing traditional light bulbs with LEDs at four properties within the portfolio, which are more energy efficient, in common and vacant areas
- Installing passive infrared (PIR) sensor lighting in common areas in three properties to save energy when buildings are not occupied
- Implementing switch controls
- Optimising plant equipment run hours and building management system controls

This year we carried out a solar photovoltaic feasibility study across the portfolio to determine a shortlist of sites best suited to solar installations. We have since begun discussions with leading solar providers and aim to install solar panels on at least one property within the next year. This will reduce the reliance on electricity from non-renewable sources at the site and reduce tenant occupancy costs by providing lower energy prices.

In the workplace it is our policy to:

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

Greenhouse gas emissions

We have measured our greenhouse gas (GHG) footprint for the second time for this year's Annual Report, building on the actions set out last year. This year's data has again been compiled for the calendar year to 31 December. Our GHG emissions for the year totalled 4,711 tCO_2e, compared to 5,070 last year, a reduction of 7%. The table below shows this separated by scope, as provisioned in the GHG Protocol. Our 2014 footprint is compared to the 2013 baseline year in order to demonstrate carbon reductions where applicable. Our GHG inventory has been compiled using an Operational Control approach.

		2014		2013	
Emission source	**GHG Scope**	**Absolute GHG emissions (tCO_2e)**	**GHG Intensity (tCO_2e/m^2)**	Absolute GHG emissions (tCO_2e)	GHG Intensity (tCO_2e/m^2)
Combustion of fuel and operation of facilities	**1**	**951**	**0.005**	1,408	0.008
Electricity, heat, steam and cooling purchased for own use	**2**	**3,752**	**0.020**	3,649	0.020
Business travel	**3**	**8**	**N/A**	13	N/A
Total		**4,711**	**0.025**	5,070	0.028

In order to express our annual emissions in relation to the growth of our business, and to negate the effects of acquisitions and disposals, we report GHG emissions intensity measurements, in tonnes of CO_2 per square metre of property floor area (tCO_2e/m^2).

We have reported on all the emission sources required under UK legislation, and have additionally disclosed business travel (scope 3) emissions. These sources fall within the Group's consolidated financial statements. We have calculated and reported our emissions in line with the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2014. 1.1% of carbon reported was based upon estimates and as such the results are preliminary and subject to revision.

CO_2 (metric tonnes)

2014 **4,711**
2013 **5,070**

Charity and local communities

We continue to support a variety of charities, principally through The Funding Network, whose aim is to achieve long-term social change. The Funding Network enables individuals to join together to support social change projects. They are the UK's first public open giving forum and have been described as the 'Dragons' Den' for charities. They have raised over £7 million for over 1,000 diverse local, national and international projects.

For the year ended 31 March 2015 the Group made charitable donations totalling over £7,500.

Our employees are encouraged to play a positive role in community activities and individual charitable fundraising is supported through the process of 'matched giving'. Over the last 12 months our employees have taken part in the London Marathon and the Thames Bridges cycle ride, raising funds for charities.

Pictured:
A crowdfunding event organised by The Funding Network.

Continued growth through strong asset management

Investment manager's report

This year there has been considerable activity, in terms of acquisitions, disposals and the asset management of the existing portfolio.

With the new equity raised we have been able to acquire five new assets, investing £62 million in two distribution warehouses, a city centre retail property and two retail warehouse assets (one of these was adjacent to an existing holding). All were acquired on favourable terms and offer potential for future income and capital growth.

Additionally we have disposed of four non-core assets for total proceeds of £4 million, having completed asset management initiatives.

Our portfolio now comprises 57 assets, with around 400 occupiers, it is valued at £541 million, and the average lot size has increased to £9.5 million.

The asset management team have worked hard to complete a significant number of transactions in the year, including 68 lettings and 59 other lease transactions. This has resulted in an increase in occupancy across the portfolio to 95%, up from 91%. This is the highest level of occupancy since 2007, and is well ahead of the market. The passing rent has risen to £34.6 million, up from £30.9 million a year ago, and we have outperformed the IPD Quarterly Benchmark on both a capital and income basis.

A number of key asset transactions were completed during the year and these are set out in the following individual portfolio updates. Looking ahead we will be focused on deploying the remainder of new capital raised, maintaining a high occupancy level and completing asset management initiatives across the portfolio.

Jay Cable
Director, Picton Capital Limited

Fraser D'Arcy
Investment Director, Picton Capital Limited
8 June 2015

Find out more:

Read about our **Industrial Portfolio** on pages 34 to 37

Read about our **Office Portfolio** on pages 38 to 41

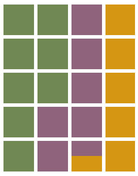
Read about our **Retail and Leisure Portfolio** on pages 42 to 45

Pictured:
Belkin Unit, 3 Shipton Way, Rushden

Investment manager's report

Sector split %

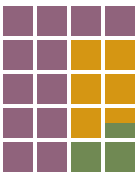
Industrial	**40.3**
Office	**32.1**
Leisure and Retail	**27.6**



Geographic split

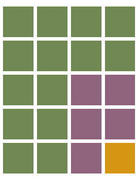
Central and Greater London **28.7%**

Office	**19.0**
Leisure and Retail	**6.1**
Industrial	**3.6**



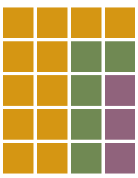
South East **31.7%**

Industrial	**22.1**
Office	**8.2**
Leisure and Retail	**1.4**



Rest of UK **39.6%**

Leisure and Retail	**20.1**
Industrial	**14.6**
Office	**4.9**



Portfolio overview

As at 31 March 2015, the portfolio generated a net initial yield of 5.9% after void costs, which in rental terms reflects a current passing rent of £34.6 million per annum.

The portfolio's total return for the year to 31 March 2015 was 19%, which equates to an 11% outperformance relative to the IPD Quarterly Benchmark. This outperformance was principally driven by the growth in occupancy and our performance in the office and industrial sectors.

The portfolio's capital value for the year grew by 14%. Regional office values rose by 22%, with London assets growing by 28%. Industrial values grew by 12% and retail and leisure by 4%.

Overall, like-for-like growth in the portfolio's estimated rental values was 5% during the year to March 2015. Estimated rental values in the office sector grew by 7.8% over the year, predominantly driven by growth in London of 16.5%. Industrial estimated rental values grew by 5% with retail and leisure stabilising.

We have continued our strategy of re-shaping the portfolio. As a result of four disposals and five acquisitions the number of properties in the portfolio is 57, with the average lot size growing by 28%.

We are seeing continued rental growth across central London offices and in the industrial portfolio. Compared to a year ago we are now seeing emergent growth in the regional offices on the back of occupational demand in locations such as Chester, Glasgow and St. Albans. The retail portfolio rental values have been re-based and where we have space to let we are generally in line with the estimated rental values.

Within the portfolio the over-rented properties are isolated to a small number of properties principally in the regional offices and retail and leisure sectors. Overall the majority of the portfolio is now rack-rented or reversionary and we therefore expect to grow income on lease events.

We have had a very good year for lettings, generating an additional £4.3 million of income after incentives, the overall rent being 6% ahead of the preceding estimated rental values. Whilst the occupancy rate is high at 95%, compared to the IPD benchmark of 92%, we believe we can maintain this level and are confident it will increase over the next year. The estimated rental value of the void portfolio is £1.9 million per annum, with further financial benefits from reduced void holding costs as properties are let.

Demand in the industrial sector, which includes warehousing and logistics, is good and the largest void in the portfolio is unit O at Lyon Business Park, Barking, which was surrendered in an active management transaction in January 2015. The unit has been comprehensively refurbished and, as our largest void with a rental value of £214,000 per annum, we expect to attract an occupier quickly, given the limited competing supply in the immediate area.

Outlook for the coming year

We expect to build on the leasing success during the year and already have a number of vacant units under offer. Over the next 12 months we have six lease events where the rent is over £100,000 per annum, and four of the occupiers have already indicated they wish to renew, which is extremely encouraging.

We see capital value growth coming from the regional assets as the occupier market continues to improve, translating into rental growth, which is already apparent in some locations, and investment demand continuing to strengthen.

The focus is on continuing the strategy of re-shaping the portfolio, de-risking income through active management and growing the portfolio's income. With high occupancy levels and improving occupational demand, we believe we are in a strong position to capitalise on this throughout the portfolio.

Our Locations

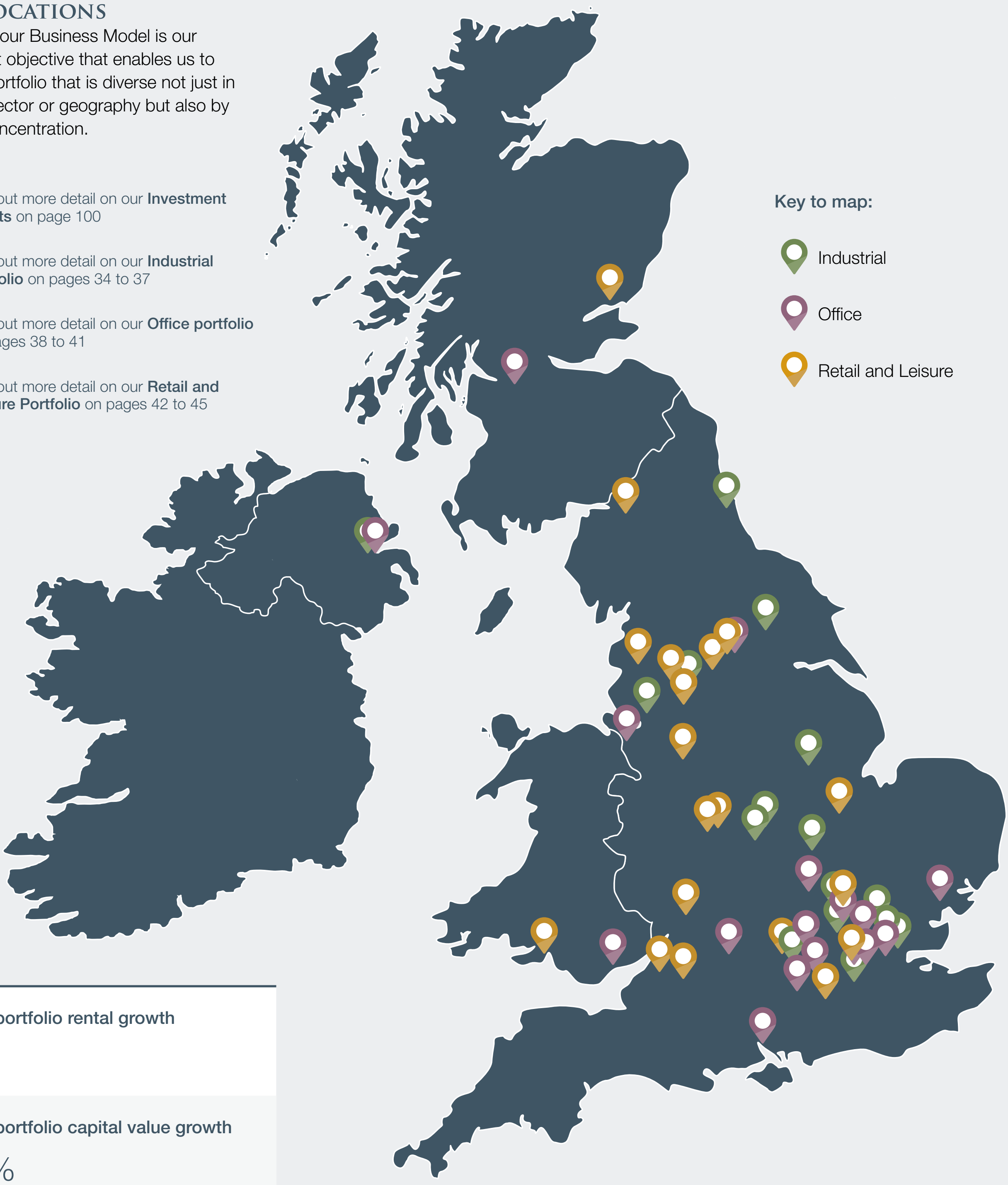
Integral to our Business Model is our investment objective that enables us to create a portfolio that is diverse not just in terms of sector or geography but also by income concentration.

Find out more detail on our **Investment Assets** on page 100

Find out more detail on our **Industrial portfolio** on pages 34 to 37

Find out more detail on our **Office portfolio** on pages 38 to 41

Find out more detail on our **Retail and Leisure Portfolio** on pages 42 to 45



Whole portfolio rental growth

5%

Whole portfolio capital value growth

14%

Occupancy levels

95%

Visit our website for more information
www.picton.co.uk

Investment manager's report

Longevity of income

As at 31 March 2015, based as a percentage of current annual rent, the average length of the leases to the first termination was 6.2 years. This is summarised as follows:

Up to 5 years
59.7%

5 to 10 years
29.5%

10 to 15 years
2.8%

15 to 25 years
5.6%

25 years and over
2.4%

Retention rates

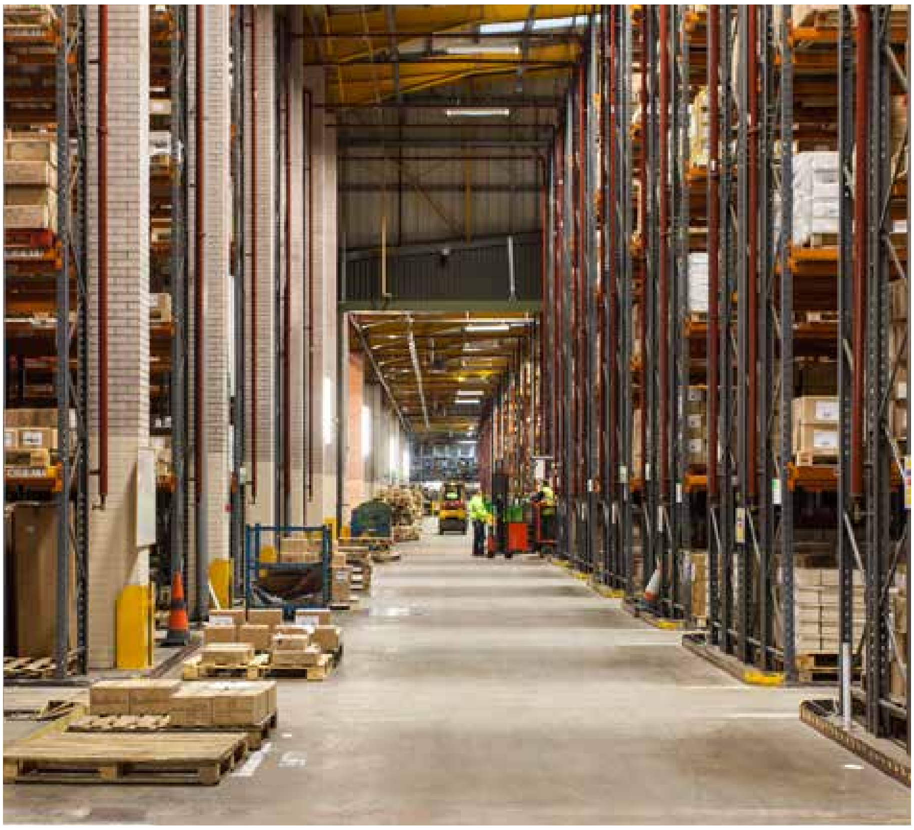
For the year ended 31 March 2015, based on rental value, the percentage of income that was retained on lease expiry or break options was 73%, an improvement from 2014. This comprises 90% retained on lease expiry and 10% after break options. This analysis does not take into account early renewals and where we have successfully removed occupier break options. We are finding occupiers are keen to stay unless they have different space requirements or the business strategy has changed. With supply reducing and rents growing, we expect our retention rates to remain high.

Income concentration

There is a wide diversity of occupiers within the portfolio, as set out below, which are compared to the IPD Benchmark by contracted rent, as at 31 March 2015.

Industry Sector	Picton (%)	Benchmark (%)
Retail Trade	26.8	38.0
Services	24.2	19.6
Manufacturing	13.5	8.2
Financial Services	10.9	16.6
Transportation, Communications	10.8	6.0
Public Administration	3.6	3.6
Undetermined	2.5	1.0
Wholesale Trade	6.5	3.8
Other	1.2	3.2
	100	100

Source: IPD IRIS Report March 2015



Pictured:
Grantham Book Services, Trent Road, Grantham

Top ten assets

The largest assets in the portfolio as at 31 March 2015, ranked by capital value, represent just over 49% of the total portfolio valuation and are detailed below.

	Acquisition Date	Property type	Tenure	Approximate area (sq ft)	Occupancy Rate (%)
Parkbury Industrial Estate, Radlett	March 2014	Industrial	Freehold	336,700	100%
River Way Industrial Estate, Harlow	December 2006	Industrial	Freehold	451,700	100%
Stanford House, Long Acre, London WC2	May 2010	Retail	Freehold	19,700	91%
Angel Gate, City Road, London EC1	October 2005	Office	Freehold	61,300	94%
50 Farringdon Road, London EC1	October 2005	Office	Leasehold	32,000	100%
Boundary House, Jewry Street, London EC3	May 2006	Office	Freehold	45,000	100%
Belkin Unit, Shipton Way, Rushden	July 2014	Industrial	Leasehold	312,800	100%
Phase II, Parc Tawe Retail Park, Swansea	October 2005	Retail Warehouse	Leasehold	116,700	100%
Angouleme Way Retail Park, Bury	October 2005/ January 2015	Retail Warehouse	Leasehold	76,200	100%
Colchester Business Park, The Crescent, Colchester	October 2005	Office	Leasehold	150,700	98%

Top ten occupiers

The top ten occupiers, based as a percentage of annual rental income, as at 31 March 2015, are summarised as follows:

	Occupier	Annual Rental Income (£000)	%
1	Belkin Limited	1,630	4.5
2	DHL Supply Chain Limited*	1,560	4.3
3	Snorkel Europe Limited	1,008	2.8
4	The Random House Group Limited	1,000	2.8
5	Cadence Design Systems Limited	972	2.7
6	Trainline.com Limited	838	2.3
7	Edward Stanford Limited	785	2.2
8	Ricoh UK Limited	640	1.8
9	Viglen Limited*	611	1.7
10	Asda Stores Limited	600	1.7
	Total	9,644	26.8

* Includes fixed rental uplift

Investment manager's report

Industrial portfolio

Shipton Way, Rushden

The opportunity we recognised

We purchased this modern distribution property in July 2014 in a well located and improving distribution area.

This well specified building is let to a strong covenant for a further five years and whilst the acquisition price offered a high yield for the sector, we felt there was further opportunity to increase the rent at the April 2015 rent review.

The value we added

Post completion we negotiated the expected increase at the April 2015 rent review, settling prior to the review date and increasing the annual rent by a further £60,000 per annum (a 4% increase).

A combination of improving market conditions and the asset management initiative noted above has led to an increase in valuation of 14% since acquisition, reflecting the continued desirability in the market for high specified, well located distribution units.

Key property details

Acquisition Price £20,000,000	Number of Occupiers 1
Net Initial Yield 7.7%	Annual Rent £1,691,000
Size 312,800 sq ft	

Delivering an increase in valuation of 14% since acquisition

Investment manager's report

Industrial portfolio

Overall, within the industrial portfolio, we let 18 units at a combined rent of £1.3 million per annum, renewed nine leases with a combined rent of £800,000 per annum and surrendered seven leases to facilitate active management. The surrenders included unit O at Lyon Business Park in Barking, our largest void, where the outgoing occupier paid a surrender premium equating to £300,000 plus dilapidations. We have seen rental growth of 5% across the portfolio.

Highlights of the year

The most significant activity was the acquisition of two distribution warehouses for a combined price of £31.5 million, which are currently valued at over £35 million. This growth in capital value is attributable to the early settlement of a rent review ahead of estimated rental value and a strengthening investment market for this type of property.

The Belkin distribution unit in Rushden was acquired in July 2014 for £20 million, a net initial yield of 7.7% and a capital value of £64 per sq ft. This modern 312,800 sq ft distribution unit is located on the A45, which provides access to the M1, A14 and A1(M). The passing rent on acquisition was £1,630,000 per annum. The April 2015 rent review was subsequently settled directly with the occupier at £1,691,000 per annum, a 4% increase and 1% above the estimated rental value.

The Group also acquired a 336,100 sq ft East Midlands distribution warehouse, in Grantham, Lincolnshire for £11.5 million. The property has good access to the UK road network, located immediately adjacent to the A1. The income is secured against The Random House Group Limited (part of Penguin Random House) for eight years and currently produces an annual rent of £1 million, equivalent to just under £3 per sq ft. The purchase price represents a net initial yield of 8.2% and a low capital value of £34 per sq ft.

Demand has outstripped supply in respect of the majority of the Group's Greater London estates, with full occupation in Bromley-by-Bow, Epsom and Radlett, and with active management surrenders facilitating new lettings and higher rents. Four units in Barking are currently being refurbished and we expect strong demand for these.

In the regions we are also seeing demand, albeit at a more subdued level, and we have seven light industrial units to lease out of 64, with a rental value of £312,000 per annum. We expect them all to let relatively quickly.

At the Group's largest holding, Parkbury Industrial Estate in Radlett, we let four vacant units for a combined rent of £383,000 per annum. The combined rental levels were 6% ahead of the estimated rental value. In addition, we removed a June 2015 break clause and simultaneously settled an outstanding rent review at £127,600 per annum, a 5.5% uplift on the previous rent, securing the occupier until 2020. We agreed a back-to-back surrender of an occupier's lease, who were not in occupation, and let the unit on a new ten year lease at a rent of £129,200 per annum (£8.75 per sq ft) which sets a new rental level for this terrace. The transaction increased the lease term on the unit by eight years and the outgoing occupier paid a premium equivalent to the incentive under the new lease. The estate is now fully let.

Middleton Trade Park in Lancashire was sold for £2.2 million. The sale of this 24,000 sq ft multi-let estate followed considerable letting success, which included the letting of six units to a range of occupiers including Screwfix. The sale price was 23% ahead of the apportioned valuation when the asset was purchased as part of Picton's acquisition of Rugby REIT in 2010, and 27% ahead of the March 2014 valuation.

At River Way Industrial Estate in Harlow, we renewed the lease on Fleet House to DHL securing £675,000 per annum, a 31% uplift on the previous passing rent. TNT vacated Unit D in October and this unit was re-let in December, securing £370,000 per annum, which represents an 8% uplift on the previous passing rent. The estate remains fully let.

In respect of the regional assets, there is only one vacant unit at Abbey Business Park in Belfast and we are seeing rental growth, albeit off a low base. We have one vacant unit in Warrington, Oldham and Wokingham, and three in Luton.

Sector outlook

Looking forward, we expect to maintain the high occupancy rate and grow the income profile, led by our Greater London and South East estates. The de-risking of income streams will continue and strong occupational demand means we can negotiate longer leases on renewal with little or no incentive.

Pictured:
Shipton Way, Rushden

Portfolio key metrics

	2015	2014
Value	**£217.7 million**	£164.4 million
Internal Area	**2,736,500 sq ft**	2,116,000 sq ft
Annual Rental Income	**£14.8 million**	£12.3 million
Estimated Rental Value	**£16.5 million**	£12.8 million
Occupancy	**96.5%**	96.9%
Number of Assets	**18**	17

Property	Area (sq ft)	Freehold/ Leasehold
Units A–G2, River Way Industrial Estate, Harlow, Essex	451,700	F
Parkbury Industrial Estate, Radlett, Herts.	336,700	F
Grantham Book Services, Trent Road, Grantham, Lincs.	336,100	L
Belkin Unit, 3 Shipton Way, Rushden, Northants.	312,800	F
Vigo 250, Birtley Road, Washington, Tyne and Wear	246,800	F
Unit 3220, Magna Park, Lutterworth, Leics.	160,900	L
Lawson Mardon Buildings, Kettlestring Lane, York	157,800	F
Units 1–13 Dencora Way, Sundon Park, Luton, Beds.	127,500	L
Haynes Way, Swift Valley Industrial Estate, Rugby, Warwickshire	101,800	L
The Business Centre, Molly Millars Lane, Wokingham, Berks.	99,900	F
Lyon Business Park, Barking, Essex	96,900	F
Easter Court, Gemini Park, Warrington	81,500	F
Abbey Business Park, Mill Road, Newtownabbey, Belfast	61,700	F
Datapoint Business Centre, Cody Road, London E16	51,100	L
Nonsuch Industrial Estate, 1–25 Kiln Lane, Epsom, Surrey	41,700	L
Western Industrial Estate, Downmill Road, Bracknell, Berks.	41,500	F
Manchester Road/Drury Lane, Oldham, Lancs.	16,400	F
Magnet Trade Centre, Winnersh, Reading	13,700	F

	Largest occupiers	% of total portfolio
1	Belkin Limited	4.5
2	DHL Supply Chain Limited*	4.3
3	Snorkel Europe Limited	2.8
4	Viglen Limited*	1.7
5	Amcor Packaging UK Limited	1.5

* Including fixed rental uplift

Investment manager's report

Office portfolio

Queens House, Glasgow

The opportunity we recognised

In 2014 we undertook a comprehensive refurbishment of this central Glasgow period office building creating best in class space to enable lettings in an improving market.

Alongside new common areas, updated signage and lighting, vacant office suites were refurbished on a rolling basis.

The value we added

We completed ten new lettings and retained three occupiers at lease expiry, leading to an increase in occupancy to over 93%.

This enabled a 28% increase in value of the asset over the course of the year.

Key property details

Size	Annual Rent
50,200 sq ft	£466,000
Number of Occupiers	
30	

Creating best in class space

Investment manager's report

Office portfolio

The central London market has continued to drive performance with the portfolio delivering 11% rental growth over the year, but notably we have seen a marked increase in occupational demand in the regions, although location specific, generating rental growth of 3% in respect of this part of the Group's portfolio.

Highlights of the year

We let 43 units at a combined rent of £2.8 million per annum, 9% ahead of the estimated rental value, renewed 11 leases with a combined rent of £1.1 million per annum and surrendered five leases to facilitate active management.

In our largest office letting of the year, education provider BPP took 24,000 sq ft of office space at the newly refurbished Grade A Citylink in East Croydon. BPP occupies the whole of the west wing of the building at an annual rent of £522,000 per annum, which is in line with the estimated rental value. This asset is now 90% occupied, with one small ground floor suite of 4,800 sq ft available.

At Angel Gate in central London, we have implemented an architect-led refurbishment scheme resulting in rental growth of 30% over the year with the refurbished units achieving £40 per sq ft.

Boundary House, EC3 is fully let following four lettings, confirming a new rental level for the property of £36.50 per sq ft. Overall the cumulative annual rent was 11% ahead of the estimated rental value.

Significant refurbishment projects have been completed at Merchants House in Chester and Queens House in Glasgow, where we have had considerable lettings success. We completed ten lettings in Glasgow for a combined rent of £167,000 per annum, leaving only two vacant suites out of 31, and four lettings in Chester for a combined rent of £94,000 per annum. We have good interest in the remaining space at both properties.

At 401 Grafton Gate in Milton Keynes, we renewed a major occupier's lease for a further five years at a rent of £398,750 per annum, in line with the estimated rental value. In addition, we let two vacant office suites to existing occupiers for a combined rent of £240,000 per annum, 2% ahead of the estimated rental value. There is now only one suite available which is currently being refurbished.

At Sentinel House in Fleet we have secured United Business Centres, who are taking two leases for ten years, subject to a break, at a stepped rent to £400,000 per annum, plus a top up rent based on the occupancy of the business centre. The leases will complete after the refurbishment of the property. This will be one of the largest lettings in Fleet in 2015.

We obtained a resolution to grant planning permission for a food store and outline planning for a 70 unit residential scheme at Westlea Campus in Swindon. Subsequent to the year end we have sold the land for the food store to Aldi for £1.65 million. We expect to sell the remaining 4.4 acre site to a residential developer and will report further in the coming months.

In April 2014 we sold the freehold of a non-core asset, The Cloisters, Dartford, for £425,000, which was in line with the March 2014 valuation. The property was purchased in 2010 as part of a larger portfolio for £335,000, following which we surrendered the occupational leases for a premium payment and secured planning consent for residential use, subsequently selling to a developer.

Sector outlook

Our central London portfolio is very well let and the small amount of vacant space is currently being refurbished. The story over the next year is the regional portfolio, and a number of buildings have recently been refurbished including Longcross Court, Cardiff and Merchants House, Chester. We are seeing good demand for the finished product and expect to replicate the success we had at Queens House in Glasgow which is 93% let. The leases at Sentinel House, Fleet will complete by the end of the summer and the only notable void on the horizon is a small office building in Bracknell, where supply continues to reduce.

Pictured:
Queens House, Glasgow

Pictured:
Citylink, Croydon

Portfolio key metrics

	2015	2014
Value	**£173.4 million**	£139.4 million
Internal Area	**799,800 sq ft**	877,000 sq ft
Annual Rental Income	**£10.6 million**	£10.3 million
Estimated Rental Value	**£14.3 million**	£13.0 million
Occupancy	**93.1%**	83.0%
Number of Assets	**20**	21

Property	Area (sq ft)	Freehold/ Leasehold
Colchester Business Park, The Crescent, Colchester, Essex	150,700	L
Longcross Court, Newport Road, Cardiff	72,900	F
Angel Gate Office Village, City Road, London EC1	61,300	F
401 Grafton Gate East, Milton Keynes, Bucks.	57,600	F
Queens House, 19/29 St Vincent Place, Glasgow	50,200	F
800 Pavilion Drive, Northampton Business Park, Northampton	49,500	F
Citylink, Addiscombe Road, Croydon	48,300	F
Boundary House, Jewry Street, London EC3	45,000	F
L'Avenir, Opladen Way, Westwick, Bracknell, Berks.	41,300	F
Sentinel House, Ancells Business Park, Fleet, Hants.	33,600	F
50 Farringdon Road, London EC1	32,000	L
Waterside Park, Longshot Lane, Bracknell, Berks.	30,200	F
Waterside House, Kirkstall Road, Leeds	25,200	F
Atlas House, Third Avenue, Globe Park, Marlow, Bucks.	24,800	F
Merchants House, Crook Street, Chester	22,200	F
Trident House, 42/48 Victoria Street, St Albans, Herts.	19,300	F
1–3 Chancery Lane, London WC2	15,100	F
8–9 College Place, Southampton	11,900	F
Marshall Building,122–124 Donegall Street, Belfast	8,700	F
Land at Westlea Campus, Swindon, Wilts.	–	F

	Largest occupiers	% of total portfolio
1	Cadence Design Systems Limited	2.7
2	Trainline.com Limited	2.3
3	Ricoh UK Limited	1.8
4	BPP Holdings Limited	1.5
5	Essex County Council	1.2

Investment Manager's Report

Retail and Leisure Portfolio

62/68 Bridge Street, Peterborough

The opportunity we recognised

We purchased this asset in September 2014 off an attractive entry price which is in line with the build cost. It provides two large retail units in a top 50 town centre which are let to strong multinational retailers.

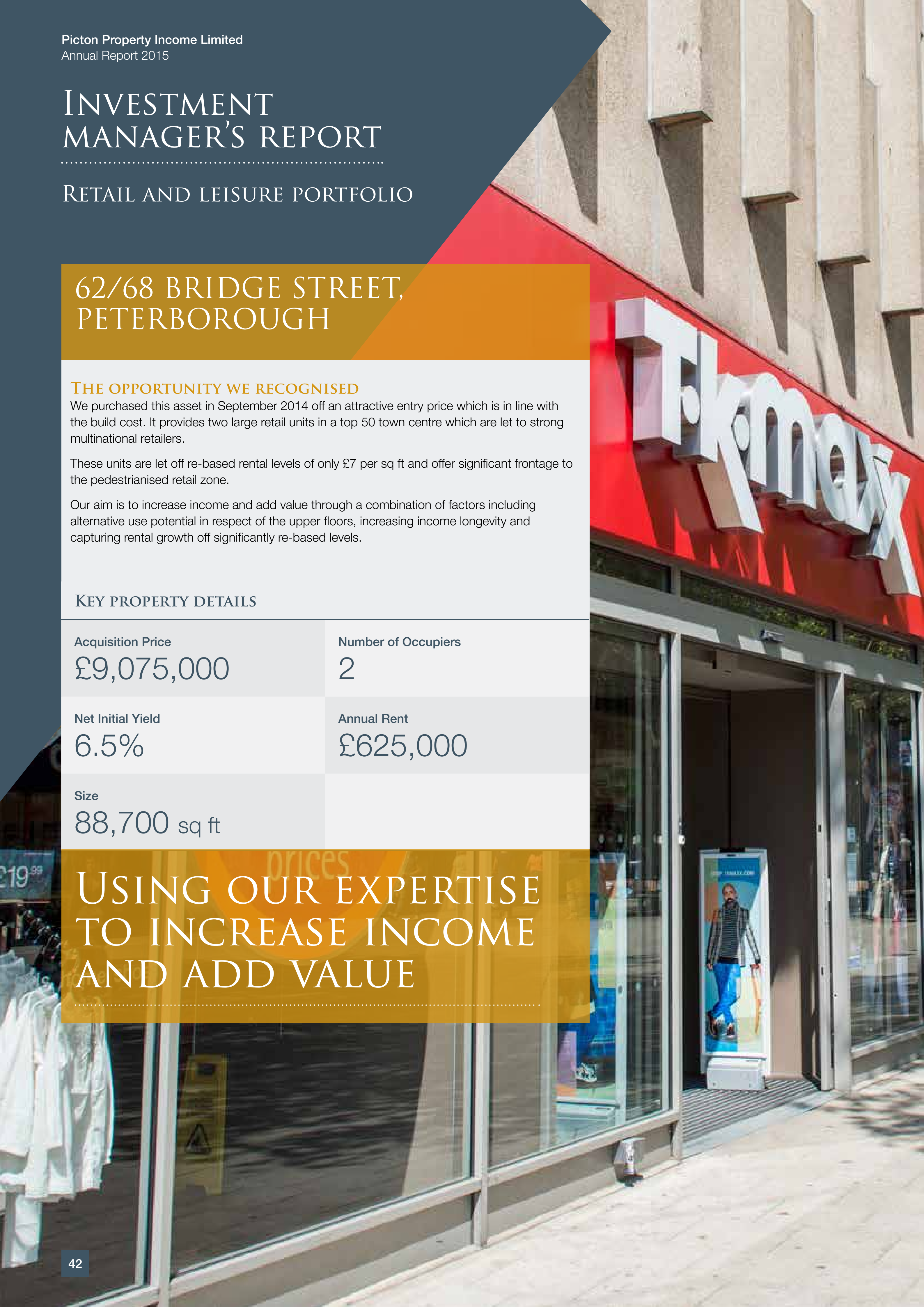
These units are let off re-based rental levels of only £7 per sq ft and offer significant frontage to the pedestrianised retail zone.

Our aim is to increase income and add value through a combination of factors including alternative use potential in respect of the upper floors, increasing income longevity and capturing rental growth off significantly re-based levels.

Key property details

Acquisition Price £9,075,000	Number of Occupiers 2
Net Initial Yield 6.5%	Annual Rent £625,000
Size 88,700 sq ft	

Using our expertise to increase income and add value




TK maxx
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Investment manager's report

Retail and leisure portfolio

Highlights of the year

During the year we let seven units at a combined rent of £250,000 per annum and renewed six leases with a combined rent of £280,000 per annum.

At the year end we had one vacant retail unit in Bristol and two vacant leisure units in Birmingham, which have subsequently been let. In line with the wider market, rental growth has been static during the year.

In September 2014, the Group acquired a freehold city centre retail property in Peterborough for £9.1 million, reflecting a net initial yield of 6.5%. The property, which totals 88,700 sq ft, comprises two prime high street retail units, with significant frontage to the pedestrianised Bridge Street, let to TK Maxx and New Look until 2020 and 2021 respectively. It produces an annual rent of £625,000 reflecting a low average overall rent of £7.00 per sq ft, which is subject to review in 2015 and 2016.

In March 2015 we acquired Gloucester Retail Park for £14.65 million, reflecting a net initial yield of 6.9%. This retail park is prominently located on Eastern Avenue and comprises four units totalling 112,400 sq ft. It is in a recognised retail warehouse location and is leased to leading discount retailers: B&M Bargains, Carpetright, The Range and AHF. It produces a diversified annual income of £1.1 million with an average weighted lease length of 13.2 years, at a low average rent of under £9.60 per sq ft, which reflects recent letting activity.

At 1 Chancery Lane, we proactively surrendered Hammick's lease, paying the occupier £250,000 to vacate. In a back-to-back transaction, we let the unit to Itsu on a 15 year lease at a rent of £165,000 per annum with a nominal incentive. The transaction increased the lease term by eight years, the passing rent by £40,000 per annum and added over £1 million to the value of the property.

We settled the September 2013 rent review on the retail unit at Stanford House, Covent Garden at £785,000 per annum, a 17% uplift from £668,500 per annum.

The lease at 78 Briggate in Leeds was extended by a further five years until 2023. The transaction secures the rent of £177,000 per annum, which is significantly ahead of the estimated rental value, and we gained an improved covenant on the lease.

In Carlisle we secured planning permission to combine four vacant retail units into one. Following this we completed a letting to toy shop chain The Entertainer for 11 years at £65,000 per annum. We also agreed the June 2013 rent review on the Crown and Mitre Hotel, increasing the rent by 23% to £137,500 per annum.

We have surrendered a temporary occupational lease and re-let a unit in Huddersfield at a rent of £42,500 per annum, 6% ahead of the estimated rental value. This improved the occupier line up, with Savers Health & Beauty joining Peacocks and Argos at the property.

We are actively pursuing legal action against the guarantor of the occupational lease of the Strathmore Hotel in Luton and expect this to be resolved by the end of the year.

113/113a High Street, Sutton was sold for £850,000. The sale of this retail unit follows the re-gear of Stan James' lease in 2012 for ten years, with the other unit being let to the Fragrance Shop until 2017. The sale price was 14% ahead of the March 2014 valuation. In addition, having recently restructured the long leasehold with Brighton City Council, we disposed of a small retail and restaurant unit in Bartholomew Square, Brighton, for a combined consideration of £1.1 million. This was in line with the March 2014 valuation.

Sector outlook

Rental growth, outside London, has been muted and we expect a small improvement from the re-based rental levels. The portfolio is very well let and we expect to maintain these high occupancy levels.

Pictured:
Itsu, Chancery Lane, London, WC2

Pictured:
62/68 Bridge Street, Peterborough

Portfolio key metrics

	2015	2014
Value	**£149.7 million**	£119.2 million
Internal Area	**732,300 sq ft**	516,000 sq ft
Annual Rental Income	**£9.2 million**	£8.6 million
Estimated Rental Value	**£9.3 million**	£8.0 million
Occupancy	**96.1%**	95.7%
Number of Assets	**19**	19

Property	Area (sq ft)	Freehold/ Leasehold
Parc Tawe, Phase II, Link Road, Swansea	116,700	L
Gloucester Retail Park, Eastern Avenue, Gloucester	112,400	F
62/68 Bridge Street, Peterborough	88,700	F
Strathmore Hotel, Arndale Centre, Luton, Beds.	81,600	L
Angouleme Way Retail Park, Bury, Greater Manchester	76,200	F/L
17/19 Fishergate, Preston, Lancs.	59,900	F
Regency Wharf, Broad Street, Birmingham	44,300	L
Scots Corner, High Street/Institute Road, Birmingham	30,000	F
56 Castle Street, 2/12 English Street and 12–21 St Cuthberts Lane, Carlisle, Cumbria	25,300	F
Stanford House, 12–14 Long Acre, London WC2	19,700	F
6/12 Parliament Row, Hanley, Staffs.	17,300	F
Units 1–3, 18/28 Victoria Lane, Huddersfield, West Yorks.	14,600	L
53/55/57 Broadmead, Bristol	10,500	L
72/78 Murraygate, Dundee	9,700	F
7 & 9 Warren Street, Stockport	8,700	F
78–80 Briggate, Leeds	7,700	F
2 Bath Street, Bath	4,700	F
6 Argyle Street, Bath	2,500	F
123 High Street, Guildford, Surrey	1,800	F

	Largest occupiers	% of total portfolio
1	Edward Stanford Limited	2.2
2	Asda Stores Limited	1.7
3	Homebase Limited	1.2
4	Central England Co-operative Limited	1.2
5	Barclays Bank PLC	1.2

Continued growth through stable recurring income

Financial Review

This year the Group has produced a very strong set of results. With the completion of the Placing Programme we have raised £102 million of new equity and, together with an increase in the share price of 26%, the market capitalisation of the Company reached £387 million by the year end, an increase of 80% over the year.

We have invested £62 million into new assets, growing and diversifying the portfolio, as well as over £4 million in the existing assets, making these more attractive to occupiers in an improving market. The portfolio made valuation gains of nearly £54 million over the year.

Our new acquisitions, plus the rise in occupancy, have increased net income by over £2 million compared with last year, with the overall income profit up by 15% from 2014. This has given us the confidence to increase the level of the dividend subsequent to the year end.

It is pleasing to see the benefits of our internalised structure evident in the fall in the Ongoing Charges ratio, down some 29% compared to last year.

We have established a new three-year revolving credit facility with Santander for £26 million, which will provide us with greater financial flexibility in the medium term.

Andrew Dewhirst
Finance Director, Picton Capital Limited
8 June 2015

EPRA Best Practices Recommendations

The EPRA key performance measures for the year are set out on page 5 of the Report, with more detail provided in the EPRA Disclosures section which starts on page 94. There are further references to the Best Practices Recommendations in the Financial Review under the appropriate headings, and again more detail is provided in the EPRA Disclosures section.

EPRA

Pictured:
CityLink, Croydon

Financial Review

The Group's net asset value increased over the year from £214.1 million to £370.0 million, an overall increase of £155.9 million, or over 70%.

Net asset value

The main factor behind the increase was the new equity raised during the year, of £102 million before costs. However, there have also been strong valuation gains of £53.6 million, contributing to earnings per share of 15.4 pence for the year. On a per share basis, the net asset value rose from 56 pence to 69 pence, or 23%.

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).

	2015 £m	2014 £m	2013 £m
Net asset value – EPRA and IFRS	**370.0**	214.1	169.4
Fair value of debt	**(19.8)**	17.8	5.7
EPRA Triple Net Asset Value	**350.2**	231.9	175.1
Net Asset Value per share (pence)	**69**	56	49
EPRA Net Asset Value per share (pence)	**69**	56	49
EPRA Triple Net Asset Value per share (pence)	**65**	61	51

Total Revenue
£39.7 million

Dividend
3.0 pence

Property Assets
£532.7 million

Income statement

Total revenue from the property portfolio was £39.7 million, an increase of 7.9% over 2014. This reflects the additional income generated from the new assets acquired in the year and from the improved occupancy rate. Property expenses are also higher, at £9.3 million, but at 3.6%, a lower rate than the growth in revenue.

The like-for-like change in rental income compared to the previous year, on an EPRA basis, is set out in the EPRA Disclosures on page 96.

Operating expenses increased from 2014, and this is largely a result of higher staff costs arising from the increased value of LTIP awards. Although this increase is not significant in the context of the increased shareholder value generated, it has impacted management costs this year, and is evidence of the alignment between management and shareholders.

Financing costs are largely unchanged from 2014, as would be expected with the Group's fixed long-term borrowings in place.

As stated above, there were positive valuation movements of £53.6 million for the year, representing a 13.9% like-for-like unrealised gain across the portfolio.

The Group is subject to UK tax on its net property income and management fees, in total £0.3 million for the year. The Group has agreed Advance Thin Capitalisation Agreements with HMRC in respect of the majority of its UK income, and these are in place until 31 March 2017, when the position will be reviewed.

The income profit for the year was £15.3 million, an increase of 15% from 2014. This, together with the capital gains, resulted in a total profit for the year of £68.9 million.

Dividends

We paid four quarterly dividends of 0.75 pence per share, giving a total of 3 pence for the year, in line with 2014. Dividend cover remained healthy at 117%, if lower than the 124% of the previous year. Cover has been impacted by new rents being set at re-based market levels and to a lesser extent by the lag in investing the new equity. However, given the increase in revenue and improved occupancy, the Board has decided to increase the dividend to an annual rate of 3.3 pence per share, a 10% uplift. This was effective from the dividend paid in May.

Investment properties

The fair value of our investment property portfolio increased to £532.9 million at 31 March 2015, up from £417.6 million. Included within this uplift are acquisitions of £62.0 million, which are detailed in the Investment Manager's Report, and capital expenditure across the existing portfolio of £4.1 million, enhancing the quality of the assets and space available. Four small non-core assets were disposed of, for proceeds of £4.4 million, realising a small gain compared to the 2014 valuation. The overall revaluation gain was £53.2 million, representing a 13.9% like-for-like increase in the valuation of the portfolio. At 31 March 2015 the portfolio comprised 57 assets, so an average lot size of £9.5 million.

A further analysis of capital expenditure, in accordance with EPRA Best Practice Recommendations, is set out in the EPRA Disclosures section on page 96.

Borrowings

Total borrowings remained stable at £232.8 million this year. Our senior loan facilities with Canada Life and Aviva remained in place, reduced only by the amortisation of the Aviva facility (£1.0 million in the year). The Group remained fully compliant with the loan covenants throughout the year.

Our unsecured loan notes, arising from the Rugby acquisition in 2010, were fully repaid before the year end from surplus cash, thus reducing the total borrowings by £2.0 million.

Our 22 million zero dividend preference shares continued to roll up additional capital at an annual rate of 7.25%, £1.8 million over the year. These shares mature in October 2016, the earliest maturity of any of our borrowings.

In March 2015 we agreed a new three year revolving credit facility with Santander Corporate Banking, for £26 million. The facility pays interest at 175 basis points over three month LIBOR, and will give flexibility in the financing of potential new asset acquisitions, as well as a potential solution to the ZDP maturity next year.

The Group's loan-to-value ratio fell to 30.1% at 31 March 2015, due to the increase in size of the portfolio but also influenced by the cash balance at the year end, arising from the recent equity issue. The ratio will increase once these funds are fully invested.

The fair value of our borrowings at 31 March 2015 was £252.6 million, higher than the book amount, due to the current very low gilt rates and lower margins in the lending market.

Capital structure

Following the issues of equity during the year, our share capital has increased by over £100 million, to £157.3 million. Retained earnings increased by £55.7 million, comprising the total profit for the year of £68.8 million less the dividends paid of £13.1 million.

Our net gearing ratio, using the method prescribed by the AIC, has fallen from 101.7% as at 31 March 2014 to 48.9% at 31 March 2015. Further details are provided in the Supplementary Disclosures section.

Cash flow and liquidity

Our cash balances increased to over £70 million at the year end, boosted by the final tranche of the Placing Programme undertaken in March 2015. Of the £102 million raised through the Programme, £62 million had been invested in new assets during the year, and a further £4 million was utilised as capital expenditure on the existing portfolio. Subsequent to the year end a further £20 million has been invested in new assets.

A summary of our borrowings is set out below:

	2015	2014	2013
Total borrowings (£m)	**232.8**	234.0	233.4
Borrowings net of cash (£m)	**162.8**	201.7	210.5
Undrawn facilities (£m)	**26.0**	–	–
Loan to value ratio (%)	**30.1**	47.7	54.5
Weighted average interest rate (%)	**4.6**	4.5	4.5
Average duration (years)	**12.4**	13.4	14.5

Governance

Continued growth through depth of expertise

Chairman's introduction

The Board is committed to maintaining a high standard of corporate governance and transparency throughout the business. I am pleased that the independent Board evaluation carried out by Trust Associates concluded that the Board was operating effectively.

As a member of the Association of Investment Companies, we comply with the AIC Code, which ensures the Group meets its obligations under the UK Corporate Governance Code.

In the last year we have set up a separate Risk Committee, in order to assist the Board in discharging its responsibilities with regard to risk management, following the implementation of the EU Alternative Investment Fund Managers Directive.

At our meeting in May 2015 we concluded that it is now appropriate to have a distinct forum through which to address matters of Board succession, and therefore it was resolved to establish a Nominations Committee, which I will chair. The first meeting of this Committee has taken place and recommended that Michael Morris be appointed from 1 October 2015.

The Board agreed that the duties of the Management Engagement Committee will be assumed by the whole Board in future, which we consider to be more in keeping with an internally managed company.

I would like to thank shareholders for their support in passing all of the resolutions presented at last year's Annual General Meeting. However, as a Board we were disappointed that a number of shareholder advisory organisations, who make recommendations on governance and voting, took a contrary stance on a small number of resolutions with one refusing to engage with the Board or present our rationale for the recommendations to its clients.

Finally I would again like to express my thanks to Trevor Ash, who is stepping down on 30 September 2015, for his invaluable contribution to the Board since the launch of the Company in 2005.

Nicholas Thompson
Chairman
8 June 2015

Find out more:

Read more about our **Audit Committee** on pages 58 and 59

Read more about our **Risk Committee** on page 64

Read more about our **Property Valuation Committee** on page 60

Read more about our **Corporate Governance** on pages 56 and 57

Read more about **Remuneration** on pages 62 and 63

BOARD OF DIRECTORS

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1

Nicholas Thompson
Chairman

Age 66, was formerly Director and Head of Fund and Investment Management at Prudential Property Investment Management and has served on the Board as Chairman since 2005. He is currently Chairman of MSCI/IPD's UK & Ireland Consultative Group, a director of the Lend Lease Retail Partnership and an independent director of the Association of Real Estate Funds. He is a Fellow of the Royal Institution of Chartered Surveyors and a member of the Property Forum of the Association of Investment Companies.

2

Trevor Ash
Chairman of the Management Engagement Committee

Age 69, was formerly Managing Director of Rothschild Asset Management (CI) Limited (until 1999) and a non-executive director of Rothschild Asset Management Limited. He retired as a director of NM Rothschild & Sons (CI) Limited in 2007. He is a director of a number of funds managed by Merrill Lynch, JPMorgan, Rothschild Group and Insight. He is also a Fellow of the Chartered Institute for Securities & Investment.

3

Robert Sinclair
Chairman of the Audit Committee

Age 65, is Managing Director of the Guernsey based Artemis Group and a director of a number of investment fund management companies and investment funds associated with clients of that Group. He has served on the Board since 2005. Robert is Chairman of Schroder Oriental Income Fund Limited, Chairman of Sirius Real Estate Limited, a director of Secure Property Development & Investment Limited and a director of Chariot Oil & Gas Limited. He is a Fellow of the Institute of Chartered Accountants in England and Wales, and a member of the Institute of Chartered Accountants of Scotland.

4

Roger Lewis
Chairman of the Property Valuation Committee

Age 67, has extensive experience in the property sector, most recently as a director of Berkeley Group Holdings Plc for over 15 years, the last eight of which was as Chairman, a position from which he retired at the end of July 2007. He subsequently acted as a consultant to the Berkeley Group and is currently a non-executive director of three Jersey based subsidiaries of the Berkeley Group, as well as being a director of the States of Jersey Development Company Limited. Prior to this, he was UK Group Chief Executive Officer of Crest Nicholson Group PLC from 1983 to 1991. He is also currently a director of Grand Harbour Marina Plc (Malta), of Camper and Nicholsons Marina Investments Limited and of Cambian Global Timberland Limited. He was appointed to the Board in 2010.

5

Vic Holmes
Chairman of the Remuneration Committee

Age 58, was Chief Executive of Northern Trust's businesses in the Channel Islands until he retired from full-time employment in November 2011. He joined the Board on 1 January 2013. He serves as a director for a number of companies involved in the funds sector, for groups such as Permira, Ashmore, Foreign and Colonial, DBAG, Roundshield and Renshaw Bay. He is also a director of Next Energy Solar Fund Limited (a London Listed Company) and was elected as Chairman of the Guernsey Investment Funds Association in April 2013 and retired from that position in April 2015. He is a Fellow of the Association of Chartered Certified Accountants.

Investment Management Team

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The investment management team comprises 12 permanent employees, and includes six real estate professionals, three qualified accountants and three further support employees.

1

Michael Morris
Chief Executive

Michael, age 42, is Chief Executive of Picton Capital Limited and is responsible for devising and overseeing the implementation of all aspects of the Company's investment strategy. Formerly, he was Director and Fund Manager at ING Real Estate Investment Management (UK) Limited, and he has worked with the Group since it launched in 2005. He has over 20 years of real estate experience and is a member of the Investment Property Forum. Michael sits on the Property Panel of the Association of Investment Companies and the CPD steering committee of the Investment Property Forum. He has obtained the Investment Management Certificate and the IPF Diploma in Property Investment.

2

Andrew Dewhirst
Finance Director

Andrew, age 55, joined Picton Capital Limited as Finance Director in March 2011. Previously he was Director of Client Accounting at ING Real Estate Investment Management (UK) Limited, a role he had held since January 2006. At ING he was responsible for the accounting and administration of all the UK real estate vehicles and separate client accounts. Prior to joining ING Andrew was Director of Securities and Property Accounting at Hermes Pensions Management Limited. He has over 25 years' experience in the real estate and financial services sector. Andrew is an associate member of the Institute of Chartered Accountants in England and Wales and a member of the Investment Property Forum.

3

Jay Cable
Director

Jay, age 37, is Head of Asset Management at Picton Capital Limited. In this role he is responsible for overseeing all asset management activities in respect of the Group's property portfolio. Formerly he was Director at ING Real Estate Investment Management (UK) Limited, and has worked with the Group since it launched in 2005. Jay plays an active role in devising and implementing the Company's strategy and is a member of Picton Capital's Investment Committee. He has over 15 years of real estate experience and is a member of the Royal Institution of Chartered Surveyors and of the Investment Property Forum.

4

Fraser D'Arcy
Investment Director

Fraser, age 39, joined Picton Capital Limited as Investment Director in January 2013. He is primarily responsible for transactional activity within the portfolio to manage effective recycling of capital. Previously he was an Investment Surveyor at Threadneedle Property Investments Limited from 2006, where he was responsible for acquisitions and disposals in all sectors across the UK market. Prior to this he was an Associate Director at Insight Investment, having started his career at Scottish Widows Investment Partnership as an Investment Manager. He has 15 years of investment experience in UK real estate and has obtained the Investment Management Certificate. Fraser is a member of the Royal Institution of Chartered Surveyors and of the Investment Property Forum.

5

James Forman

James is the Financial Controller at Picton Capital Limited. In this role, he is responsible for all the accounting and financial reporting for the Group. Previously at ING Real Estate Investment Management (UK) Limited, he has worked with the Group since 2005. James is a Fellow of the Association of Chartered Certified Accountants.

6

Laurence Jones

Laurence Jones is a Senior Asset Manager at Picton Capital Limited, and a member of the Royal Institution of Chartered Surveyors. In this role, he is responsible for delivering all the asset management initiatives required to fulfil the portfolio's strategy. He has 11 years of real estate experience and has worked on the Group's portfolio since July 2007.

7

Clare Bunning

Clare Bunning is responsible for the day-to-day management of the office and oversees all aspects of administration support within the Company. She joined ING Real Estate Investment Management (UK) Limited in May 2007 and has worked with the Group since then.

8

Tim Hamlin

Tim Hamlin is an Asset Manager at Picton Capital Limited and a member of the Royal Institution of Chartered Surveyors. He is responsible for the formulation and implementation of asset level business plans in line with the overall portfolio strategy. He has eight years of real estate experience and seven years working with the Group's portfolio.

9

Sonya Kapur

Sonya Kapur joined Picton Capital Limited in January 2012. Previously she worked at BNP Paribas Real Estate as an investment analyst. She is responsible for all aspects of analysis and research within the Company. Sonya has the IPF Diploma in Property Investment.

10

Adam Green

Adam Green joined Picton Capital Limited in January 2012 from Invista Real Estate Investment Management as Accounts Assistant.

11

Sarah Barnes

Sarah Barnes joined Picton Capital Limited in June 2014 and provides administration support to the team.

12

Matthew Barker

Matthew Barker joined Picton Capital Limited as an Asset Manager in August 2014 from JLL. He is a member of the Royal Institution of Chartered Surveyors and is responsible for assisting with the asset management and performance of the property portfolio in order to deliver superior returns.

Corporate governance report

As a member of the Association of Investment Companies ("AIC"), the Company has been reporting against the principles and recommendations of the AIC Code of Corporate Governance (the "AIC Code") and the accompanying AIC Corporate Governance Guide for Investment Companies (the "AIC Guide"). In these financial statements, the Company is reporting against the February 2013 AIC Code and AIC Guide which take into account updates made to the UK Corporate Governance Code in September 2012. The February 2015 AIC Code and AIC Guide take into account updates made to the UK Corporate Governance Code in September 2014, which applies to accounting periods beginning on or after 1 October 2014 and will therefore be adopted in the Group's 31 March 2016 financial statements.

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

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

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

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

The board

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

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

Composition

The Company is led and controlled by a Board composed of non-executive Directors, all of whom have wide experience and are considered to be independent.

In making any new appointment the Board will consider a number of factors, but principally the skills and experience that will be relevant to the specific role and that will complement the existing Board members.

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

The Board considers that the length of time each Director, including the Chairman, serves on the Board should not be limited and therefore has not set a finite tenure policy. This issue, as well as that of future succession planning, is reviewed annually as part of the Board evaluation process, and as a result of the latest evaluation further arrangements have been put in place to secure continuity.

The Board believes that it is in the shareholders' best interests for the Chairman to be the point of contact for all matters relating to the governance of the Company and as such has not appointed a senior independent non-executive Director.

Alternative investment fund managers directive

This Directive is European legislation which creates an EU-wide framework for regulating an alternate investment fund manager (AIFM). The Group's activities fall within the scope of the Directive and the Board has determined that the Company itself will act as AIFM for these purposes.

Non-mainstream pooled investments

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

Committees

The Board has established five Committees: Audit, Remuneration, Property Valuation, Risk and Nominations. The terms of reference for these Committees are available on the Company's website.

Attendance at board and committee meetings

	Board (4 meetings)	Audit (3 meetings)	Remuneration (4 meetings)	Property Valuation (4 meetings)	Risk (4 meetings)
Nicholas Thompson	4	3	4	4	4
Robert Sinclair	4	3	3	4	4
Trevor Ash	3	3	4	3	3
Roger Lewis	4	3	4	4	4
Vic Holmes	3	3	4	3	3

The above meetings were the scheduled Board and Committee meetings. No meetings of the Management Engagement Committee were held during the year, but one has subsequently been held during May 2015. The first meeting of the Nominations Committee took place in June 2015. Additional meetings were held to deal with other matters as required and are not included above.

Evaluation

The performance of the Board and its Committees is evaluated on an annual basis. This is carried out by external consultants every three years and internally by the Directors for intervening years. An external evaluation was performed in August 2014, by Trust Associates, who have carried out previous external evaluations. The evaluation concluded that 'this appears to be a Board with all the necessary skills, knowledge and commitment to be effective in overseeing the management of the Company and safeguarding shareholders' interests'. The specific recommendations of the evaluation were considered by the Board at its meeting in November 2014 and appropriate actions agreed.

Internal control and risk management

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

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

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

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

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

Relations with shareholders

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

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

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

Audit Committee Report

The Audit Committee comprises all of the Directors of the Company and is chaired by Robert Sinclair.

Meetings of the Audit Committee are attended by the Finance Director of Picton Capital Limited and other members of the finance team, and the external auditor. The external auditor is given the opportunity to discuss matters without management presence.

Terms of reference

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

- Financial reporting, including significant accounting judgements and accounting policies
- Internal controls and risk management systems
- The Group's relationship with the external auditor, including effectiveness and independence
- Internal audit and the programme of controls testing
- Reporting responsibilities

Activity

The Committee met three times during the year ended 31 March 2015 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 business risks and internal controls and risk review
- 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 2015 Annual Report was fair, balanced and understandable and whether it provided the necessary information for shareholders to assess the Group's performance, business model and strategy.

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

The valuation is conducted on a quarterly basis by independent valuers, and is subject to oversight by the Property Valuation Committee. It is a key component of the annual and half year financial statements and is inherently subjective, requiring significant judgement. Members of the Property Valuation Committee, together with the Investment Manager, meet with the independent valuer on a quarterly basis to review the valuations and underlying assumptions, including the year end valuation process. The Chairman of the Property Valuation Committee reported to the Audit Committee at its meeting in May 2015 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 Committee reviewed the report from the Chairman of the Property Valuation Committee including the assumptions applied to the valuation and considered their appropriateness, as well as considering current market trends and conditions, and valuation movements compared to previous quarters. The Audit Committee considered the valuation and agreed that this was appropriate for the financial statements.

The Committee was satisfied that the 2015 Annual Report is fair, balanced and understandable and included the necessary information as set out above, and it has confirmed this to the Board.

Internal controls

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

As part of this process, a risk matrix has been prepared that identifies the Company's key functions and the individual activities undertaken within those functions. From this, the Board has identified the Company's principal risks and the controls employed to manage those risks. These are reviewed at each Audit Committee meeting. Also the Audit Committee has agreed a programme of additional controls testing which is carried out by the external auditor, in order to provide the Board with comfort that the controls are operating as intended and have been in place throughout the year. The Board also monitors the investment performance of the Company against its objectives and receives reports from the Investment Manager and Administrator each quarter on their activities. The Audit Committee has received and reviewed a copy of CBRE Limited's Real Estate Accounting Services – Service Organisation Control Report as at 31 December 2014, prepared in accordance with International Standard on Assurance Engagements 3402, in respect of property management accounting services provided to Picton Capital Limited.

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

Independence of Auditor

It is the policy of the Audit Committee that non-audit work will not be awarded to the external auditor if there is a risk their independence may be conflicted. 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:

	Year ended 31 March 2015 £000	Year ended 31 March 2014 £000
Audit fees	**119**	119
Interim review fees	**19**	20
Non-audit fees	**25**	17
	163	156

The non-audit fees include £14,000 for additional controls testing, £7,000 for tax compliance services, both carried out by KPMG Channel Islands Limited, and £4,000 in respect of the Picton Capital FCA CASS review, carried out by KPMG LLP.

Annual auditor assessment

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

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

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

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

KPMG Channel Islands Limited have been auditor to the Group since the year ended 31 December 2009 following a tender process in July 2009. The Senior Statutory Auditor, Neale Jehan, has served three years in this position.

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

Robert Sinclair
Chairman of the Audit Committee
8 June 2015

Property valuation committee report

The Property Valuation Committee comprises all of the Directors of the Company and is chaired by Roger Lewis.

Terms of reference

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

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

Activity

The Committee met four times during the year ended 31 March 2015. Members of the Property Valuation Committee, together with the Investment Manager, met with the independent valuer each quarter to review the valuations and considered the following matters:

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

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

Appointment of valuer

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

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

8 June 2015

Dear Sirs

PICTON PROPERTY PORTFOLIO — VALUATION AS AT 31 MARCH 2015

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

On the basis, assumptions, terms and conditions as set out within our Valuation Report dated 31 March 2015, we are of the opinion that the aggregate values of the properties we value in the Picton Fund, as at 31 March 2015, is £540,905,000 (FIVE HUNDRED FORTY MILLION NINE HUNDRED AND FIVE THOUSAND POUNDS), exclusive of VAT.

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

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

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

Yours faithfully

NJ Knight.

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

Remuneration Report

The Remuneration Committee comprises all of the Directors of the Company and is chaired by Vic Holmes.

Terms of reference

The Committee will consider the following matters:

- Appointment of, and setting the terms of reference for, any remuneration consultants
- Setting and reviewing remuneration levels for the Directors, within the limit set by the Company's Articles of Association
- Recommending remuneration policies to the Board for Directors and senior management of Picton Capital Limited
- Reviewing remuneration trends across the sector

Activity

The Committee met four times during the year ended 31 March 2015 and considered the following matters:

- Remuneration trends across similar property companies
- Remuneration review and Long Term Incentive Plan awards for Picton Capital Limited employees
- Appointment of external consultants to review the level of Directors' fees
- Performance of the Committee

Remuneration policy

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

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

Directors receive an annual fee as set out on page 63. Directors will not receive share options or other performance related elements.

The Committee has determined the remuneration policy for the management and staff of Picton Capital Limited following independent advice from external advisers.

Terms of employment

The terms of appointment of the Directors are documented in letters of appointment. They have a six month notice period and their appointment would terminate without compensation if not re-elected at the Annual General Meeting. The Directors have no service contracts or interests in any material contracts with the Group.

Directors' fees

All of the Directors of the Company are non-executive and their fees are recommended by the Board. The level of Directors' fees was independently reviewed in September 2014 by Deloitte against a benchmark group of similar companies. Following consideration of the report from Deloittes, the Remuneration Committee recommended the following annual fee rates, which were set between the lower and median quartiles of the benchmarked range. The Board approved this recommendation and the new rates became effective on 1 January 2015.

	Annual rate £
Chairman	82,500
Chairman of the Audit Committee	43,000
Chairman of the Property Valuation Committee	40,000
Chairman of the Remuneration Committee	40,000
Director	36,000
	241,500

The total fees earned by each Director for the year ended 31 March 2015 were as follows:

	31 March 2015 £	31 March 2014 £
Nicholas Thompson	**67,875**	63,000
Robert Sinclair	**39,250**	38,000
Trevor Ash	**33,750**	33,000
Roger Lewis	**36,250**	35,000
Vic Holmes	**34,750**	33,000
	211,875	202,000

No additional fees were earned above the annual expected time commitment for the year ended 31 March 2015. The Company's Articles set an annual limit of £300,000 for Directors' remuneration.

Picton Capital Limited remuneration

The Group's Investment Manager employed 12 staff as at 31 March 2015 (2014: 11 staff).

The policy and components of remuneration set by the Committee in respect of Picton Capital Limited directors and staff are as follows:

Base salary
Base salaries are based on market data provided by the Company's independent advisers. Base salaries are reviewed annually on 1 April.

Pension
The Group makes contributions for eligible employees into a Group personal pension plan to a maximum of 12% of base salary. Further contributions to a maximum of 5% will be paid by the Group if matched by additional voluntary contributions by the employee.

Annual bonus
A discretionary annual bonus may be awarded to recognise individual performance. An award will take into account three factors: the underlying performance of the Group, the underlying real estate return and the individual's performance. Bonus payments are not pensionable. An element of any award will be made in units in the Long Term Incentive Plan.

Long Term Incentive Plan
A share-based long-term incentive plan has been established that aligns remuneration with that of shareholders. Any award under the plan is linked to both share price movement and dividend distributions. Awards will normally vest in either two or three years.

Other benefits
These include private medical insurance and life cover.

In considering the salary and bonus review for 2015, the Committee received an independent benchmarking review, which considered market salaries and benefits for each member of the Picton Capital team. The Committee also considered the key performance indicators for the year in relation to individual and team objectives set at the start of the year. In conclusion, the Committee determined that there would be an overall increase of 12.7% in base salaries from 1 April 2015 (2014: 2.8%).

For the year ended 31 March 2015, the Committee agreed that bonuses awarded to Picton Capital staff would total £379,000 payable on 31 March 2015 (2014: £242,000) and £516,000 in Long Term Incentive Plan awards (2014: £353,000). The Long Term Incentive Plan awards were made at the prevailing share price, and equate to 720,000 units, of which 360,000 units vest on 31 March 2017 and 360,000 units vest on 31 March 2018. The cost to the Group of awards made is spread over the vesting periods in accordance with its accounting policy. The accrued cost at 31 March 2015 was £635,000 (2014: £321,000). A summary of the awards made to Picton Capital staff is set out in Note 7 to the financial statements.

Share ownership

Directors and employees are encouraged to maintain a shareholding in the Company's shares to provide alignment with investors, although in the case of Picton Capital staff, alignment is also achieved through awards under the Long Term Incentive Plan.

The numbers of shares beneficially held by each Director and senior management (including spouses), as at 31 March 2015, were as follows:

Directors	Shares
Nicholas Thompson *	184,836
Robert Sinclair	15,000
Trevor Ash	350,000
Roger Lewis	530,000
Vic Holmes	–

Senior management	Shares
Michael Morris†	53,596
Andrew Dewhirst	15,000
Jay Cable	9,505
Fraser D'Arcy	–

* Includes 81,634 shares held by Mrs Elizabeth Thompson

† Includes 28,596 shares held by Mrs Joanne Morris

Mrs Elizabeth Thompson additionally holds 45,249 zero dividend preference shares issued by Picton ZDP Limited.

Members of senior management also hold units in the Long Term Incentive Plan. At 31 March 2015 the number of units that had been awarded to senior management and yet to vest was 1,457,640 (2014: 1,161,781).

Risk committee report

The Risk Committee comprises all of the Directors of the Company and is chaired by Nicholas Thompson.

The Risk Committee was established to ensure that the Company addressed its responsibilities under the Alternative Investment Fund Managers Directive in respect of risk management.

Terms of reference

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

- Adoption of the Group's Risk Management Policy
- Monitoring and evaluating the risks relating to the Group
- Providing guidance to the Board in respect of those risks
- Evaluation of the Group's risk profile and risk appetite, and whether these are aligned with its investment objectives
- Consideration of the current macroeconomic and financial environment relevant to risk policies
- Ensuring that key risks are being effectively measured, managed and mitigated

Activity

The Committee met four times during the year ended 31 March 2015 and considered the following matters:

- The Risk Management Policy for the Group
- Oversight responsibility and interaction with the Audit Committee
- The Risk Matrix and mitigating controls

Risk management policy

The Risk Committee has considered and adopted a Risk Management Policy for the Group, and considered where oversight and responsibility for each area of risk lies, being the Board, the Risk Committee or the Audit Committee.

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

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

Risk committee oversight

The Risk Committee's principal area of oversight covers the investment management function, specifically relating to:

- Property performance
- Portfolio management
- Acquisitions and disposals

Directors' report

The Directors of Picton Property Income Limited present the Annual Report and audited financial statements for the year ended 31 March 2015.

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

Principal activity

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

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

Results and dividends

The results for the year are set out in the Consolidated Statement of Comprehensive Income. As set out in Note 11 to the consolidated financial statements, the Company has paid four interim dividends of 0.75 pence per share, making a total dividend for the year ended 31 March 2015 of 3.0 pence per share (2014: 3.0 pence). The Directors have subsequently resolved to increase the dividend payable, and the interim dividend paid on 29 May 2015 was for 0.825 pence per share.

Directors and directors' interests

The Directors of the Company who served throughout the year are set out on page 52.

The Directors' interests in the shares of the Company as at 31 March 2015 are set out in the Remuneration Report.

Listings

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 2015 was 540,053,660 (31 March 2014: 379,869,729) ordinary shares of no par value.

On 1 May 2014 the Company announced an Offer for Subscription and Placing Programme for the issue of up to 170 million new ordinary shares. Under the Initial Placing and Offer for Subscription the Company issued 59,322,034 new ordinary shares at 59 pence per share, raising £35 million before costs. Under the Placing Programme the Company has subsequently raised a further £67 million through the issue of 100,861,897 new ordinary shares. Full details are set out in Note 20 to the consolidated financial statements. The Placing Programme is now closed.

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 this authority from shareholders. 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.

Statement of going concern

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

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

Directors' Report

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 28 May 2015.

	% of issued share capital
Investec Wealth & Investment Limited	18.6
Blackrock Inc	6.1
Premier Fund Managers Limited	5.3
Seven Investment Management	4.1
J O Hambro Capital Management	4.0
Thames River Capital	3.3
Alliance Trust Savings Limited	3.3
Brewin Dolphin Limited	3.3
Rathbone Investment Management	3.2

Disclosure of information to auditor

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

Auditor

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

Statement of directors' responsibilities

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

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

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company 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 and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

The Directors confirm that to the best of their knowledge and belief the report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary to assess the Company's performance, business model and strategy.

Directors' responsibility statement under the Disclosure and Transparency Rules 4.1.12

The Directors confirm to the best of their knowledge and belief:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report includes a fair review of development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By Order of the Board

Robert Sinclair
8 June 2015

Financial Statements

Independent auditor's report

to the members of Picton Property Income Limited

Opinions and conclusions arising from our audit

Opinion on financial statements

We have audited the consolidated financial statements (the "financial statements") of Picton Property Income Limited (the "Company") and its subsidiaries (together, the "Group") for the year ended 31 March 2015 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as issued by the IASB. In our opinion, the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 March 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as issued by the IASB; and
- comply with the Companies (Guernsey) Law, 2008.

Our assessment of risks of material misstatement

The risks of material misstatement detailed in this section of this report are those risks that we have deemed, in our professional judgement, to have had the greatest effect on: the overall audit strategy; the allocation of resources in our audit; and directing the efforts of the engagement team. Our audit procedures relating to these risks were designed in the context of our audit of the financial statements as a whole. Our opinion on the financial statements is not modified with respect to any of these risks, and we do not express an opinion on these individual risks.

In arriving at our audit opinion above on the financial statements, the risk of material misstatement that had the greatest effect on our audit was as follows:

Valuation of Investment Properties (£532.9 million)

Refer to page 58 of the Report of the Audit Committee, Note 2 Significant accounting policies and Note 14 Investment properties disclosures.

- **The risk**
  The Group's property portfolio accounted for 85.8% of the Group's total assets as at 31 March 2015. The fair value of the investment properties at 31 March 2015 was assessed by the Board of Directors based on an independent valuation prepared by the Group's external property valuer. As highlighted in the Audit Committee Report, the valuation of the Group's property portfolio, given it represents the majority of the total assets of the Group and requires the use of significant judgement and subjective assumptions, is a significant area of our audit.
- **Our response**
  Our audit procedures with respect to the valuation of the Group's investment properties included, but were not limited to, testing the design, implementation and operating effectiveness of the relevant controls, involvement of our own Real Estate specialist, to examine the valuation prepared by the external property valuer and to evaluate the appropriateness of the valuation methodologies and assumptions used, including reviewing general market information and undertaking discussions on key findings with the external valuer.

  We challenged the external valuer's assumptions and data by comparing key inputs to the valuation such as current rental income and initial and equivalent yields, for consistency with other audit findings. We also considered the Group's disclosures in relation to the use of estimates and judgements regarding fair value of investment properties and the Group's valuation policies adopted and fair value disclosures in Note 2 and Note 14 for compliance with International Financial Reporting Standards as issued by the IASB.

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

Materiality is a term used to describe the acceptable level of precision in financial statements. Auditing standards describe a misstatement or an omission as "material" if it could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The auditor has to apply judgement in identifying whether a misstatement or omission is material and to do so the auditor identifies a monetary amount as "materiality for the financial statements as a whole".

The materiality for the financial statements as a whole was set at £5.2 million. This has been calculated using a benchmark of the Group's total assets (of which it represents approximately 1%) which we believe is the most appropriate benchmark as investment property values are considered as the prime driver of returns to shareholders and main focus of users of the financial statements.

We agreed with the Audit Committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £262,000, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

The Group audit team performed the audit of the Group as if it was a single operating entity based on the aggregated set of financial information for the Group. The audit was performed using the materiality levels set out above and covered 100% of total Group revenue, Group profit before taxation and total Group assets.

Our assessment of materiality has informed our identification of significant risks of material misstatement and the associated audit procedures performed in those areas as detailed above.

Whilst the audit process is designed to provide reasonable assurance of identifying material misstatements or omissions it is not guaranteed to do so. Rather we plan the audit to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements does not exceed materiality for the financial statements as a whole. This testing requires us to conduct significant depth of work on a broad range of assets, liabilities, income and expense as well as devoting significant time of the most experienced members of the audit team, in particular the Responsible Individual, to subjective areas of the accounting and reporting process.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Matters on which we are required to report by exception

Under International Standards on Auditing [ISAs] (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the Annual Report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy; or
- the Audit Committee Report does not appropriately address matters communicated by us to the Audit Committee.

Under the Companies (Guernsey) Law, 2008, we are required to report to you if, in our opinion:

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

Under the Listing Rules we are required to review the part of the Corporate Governance Statement on pages 51 to 66 relating to the Company's compliance with the ten provisions of the UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope of report and responsibilities

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 and, in respect of any further matters on which we have agreed to report, on terms we have agreed with the Company. 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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 66, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and ISAs (UK and Ireland). Those standards require us to comply with the UK Ethical Standards for Auditors.

Neale D Jehan
For and on behalf of KPMG Channel Islands Limited
Chartered Accountants and Recognised Auditors
Glategny Court
Glategny Esplanade
St Peter Port
Guernsey
GY1 1WR
8 June 2015

Consolidated statement of comprehensive income

For the year ended 31 March 2015

	Notes	Income £000	Capital £000	2015 Total £000	2014 Total £000
Income					
Revenue from properties	3	39,662	–	**39,662**	36,749
Property expenses	4	(9,320)	–	**(9,320)**	(8,992)
Net property income		30,342	–	**30,342**	27,757
Expenses					
Management expenses	6	(2,591)	–	**(2,591)**	(2,127)
Other operating expenses	8	(1,194)	–	**(1,194)**	(1,139)
Total operating expenses		(3,785)	–	**(3,785)**	(3,266)
Operating profit before movement on investments		26,557	–	**26,557**	24,491
Investments					
Profit on disposal of investment properties	14	–	412	**412**	5,660
Investment property valuation movements	14	–	53,163	**53,163**	18,422
Total profit on investments		–	53,575	**53,575**	24,082
Operating profit		26,557	53,575	**80,132**	48,573
Financing					
Interest received		184	–	**184**	164
Interest paid	9	(11,114)	–	**(11,114)**	(11,032)
Total finance costs		(10,930)	–	**(10,930)**	(10,868)
Profit before tax		15,627	53,575	**69,202**	37,705
Tax	10	(347)	–	**(347)**	(357)
Total comprehensive income		15,280	53,575	**68,855**	37,348
Earnings per share					
Basic and diluted	12	3.4p	12.0p	**15.4p**	10.4p

The total column of this statement represents the Group's Consolidated Statement of Comprehensive Income. The supplementary income return and capital return columns are prepared under guidance published by the Association of Investment Companies. 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 2015

	Notes	Share Capital £000	Retained Earnings £000	Total £000
Balance as at 31 March 2013		39,149	130,267	169,416
Issue of ordinary shares	20	18,229	–	18,229
Issue costs of shares		(186)	–	(186)
Profit for the year		–	37,348	37,348
Dividends paid	11	–	(10,711)	(10,711)
Balance as at 31 March 2014		57,192	156,904	214,096
Issue of ordinary shares	20	102,176	–	102,176
Issue costs of shares		(2,055)	–	(2,055)
Profit for the year		–	68,855	68,855
Dividends paid	11	–	(13,102)	(13,102)
Balance as at 31 March 2015		**157,313**	**212,657**	**369,970**

Consolidated Balance Sheet
As at 31 March 2015

	Notes	2015 £000	2014 £000
Non-current assets			
Investment properties	14	**532,926**	417,207
Tangible assets		**101**	140
Accounts receivable	15	**3,871**	4,046
Total non-current assets		**536,898**	421,393
Current assets			
Investment properties held for sale	14	**–**	425
Accounts receivable	15	**14,019**	10,102
Cash and cash equivalents	16	**70,092**	32,352
Total current assets		**84,111**	42,879
Total assets		**621,009**	464,272
Current liabilities			
Accounts payable and accruals	17	**(16,365)**	(14,330)
Loans and borrowings	18	**(1,012)**	(2,935)
Obligations under finance leases	22	**(103)**	(104)
Total current liabilities		**(17,480)**	(17,369)
Non-current liabilities			
Loans and borrowings	18	**(231,834)**	(231,081)
Obligations under finance leases	22	**(1,725)**	(1,726)
Total non-current liabilities		**(233,559)**	(232,807)
Total liabilities		**(251,039)**	(250,176)
Net assets		**369,970**	214,096
Equity			
Share capital	20	**157,313**	57,192
Retained earnings		**212,657**	156,904
Total equity		**369,970**	214,096
Net asset value per share	23	**69p**	56p

These consolidated financial statements were approved by the Board of Directors on 8 June 2015 and signed on its behalf by:

Robert Sinclair
Director
8 June 2015

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

Consolidated statement of cash flows

For the year ended 31 March 2015

	Notes	2015 £000	2014 £000
Operating activities			
Operating profit		**80,132**	48,573
Adjustments for non-cash items	21	**(55,427)**	(25,428)
Interest received		**184**	164
Interest paid		**(8,879)**	(8,932)
Tax paid		**(369)**	(394)
Cash inflows from operating activities		**15,641**	13,983
Investing activities			
Capital expenditure on investment properties	14	**(4,070)**	(2,060)
Acquisition of investment properties	14	**(62,059)**	(19,611)
Disposal of investment properties	14	**4,410**	10,850
Purchase of tangible assets		**(10)**	(17)
Cash outflows from investing activities		**(61,729)**	(10,838)
Financing activities			
Issue of ordinary shares		**102,176**	18,229
Issue costs of ordinary shares		**(2,055)**	(186)
Borrowings repaid		**(2,936)**	(1,031)
Financing costs		**(255)**	–
Dividends paid	11	**(13,102)**	(10,711)
Cash inflows from financing activities		**83,828**	6,301
Net increase in cash and cash equivalents		**37,740**	9,446
Cash and cash equivalents at beginning of year		**32,352**	22,906
Cash and cash equivalents at end of year	16	**70,092**	32,352

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

Notes to the consolidated financial statements
For the year ended 31 march 2015

1. General information
Picton Property Income Limited (the "Company" and together with its subsidiaries the "Group") was registered on 15 September 2005 as a closed ended Guernsey investment company. The consolidated financial statements are prepared for the year ended 31 March 2015 with comparatives for the year ended 31 March 2014.

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 are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by IASB and are in compliance with the Companies (Guernsey) Law, 2008.

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.

Changes in accounting policies
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.

- IAS 32 Offsetting Financial Assets and Financial Liabilities, effective for periods beginning on or after 1 January 2014. The amendments to IAS 32 clarify the offsetting criteria by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is considered to be equivalent to net settlement. The amendments to IAS 32 had no impact on the Group.

At the date of approval of these financial statements, the following standards and interpretations were in issue but not yet effective for the financial year and have not been adopted early:

- In July 2014, the IASB published the final version of IFRS 9 Financial Instruments, which introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additional changes relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting. IFRS 9 (2010) and (2009) are effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

The Directors do not expect that the adoption of the standard listed above will have a material impact on the Group's financial statements in the year of initial application, other than on presentation and disclosure.

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

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

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

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

Level 3: unobservable inputs for the asset or liability.

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

The critical estimate and assumption relate to the investment property valuations applied by the Group's independent valuer and this is described in more detail in the accounting policy on page 75 and in Note 14. Revisions to accounting estimates are recognised in the year in which the estimate is revised, if the revision affects only that year, or in the year of the revision and future years, if the revision affects both current and future years.

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

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

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

Business combinations

The Group acquires subsidiaries that own real estate. At the time of acquisition, the Group considers whether the acquisition represents the acquisition of a business. The Group accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, the following criteria are considered:

- The number of items of land and buildings owned by the subsidiary;
- The extent to which significant processes are acquired and in particular the extent of ancillary services provided by the subsidiary; and
- Whether the subsidiary has allocated its own staff to manage the property and/or to deploy any processes, including provision of all relevant administration and information to the entity's owners.

When the acquisition of subsidiaries does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities.

Goodwill on business combinations is measured as the fair value of the consideration transferred less the net recognised amount (fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, this is recognised immediately in the Consolidated Statement of Comprehensive Income.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Presentation of the Consolidated Statement of Comprehensive Income

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

Investment properties

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

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

The fair value of investment property generally involves consideration of:

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

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

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

Realised and unrealised gains on investment properties have been presented as capital items within the Consolidated Statement of Comprehensive Income.

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

Notes to the consolidated financial statements

For the year ended 31 march 2015

2. Significant accounting policies (continued)

Leases

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

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

Cash and cash equivalents

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

Income and expenses

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

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

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

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

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

Employee benefits

Defined contribution plans

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

Short-term benefits

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

Share-based payments

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

Dividends

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

Trade receivables

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

Loans and borrowings

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

Assets classified as held for sale
A property is classified as held for sale when its carrying amount is to be recovered principally through a sales transaction and a sale is highly probable. 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 are not interest bearing and are stated at their nominal value.

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

Taxation
The Directors conduct the affairs of the Group such that the management and control of the Group is not exercised in the United Kingdom and that the Group does not carry on a trade in the United Kingdom. Accordingly the Group will not be liable to United Kingdom taxation on its income or capital gains arising in the United Kingdom, other than certain income deriving from a United Kingdom source.

The Group is subject to United Kingdom taxation on income arising on the investment properties after deduction of allowable debt financing costs and allowable expenses. The Group is tax exempt in Guernsey for the year ended 31 March 2015.

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

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

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

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

3. Revenue from properties

	2015 £000	2014 £000
Rents receivable (adjusted for lease incentives)	**34,088**	31,036
Surrender premiums	**464**	157
Dilapidation receipts	**528**	677
Other income	**71**	97
Service charge income	**4,511**	4,782
	39,662	36,749

Rents receivable includes lease incentives recognised of £1.2 million (31 March 2014: £1.0 million).

4. Property expenses

	2015 £000	2014 £000
Property operating expenses	**2,861**	2,527
Property void costs	**1,948**	1,683
Recoverable service charge costs	**4,511**	4,782
	9,320	8,992

Notes to the consolidated financial statements

For the year ended 31 march 2015

5. Operating segments

The Board is charged with setting the Company's investment strategy in accordance with the Company's investment restrictions and overall objectives. The key measure of performance used by the Board to assess the Group's performance is the total return on the Group's net asset value. As the total return on the Group's net asset value is calculated based on the net asset value per share calculated under IFRS as shown at the foot of the Balance Sheet, assuming dividends are re-invested, 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 have delegated the day-to-day implementation of this strategy to the Investment Manager but retain responsibility to ensure that adequate resources of the Company are directed in accordance with their decisions. The operating activities of the Investment Manager are reviewed on a regular basis to ensure compliance with the policies and legal responsibilities of the Board.

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

The Board therefore retains full responsibility for investment policy and strategy. The Investment Manager will always act under the terms of the Investment Management Agreement which cannot be changed without the approval of the Board. The Board has considered the requirements of IFRS 8 'Operating Segments'. The Board is of the opinion that the Group, through its subsidiary undertakings, operates in one reportable industry segment, namely real estate investment, and across one primary geographical area, namely the United Kingdom, and therefore no segmental reporting is required. The portfolio consists of 57 commercial properties, which are in the industrial, office, retail, retail warehouse, and leisure sectors.

6. Management expenses

	2015 £000	2014 £000
Staff costs	**2,019**	1,610
Other management costs	**572**	517
	2,591	2,127

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

7. Staff costs

	2015 £000	2014 £000
Wages and salaries	**1,258**	1,072
Social security costs	**175**	130
Other pension costs	**125**	125
Share-based payments	**461**	283
	2,019	1,610

Staff costs are those of the employees of Picton Capital Limited. Employees in the Group participate in a share-based Long Term Incentive Plan ('LTIP'). Awards made under the LTIP are linked to the Company's share price and dividends paid, and normally vest after periods of two or three years. Employees must still be in the Group's employment to receive payment on the vesting date. During the year the Group made awards of 719,512 units (year ended 31 March 2014: 621,586 units), of which 359,756 units vest on 31 March 2017 and 359,756 units vest on 31 March 2018.

The table below summarises the awards made under the Long Term Incentive Plan to Picton Capital staff. Employees have the option to defer the vesting date of their awards for a maximum of seven years. The units which vested at 31 March 2015 and were not deferred were paid out subsequent to the year end at a cost of £147,000.

Vesting Date	Units at start of year	Units granted in the year	Units cancelled in the year	Units redeemed in the year	Units at end of year
31 March 2014	114,070	–	–	(104,100)	9,970
31 March 2015	356,695	–	(2,480)	(186,165)	168,050
31 March 2016	583,293	–	(3,232)	–	580,061
31 March 2017	310,793	359,756	(1,982)	–	668,567
31 March 2018	–	359,756	–	–	359,756
	1,364,851	719,512	(7,694)	(290,265)	1,786,404

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

The Group employed 12 members of staff at 31 March 2015 (31 March 2014: 11). The average number of people employed by the Group for the year ended 31 March 2015 was 12 (31 March 2014: 12).

8. Other operating expenses

	2015 £000	2014 £000
Recurring costs:		
Valuation expenses	**87**	71
Administrator fees	**192**	193
Auditor's remuneration	**163**	156
Directors' fees	**212**	202
Other expenses	**540**	517
	1,194	1,139

Auditor's remuneration comprises:	2015 £000	2014 £000
Audit fees:		
Audit of Group financial statements	**56**	56
Audit of subsidiaries' financial statements	**63**	63
Audit related fees:		
Review of half year financial statements	**19**	20
	138	139
Non-audit fees:		
Additional controls testing	**14**	12
FCA CASS audit	**4**	5
Tax compliance	**7**	–
	25	17
	163	156

9. Interest paid

	2015 £000	2014 £000
Interest payable on loans at amortised cost	**8,758**	8,797
Capital additions on zero dividend preference shares	**1,766**	1,647
Interest on obligations under finance leases	**115**	115
Amortisation of finance costs	**475**	473
	11,114	11,032

The loan arrangement costs incurred to 31 March 2015 are £5,728,000 (31 March 2014: £5,275,000). These are amortised over the duration of the loans with £475,000 written off in the year ended 31 March 2015 (31 March 2014: £473,000).

Notes to the consolidated financial statements

For the year ended 31 March 2015

10. Tax

The charge for the year is:

	2015 £000	2014 £000
Current UK income tax	250	357
Income tax adjustment to provision for prior year	(54)	–
	196	357
UK corporation tax	151	–
	151	–
	347	357

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

	2015 £000	2014 £000
Profit before taxation	69,202	37,705
Expected tax charge on ordinary activities at the standard rate of taxation of 20%	13,840	7,541
Less:		
Revaluation gains not taxable	(10,715)	(4,816)
Income not taxable, including interest receivable	(138)	(64)
Expenditure not allowed for income tax purposes	584	542
Losses utilised	(102)	(10)
Capital allowances and other allowable deductions	(3,334)	(2,836)
Losses carried forward to future years	115	–
Adjustment to provision for prior years	(54)	–
Total tax charge	196	357

For the year ended 31 March 2015 there was an income tax liability of £196,000 in respect of the Group (31 March 2014: £357,000) and corporation tax of £151,000 (31 March 2014: £nil).

The Group is exempt from Guernsey taxation under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989. A fixed fee of £600 (£1,200 from 1 January 2015) per company per year is payable to the States of Guernsey in respect of this exemption. No charge to Guernsey taxation will arise on capital gains.

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

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

No deferred tax asset has been recognised from unused tax losses which total £4.8 million as the Group is only able to utilise the losses to offset taxable profits in certain discrete business streams, and the Group considers the probability of realising the benefit in future periods in these business streams as remote (31 March 2014: £3.0 million).

11. Dividends

	2015 £000	2014 £000
Declared and paid:		
Interim dividend for the period ended 31 March 2013: 0.75 pence	**–**	2,590
Interim dividend for the period ended 30 June 2013: 0.75 pence	**–**	2,590
Interim dividend for the period ended 30 September 2013: 0.75 pence	**–**	2,682
Interim dividend for the period ended 31 December 2013: 0.75 pence	**–**	2,849
Interim dividend for the period ended 31 March 2014: 0.75 pence	**2,849**	–
Interim dividend for the period ended 30 June 2014: 0.75 pence	**3,294**	–
Interim dividend for the period ended 30 September 2014: 0.75 pence	**3,294**	–
Interim dividend for the period ended 31 December 2014: 0.75 pence	**3,665**	–
	13,102	10,711

The interim dividend of 0.825 pence per ordinary share in respect of the period ended 31 March 2015 has not been recognised as a liability as it was declared after the year end. A dividend of £4,455,000 was paid on 29 May 2015.

12. Earnings per share

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

	2015	2014
Net profit attributable to ordinary shareholders of the Company from continuing operations (£000)	**68,855**	37,348
Weighted average number of ordinary shares for basic and diluted profit per share	**445,259,094**	359,866,250

13. Investments in subsidiaries

The Company had the following principal subsidiaries as at 31 March 2015:

Name	Place of incorporation	Ownership proportion
Picton UK Real Estate (Property) Limited	Guernsey	100%
Picton (UK) REIT (SPV) Limited	Guernsey	100%
Picton (UK) Listed Real Estate	Guernsey	100%
Picton UK Real Estate (Property) No 2 Limited	Guernsey	100%
Picton (UK) REIT (SPV No 2) Limited	Guernsey	100%
Picton (UK) Listed Real Estate Limited	Guernsey	100%
Merbrook Business Property Unit Trust*	Jersey	100%
Merbrook Prime Retail Property Unit Trust*	Jersey	100%
Merbrook Bristol Property Unit Trust*	Jersey	100%
Merbrook Swindon Property Unit Trust*	Jersey	100%
Picton Capital Limited	England & Wales	100%
Picton ZDP Limited	Guernsey	100%
Picton (General Partner) No 2 Limited	Guernsey	100%
Picton (General Partner) No 3 Limited	Guernsey	100%
Picton No 2 Limited Partnership	England & Wales	100%
Picton No 3 Limited Partnership	England & Wales	100%
Picton Property No 3 Limited	Guernsey	100%
Picton Finance Limited	Guernsey	100%

* (the "JPUTs")

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

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

Picton No 3 Limited Partnership owns all of the units in the JPUTs, which are each registered as Jersey Unit Trusts.

Notes to the consolidated financial statements

For the year ended 31 march 2015

14. Investment properties

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

	2015 £000	2014 £000
Fair value at start of year	417,632	382,729
Acquisitions	62,059	53,611
Capital expenditure on investment properties	4,070	2,060
Disposals	(4,410)	(44,850)
Realised gains on disposal	438	5,664
Realised losses on disposal	(26)	(4)
Unrealised gains on investment properties	60,094	30,606
Unrealised losses on investment properties	(6,931)	(12,184)
Fair value at the end of the year	532,926	417,632
Historic cost at the end of the year	628,645	566,494

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

	2015 £000	2014 £000
Appraised value	540,905	423,020
Valuation of assets held under finance leases	1,155	1,166
Lease incentives held as debtors	(9,134)	(6,554)
Fair value at the end of the year	532,926	417,632

The investment properties were valued by CBRE Limited, Chartered Surveyors, as at 31 March 2015 and 31 March 2014 on the basis of fair value in accordance with the RICS Valuation – Professional Standards (2014). The total fees earned by CBRE Limited from the Group is less than 5% of their total UK revenue.

As at 31 March 2014 The Cloisters, Dartford had an unconditional sales offer so had been reclassified as an asset held for sale. The sale completed on 16 April 2015. As at 31 March 2015 there were no assets held for sale.

Included within acquisitions and disposals for the year ended 31 March 2014 in the above table is a swap transaction whereby the Group acquired an asset for a consideration of £40.5 million, before costs, satisfied by the transfer of one of its investment properties sold for £34.0 million, plus a cash balance of £6.5 million.

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

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

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

The assumptions and valuation models used by the valuers, and supporting information, are reviewed by the Investment Manager and the Board through the Property Valuation Committee. Members of the Property Valuation Committee, together with the Investment Manager, meet with the independent valuer on a quarterly basis to review the valuations and underlying assumptions, including considering current market trends and conditions, and changes from previous quarters. The Directors will also consider where circumstances at specific investment properties, such as alternate 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 2015 and 31 March 2014 all of the Group's properties are Level 3 in the fair value hierarchy as it involves use of significant inputs. There were no transfers between levels during the year. Level 3 inputs used in valuing the properties are those which are unobservable, as opposed to level 1 (inputs from quoted prices) and Level 2 (observable inputs either directly, i.e. as prices, or indirectly, i.e. derived from prices).
Information on these significant unobservable inputs per sector of investment properties is disclosed as follows:

	2015			2014		
	Offices	**Industrial**	**Retail and Leisure**	Offices	Industrial	Retail and Leisure
Appraised value (£000)	**173,420**	**217,745**	**149,740**	139,395	164,395	119,230
Area (sq ft, 000s)	**800**	**2,736**	**732**	877	2,116	516
Range of unobservable inputs:						
Gross ERV (sq ft per annum)						
— range	**£7.57–£50.99**	**£2.98–£15.31**	**£5.74–£81.04**	£7.57–£46.01	£3.55–£14.86	£7.32–£81.04
— weighted average	**£26.83**	**£6.94**	**£30.53**	£24.03	£7.12	£31.49
Net initial yield						
— range	**-1.09%–25.47%**	**0%–10.55%**	**2.65%–14.47%**	0%–19.5%	5.21%–11.71%	3.49%–14.60%
— weighted average	**5.36%**	**6.18%**	**6.00%**	6.42%	6.86%	6.65%
Reversionary yield						
— range	**5.07%–18.02%**	**5.68%–13.15%**	**4.08%–18.46%**	5.44%–20.86%	6.08%–12.57%	4.08%–18.63%
— weighted average	**7.64%**	**6.87%**	**6.39%**	8.83%	7.32%	6.59%
True equivalent yield						
— range	**0%–13.13%**	**5.80%–12.59%**	**4.50%–20.05%**	5.56%–13.6%	6.22%–12.62%	4.46%–19.47%
— weighted average	**7.15%**	**7.03%**	**6.93%**	8.43%	7.49%	7.06%

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

Sector	Movement	**2015 Impact on valuation**	2014 Impact on valuation
Industrial	Increase of 50 basis points	**Decrease of £15.7m**	Decrease of £11.3m
	Decrease of 50 basis points	**Increase of £18.2m**	Increase of £13.0m
Office	Increase of 50 basis points	**Decrease of £12.5m**	Decrease of £9.0m
	Decrease of 50 basis points	**Increase of £14.4m**	Increase of £10.2m
Retail and Leisure	Increase of 50 basis points	**Decrease of £10.5m**	Decrease of £8.1m
	Decrease of 50 basis points	**Increase of £12.3m**	Increase of £9.5m

Notes to the consolidated financial statements

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15. Accounts receivable

	2015 £000	2014 £000
Current		
Tenant debtors (net of provisions for bad debts)	**3,871**	2,327
Lease incentives	**9,134**	6,554
Other debtors	**388**	749
Capitalised finance costs	**626**	472
	14,019	10,102
Non-current		
Capitalised finance costs	**3,871**	4,046
	3,871	4,046
	17,890	14,148

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

16. Cash and cash equivalents

	2015 £000	2014 £000
Cash at bank and in hand	**16,416**	16,006
Short-term deposits	**53,676**	16,346
	70,092	32,352

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

17. Accounts payable and accruals

	2015 £000	2014 £000
Accruals	**3,803**	3,180
Deferred rental income	**7,482**	6,702
VAT liability	**1,935**	1,530
Income tax liability	**206**	228
Trade creditors	**750**	499
Other creditors	**2,189**	2,191
	16,365	14,330

18. Loans and borrowings

	Maturity	2015 £000	2014 £000
Current			
Secured loan facility	–	**1,012**	968
Unsecured loan stock	–	**–**	1,967
		1,012	2,935
Non-current			
Secured loan facility	20 July 2022	**33,718**	33,718
Secured loan facility	24 July 2027	**80,000**	80,000
Secured loan facility	24 July 2032	**91,982**	92,995
Zero dividend preference shares	15 October 2016	**26,134**	24,368
		231,834	231,081
		232,846	234,016

The Group has a loan with Canada Life Limited for £113.7 million, which is fully drawn. The loan is for a term of 15 years, with £33.7 million repayable on the tenth anniversary of drawdown. Interest is fixed at 4.08% over the life of the loan. The loan agreement has a loan to value covenant of 65% and an interest cover test of 1.75. The loan is secured over the Group's properties held by Picton No 2 Limited Partnership and Picton UK Real Estate Trust (Property) No 2 Limited.

Additionally the Group has a term loan facility agreement with Aviva Commercial Finance Limited for £95.3 million, which was fully drawn on 24 July 2012. The loan is for a term of 20 years, with approximately one third repayable over the life of the loan in accordance with a scheduled amortisation profile. The Group has repaid £1.0 million in the year (31 March 2014: £0.9 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, Picton Property No 3 Limited and the JPUTs.

The fair value of the secured loan facilities at 31 March 2015, estimated as the present value of future cash flows discounted at the market rate of interest at that date, was £224.9 million (31 March 2014: £188.3 million). The fair value of the secured loan facilities is classified as Level 2 under the hierarchy of fair value measurements.

The Group has 22,000,000 zero dividend preference shares ('ZDPs') in issue with a maturity date of 15 October 2016. The ZDPs accrue additional capital at a rate of 7.25% per annum, resulting in a final capital entitlement at maturity of 132.3 pence per share. The ZDPs do not receive any dividends or income distributions, and are listed on the London Stock Exchange. The ZDPs were issued by Picton ZDP Limited, a wholly owned subsidiary company.

The fair value of the zero dividend preference shares at 31 March 2015, based on the quoted market price at that date, was £27.7 million (31 March 2014: £25.9 million). The fair value of the zero dividend preference shares is classified as Level 1 under the hierarchy of fair value measurements (31 March 2014: Level 1).

The Group's unsecured loan stock was repaid in full on 27 March 2015.

A new three-year £26 million revolving credit facility has been entered into with Santander Corporate & Commercial Banking on 26 March 2015. Once drawn, interest will be charged at 175 basis points over three month LIBOR. There is also a non-utilisation fee of 70 basis points. The facility is secured over the Group's properties held by Picton (UK) REIT (SPV No 2) Limited.

The weighted average interest rate on the Group's borrowings as at 31 March 2015 was 4.56% (31 March 2014: 4.51%).

In accordance with the AIFM Directive, information in relation to the Group's leverage is required to be made available to investors. The Group's maximum and average actual leverage levels at 31 March 2015 are shown below:

	Gross method	Commitment method
Maximum limit	285%	285%
Actual	144%	163%

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For the year ended 31 March 2015

18. Loans and borrowings (continued)

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

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

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

19. Contingencies and capital commitments

The Group has entered into contracts for the refurbishment of 17 properties with commitments outstanding at 31 March 2015 of approximately £3.2 million (31 March 2014: £1.9 million). No further obligations to construct or develop investment property or for repairs, maintenance or enhancements were in place as at 31 March 2015.

20. Share capital

	2015 £000	2014 £000
Authorised:		
Unlimited number of ordinary shares of no par value	**–**	–
Issued and fully paid:		
540,053,660 ordinary shares of no par value (31 March 2014: 379,869,729)	**–**	–
Share premium	**157,313**	57,192

The Company issued the following new ordinary shares of no par value in the period:

- 59,322,034 shares at 59.0 pence per share for cash of £35,000,000 on 23 May 2014
- 39,215,686 shares at 63.75 pence per share for cash of £25,000,000 on 22 December 2014
- 10,294,118 shares at 68.0 pence per share for cash of £7,000,000 on 27 January 2015
- 51,352,093 shares at 68.5 pence per share for cash of £35,176,000 on 18 March 2015

The consideration received net of expenses has been credited to the share premium account.

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. 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 and provided that the ZDP Share Cover for the ZDPs is not less than 3.5 times, after the proposed repurchase. 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

	2015 £000	2014 £000
Profit on disposal of investment properties	(412)	(5,660)
Increase in investment property valuation	(53,163)	(18,422)
Depreciation of tangible assets	49	47
Increase in receivables	(3,764)	(2,158)
Increase in payables	1,863	765
	(55,427)	(25,428)

22. Obligations under leases

The Group has entered into a number of leases in relation to its investment properties. These leases are for fixed terms and subject to regular rent reviews. They contain no material provisions for contingent rents, renewal or purchase options nor any restrictions outside of the normal lease terms.

Finance lease obligations in respect of rents payable on leasehold properties were payable as follows:

	2015 £000	2014 £000
Future minimum payments due:		
Within one year	116	116
In the second to fifth years inclusive	466	466
After five years	7,849	7,965
	8,431	8,547
Less: finance charges allocated to future periods	(6,603)	(6,717)
Present value of minimum lease payments	1,828	1,830

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

	2015 £000	2014 £000
Current		
Within one year	103	104
	103	104
Non-current		
In the second to fifth years inclusive	351	352
After five years	1,374	1,374
	1,725	1,726
	1,828	1,830

Operating leases where the group is lessor

The Group leases its investment properties under operating leases.

At the reporting date, the Group's future income based on the unexpired lessor lease length was as follows (based on annual rentals):

	2015 £000	2014 £000
Within one year	35,617	29,495
In the second to fifth years inclusive	121,873	94,845
After five years	134,409	122,343
	291,899	246,683

The Group has entered into commercial property leases on its investment property portfolio. These properties, held under operating leases, are measured under the fair value model as the properties are held to earn rentals. The majority of these non-cancellable leases have remaining lease terms of more than five years.

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23. Net asset value

The net asset value per ordinary share is based on net assets at the year end and 540,053,660 (31 March 2014: 379,869,729) ordinary shares, being the number of ordinary shares in issue at the year end.

At 31 March 2015, the Company had a net asset value per ordinary share of £0.69 (31 March 2014: £0.56).

24. Financial instruments

The Group's financial instruments comprise cash and cash equivalents, accounts receivable, secured loans, zero dividend preference shares, obligations under finance leases and accounts payable that arise from its operations. The Group does not have exposure to any derivative financial instruments. Apart from the secured loans and the zero dividend preference shares, 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 2015	Note	**Held at fair value through profit or loss £000**	**Financial assets and liabilities at amortised cost £000**	**Total £000**
Financial assets				
Accounts receivable	15	**–**	**17,890**	**17,890**
Cash and cash equivalents	16	**–**	**70,092**	**70,092**
		–	**87,982**	**87,982**
Financial liabilities				
Loans	18	**–**	**232,846**	**232,846**
Obligations under finance leases	22	**–**	**1,828**	**1,828**
Accounts payable and accruals	17	**–**	**16,365**	**16,365**
		–	**251,039**	**251,039**

31 March 2014	Note	Held at fair value through profit or loss £000	Financial assets and liabilities at amortised cost £000	Total £000
Financial assets				
Accounts receivable	15	–	14,148	14,148
Cash and cash equivalents	16	–	32,352	32,352
		–	46,500	46,500
Financial liabilities				
Loans	18	–	234,016	234,016
Obligations under finance leases	22	–	1,830	1,830
Accounts payable and accruals	17	–	14,330	14,330
		–	250,176	250,176

25. Risk management

The Group invests in commercial properties in the United Kingdom. The following describes the risks involved and the applied risk management. The Investment Manager reports regularly both verbally and formally to the Board, and its relevant committees, to allow them to monitor and review all the risks noted below.

Capital risk management

The Group aims to manage its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The capital structure of the Group consists of debt, as disclosed in Note 18, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings. The Group is not subject to any external capital requirements.

The Board of Directors monitors the return on capital as well as the level of dividends to ordinary shareholders. The Group has managed its capital risk by entering into long-term loan arrangements which will enable the Group to reduce its borrowings in an orderly manner over the long-term.

The Group's net debt to equity ratio at the reporting date was as follows:

	2015 £000	2014 £000
Total liabilities	**251,039**	250,176
Less: cash and cash equivalents	**(70,092)**	(32,352)
Net debt	**180,947**	217,824
Total equity	**369,970**	214,096
Net debt to equity ratio at end of year	**0.49**	1.02

Interest rate risk management

Interest rate risk arises on interest payable on the revolving credit facility and unsecured loan stock only. The Group's senior debt facilities have fixed interest rates over the lives of the loans and thus the Group has limited exposure to interest rate risk on the majority of its borrowings and no sensitivity is presented.

Interest rate risk

The following table sets out the carrying amount, by maturity, of the Group's financial assets/(liabilities).

31 March 2015	**Less than one year £000**	**1 to 5 Years £000**	**More than 5 years £000**	**Total £000**
Floating				
Cash and cash equivalents	**70,092**	**–**	**–**	**70,092**
Fixed				
Secured loan facilities	**(1,012)**	**(4,517)**	**(201,183)**	**(206,712)**
Zero dividend preference shares	**–**	**(26,134)**	**–**	**(26,134)**
	69,080	**(30,651)**	**(201,183)**	**(162,754)**

31 March 2014	Less than one year £000	1 to 5 Years £000	More than 5 years £000	Total £000
Floating				
Cash and cash equivalents	32,352	–	–	32,352
Unsecured loan stock	(1,967)	–	–	(1,967)
Fixed				
Secured loan facilities	(968)	(4,325)	(202,388)	(207,681)
Zero dividend preference shares	–	(24,368)	–	(24,368)
	29,417	(28,693)	(202,388)	(201,664)

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25. Risk management (continued)

Credit risk

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

31 March 2015	Note	Held at fair value through profit or loss £000	Financial assets and liabilities at amortised cost £000	Total £000
Financial assets				
Tenant debtors	15	**–**	**3,871**	**3,871**
Cash and cash equivalents	16	**–**	**70,092**	**70,092**
		–	**73,963**	**73,963**

31 March 2014	Note	Held at fair value through profit or loss £000	Financial assets and liabilities at amortised cost £000	Total £000
Financial assets				
Tenant debtors	15	–	2,327	2,327
Cash and cash equivalents	16	–	32,352	32,352
		–	34,679	34,679

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's exposure and credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed regularly.

Trade debtors consist of a large number of occupiers, spread across diverse industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of trade debtors, and where appropriate, credit guarantees are acquired. The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. Rent collection is outsourced to managing agents who report regularly on payment performance and provide the Group with intelligence on the continuing financial viability of occupiers.

A provision of £2,049,000 (31 March 2014: £1,400,000) exists at the year end, in relation to outstanding debtors that are considered to be impaired based on a review of individual debtor balances. The Group believes that unimpaired amounts that are overdue by more than 30 days are still collectable, based on the historic payment behaviours and extensive analyses of the underlying customers' credit ratings. At 31 March 2015 debtors overdue by more than 30 days totalled £2,595,000 (31 March 2014: £1,670,000).

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk. The Board continues to monitor the Group's exposure to credit risk.

The Group has a panel of banks with which it makes deposits, based on credit ratings with set counterparty limits. The Group's main cash balances are held with National Westminster Bank plc ("NatWest"), Santander plc ("Santander"), Nationwide International Limited ("Nationwide") and The Royal Bank of Scotland plc ("RBS"). Bankruptcy or insolvency of the bank holding cash balances may cause the Group's rights with respect to the cash held by them to be delayed or limited. The Group manages its risk by monitoring the credit quality of its bankers on an ongoing basis. NatWest, Santander, Nationwide and RBS are rated by all the major rating agencies. If the credit quality of these banks deteriorates, the Group would look to move the short-term deposits or cash to another bank. Procedures exist to ensure that cash balances are split between banks to minimise exposure. At 31 March 2015 and at 31 March 2014 Standard & Poor's credit rating for Nationwide and Santander was A-1 (31 March 2014: A-2) and the Group's remaining bankers had an A-2 rating.

There has been no change in the fair values of cash or receivables as a result of changes in credit risk in the current or prior periods, due to the actions taken to mitigate this risk, as stated above.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and loan facilities by continuously monitoring forecasts and actual cash flows and matching the maturity profiles of financial assets and liabilities.

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 2015	**Less than one year £000**	**1 to 5 Years £000**	**More than 5 years £000**	**Total £000**
Cash	**70,180**	**–**	**–**	**70,180**
Accounts receivable	**14,019**	**3,871**	**–**	**17,890**
Finance lease liability	**(116)**	**(466)**	**(1,246)**	**(1,828)**
Fixed interest rate loans	**(9,708)**	**(67,945)**	**(272,078)**	**(349,731)**
Accounts payable and accruals	**(16,365)**	**–**	**–**	**(16,365)**
	58,010	**(64,540)**	**(273,324)**	**(279,854)**

31 March 2014	Less than one year £000	1 to 5 Years £000	More than 5 years £000	Total £000
Cash	32,392	–	–	32,392
Accounts receivable	10,102	4,046	–	14,148
Finance lease liability	(116)	(466)	(1,248)	(1,830)
Fixed interest rate loans	(9,708)	(67,945)	(281,786)	(359,439)
Floating interest rate facility	(1,978)	–	–	(1,978)
Accounts payable and accruals	(14,330)	–	–	(14,330)
	16,362	(64,365)	(283,034)	(331,037)

Market risk

The Group's activities are primarily within the real estate market, exposing it to very specific industry risks.

The yields available from investments in real estate depend primarily on the amount of revenue earned and capital appreciation generated by the relevant properties as well as expenses incurred. If properties do not generate sufficient revenues to meet operating expenses, including debt service and capital expenditure, the Group's revenue will be adversely affected.

Revenue from properties may be adversely affected by the general economic climate, local conditions such as oversupply of properties or a reduction in demand for properties in the market in which the Group operates, the attractiveness of the properties to occupiers, the quality of the management, competition from other available properties and increased operating costs (including real estate taxes).

In addition, the Group's revenue would be adversely affected if a significant number of occupiers were unable to pay rent or its properties could not be rented on favourable terms. Certain significant expenditure associated with each equity investment in real estate (such as external financing costs, real estate taxes and maintenance costs) generally are not reduced when circumstances cause a reduction in revenue from properties. By diversifying in regions, sectors, risk categories and occupiers, the Investment Manager expects to lower the risk profile of the portfolio. The Board continues to oversee the profile of the portfolio to ensure risks are managed. See the Investment Manager's report for the geographical spread and the analysis of the top ten occupiers of the portfolio.

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 £27.0 million (31 March 2014: £21.2 million).

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25. Risk management (continued)

Concentration risk

As discussed above, all of the Group's investments are in the UK and therefore it is exposed to macroeconomic changes in the UK economy. Furthermore, the Group places reliance on a limited number of occupiers for its rental income, with one occupier accounting for 4.5% 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 five Directors of the Company was £211,875 (31 March 2014: £202,000). As at 31 March 2015 the Group owed £nil to the Directors (31 March 2014: £nil). The emoluments of each Director are set out in the Remuneration Report.

Picton Property Income Limited has no controlling parties.

27. Events after the balance sheet date

A dividend of £4,455,000 (0.825 pence per share) was approved by the Board on 20 April 2015 and paid on 29 May 2015.

The Group has disposed of two properties since 31 March 2015 for proceeds of £3,145,000 and made two acquisitions for £20,165,000, before costs of disposal and acquisition respectively.

Other Information

EPRA DISCLOSURES (UNAUDITED)

The European Public Real Estate Association (EPRA) is the industry body representing listed companies in the real estate sector. EPRA publishes Best Practice Recommendations (BPR) to establish consistent reporting by European property companies. Further information on the EPRA BPR can be found at www.epra.com.

EPRA EARNINGS PER SHARE

EPRA Earnings represents the earnings from core operational activities, excluding investment property revaluations and gains/losses on asset disposals. It demonstrates the extent to which dividend payments are underpinned by recurring operational activities.

	2015 £000	2014 £000	2013 £000
Profit/(loss) for the year after taxation	**68,855**	37,348	(14,607)
Exclude:			
Investment property valuation movement	**(53,163)**	(18,422)	30,937
(Gain)/loss on disposal of investment properties	**(412)**	(5,660)	4
Change in fair value of derivative financial instruments	**–**	–	(1,617)
EPRA earnings	**15,280**	13,266	14,717
Weighted average number of shares in issue (000s)	**445,259**	359,866	345,336
EPRA earnings per share	**3.4p**	3.7p	4.3p

EPRA NAV PER SHARE

The EPRA Net Asset Value highlights the fair value of net assets on an ongoing, long-term basis. It excludes assets and liabilities that are not expected to crystallise in normal circumstances such as the fair value of financial derivatives and deferred taxes on property valuation surpluses.

	2015 £000	2014 £000	2013 £000
Balance Sheet net assets	**369,970**	214,096	169,416
Fair value of financial instruments	**–**	–	–
Deferred tax	**–**	–	–
EPRA NAV	**369,970**	214,096	169,416
Shares in issue (000s)	**540,054**	379,870	345,336
EPRA NAV per share	**69p**	56p	49p

EPRA NNNAV PER SHARE

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

	2015 £000	2014 £000	2013 £000
EPRA NAV	**369,970**	214,096	169,416
Fair value of debt	**(19,781)**	17,817	5,747
Deferred tax	**–**	–	–
EPRA NNNAV	**350,189**	231,913	175,163
Shares in issue (000s)	**540,054**	379,870	345,336
EPRA NNNAV per share	**65p**	61p	51p

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.

	2015 £000	2014 £000	2013 £000
Investment property valuation	540,904	423,020	386,391
Allowance for estimated purchasers' costs	31,629	24,763	22,892
Gross up property portfolio valuation	572,533	447,783	409,283
Annualised cash passing rental income	34,580	31,227	30,980
Property outgoings	(1,026)	(2,285)	(2,194)
Annualised net rents	33,554	28,942	28,786
EPRA Net Initial Yield	5.9%	6.5%	7.0%

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).

	2015 £000	2014 £000	2013 £000
EPRA NIY annualised net rents	33,554	28,942	28,786
Annualised cash rent that will apply at expiry of lease incentives	3,724	880	1,691
Topped-up annualised net rents	37,278	29,822	30,477
EPRA "topped-up" NIY	6.5%	6.7%	7.4%

EPRA vacancy rate

EPRA Vacancy Rate is the estimated rental value (ERV) of vacant space divided by the ERV of the whole property, expressed as a percentage.

	2015 £000	2014 £000	2013 £000
Annualised potential rental value of vacant premises	1,920	2,956	4,170
Annualised potential rental value for the complete property portfolio	40,013	33,810	33,559
EPRA Vacancy Rate	4.8%	8.7%	12.4%

EPRA cost ratio

EPRA Cost Ratio reflects the overheads and operating costs as a percentage of the gross rental income.

	2015 £000	2014 £000	2013 £000
Property operating expenses	2,861	2,527	2,426
Property void costs	1,948	1,683	1,676
Management expenses	2,591	2,127	1,682
Other operating expenses	1,194	1,139	1,592
Less:			
Ground rent costs	(159)	(249)	(207)
EPRA costs (including direct vacancy costs)	8,435	7,227	7,169
Property void costs	(1,948)	(1,683)	(1,676)
EPRA costs (excluding direct vacancy costs)	6,487	5,544	5,493
Gross rental income	34,088	31,036	32,125
Less ground rent costs	(159)	(249)	(207)
Gross rental income	33,929	30,787	31,918
EPRA Cost Ratio (including direct vacancy costs)	24.9%	23.5%	22.5%
EPRA Cost Ratio (excluding direct vacancy costs)	19.1%	18.0%	17.2%

EPRA DISCLOSURES (UNAUDITED)

Capital expenditure

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

	2015 £000	2014 £000
Acquisitions	**8**	–
Development	**–**	–
Like-for-like portfolio	**4,062**	2,060
Other	**–**	–
Total capital expenditure	**4,070**	2,060

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 & Leisure		Total	
	2015 £000	2014 £000	**2015 £000**	2014 £000	**2015 £000**	2014 £000	**2015 £000**	2014 £000
Like-for-like rental income	**10,739**	10,844	**9,101**	8,318	**7,609**	7,903	**27,449**	27,065
Properties acquired	**56**	11	**5,734**	417	**635**	–	**6,425**	428
Properties sold	**–**	119	**110**	3,180	**104**	244	**214**	3,543
	10,795	10,974	**14,945**	11,915	**8,348**	8,147	**34,088**	31,036

EPRA sustainability reporting

The Group's sustainability data reported below is for the year ended 31 December 2014, with comparatives for the year ended 31 December 2013.

The table below sets out the total energy consumption from the Group's portfolio by sector.

Sector	Total energy consumption from electricity (kWh)	Total energy consumption from fuels (kWh)	Building energy intensity (kWh/m²/year)
Industrial	102,569	125,547	11.07
Office	6,987,969	4,704,665	396.40
Retail and Leisure	500,814	308,414	390.58
Total	**7,591,352**	**5,138,626**	**66.98**

Where data was unavailable, consumption has been estimated using intensity ratios. Estimated data accounts for less than 1% of electricity data and 1.4% of gas data.

The table below sets out the like-for-like energy consumption by sector, and the change from the previous year.

	Electricity consumption (kWh)			Fuel consumption (kWh)		
Sector	**2014**	2013	Change	**2014**	2013	Change
Industrial	**85,493**	73,662	16.1%	**124,541**	119,721	4.0%
Office	**6,984,119**	7,238,936	–3.5%	**3,749,041**	4,482,257	–16.4%
Retail and Leisure	**500,814**	410,101	22.1%	**308,414**	347,924	–11.4%
Total	**7,570,426**	7,722,699	–2.0%	**4,181,996**	4,949,902	–15.5%

The table below sets out the Group's direct and indirect greenhouse gas (GHG) emissions by sector.

Sector	Total direct emissions (tCO_2e)	Total indirect emissions (tCO_2e)	GHG emissions intensity ($kgCO_2e/m^2/year$)
Industrial	23	51	0.01
Office	871	3,454	0.15
Retail and Leisure	57	247	0.14
Total	**951**	**3,752**	**0.03**

Note: Scope 1 and 2. Where data was unavailable, emissions were estimated using intensity ratios. Estimated data accounts for 1.1% of emissions.

The table below sets out the Group's like-for-like direct and indirect greenhouse gas emissions by sector.

	Direct emissions (tCO_2e)			Indirect emissions (tCO_2e)		
Sector	**2014**	2013	Change	**2014**	2013	Change
Industrial	**23**	22	4.6%	**43**	33	28.8%
Office	**693**	825	–15.9%	**3,452**	3,225	7.0%
Retail and Leisure	**57**	64	–10.9%	**247**	183	170.2%
Total	**773**	911	–15.1%	**3,742**	3,441	8.8%

The table below sets out the Group's water withdrawal by source.

Sector	Total water withdrawn by source (m^3)	Building water intensity ($m^3/m^2/year$)
Industrial	600	0.10
Office	26,250	0.95
Retail and Leisure	450	0.32
Total	**27,300**	**0.36**

Where data was unavailable, consumption has been estimated using intensity ratios. Estimated data accounts for 5.7% of water consumption.

The following table sets out the Group's like-for-like total water consumption by sector.

	Water withdrawn (m^3)		
Sector	**2014**	2013	Change
Industrial	**600**	1,012	–40.7%
Office	**26,032**	30,347	–14.2%
Retail and Leisure	**450**	533	–15.7%
Total	**27,082**	31,892	–15.1%

EPRA DISCLOSURES (UNAUDITED)

The following table sets out the Group's waste by disposal route.

Sector	Recycling (tonnes)	Composting (tonnes)	Recovery (tonnes)	Incineration (tonnes)	Landfill (tonnes)	Other (tonnes)	Total (tonnes)
Industrial	21,222	–	–	–	11,427	–	32,649
Office	152,835	18,789	–	68,356	128,067	–	368,047
Total	**174,057**	**18,789**	**–**	**68,356**	**139,494**	**–**	**400,696**
Proportion of waste by disposal route (%)	43	5	–	17	35	–	100

Where data was unavailable, waste weights have been estimated. Estimated data accounts for 35% of waste data. Proportion of waste by disposal route was estimated using proportions of actual data available.

The table below sets out the Group's like-for-like weight of waste by disposal route.

		2014	2013	Change
Recycling	Industrial	**21,222**	21,191	0.1%
	Office	**108,315**	113,328	–4.4%
		129,537	134,519	–3.7%
Composting	Industrial	**–**	–	–
	Office	**18,789**	17,520	7.2%
		18,789	17,520	7.2%
Incineration	Industrial	**–**	–	–
	Office	**7,036**	7,316	–3.8%
		7,036	7,316	–3.8%
Landfill	Industrial	**11,427**	4,179	173.4%
	Office	**128,067**	161,218	–20.6%
		139,494	165,397	–15.7%
Total	Industrial	**32,649**	25,370	28.7%
	Office	**262,207**	299,382	–12.4%
		294,856	324,752	–9.2%

The table below sets out the Scope 3 business travel emissions for Picton Directors and employees.

	Total kgCO_2e emissions	Total distance (km)
Car	3,274	16,888
Air	3,526	22,742
Train	1,228	25,911
All transport	**8,028**	**65,541**

Supplementary disclosures (unaudited)

Ongoing charges

The Ongoing Charges ratio is based on historical information and provides shareholders with an indication of the likely level of cost that will be incurred in managing the Group. The Association of Investment Companies (AIC) is the trade body for closed-ended investment companies. The AIC recommended methodology for calculating the Ongoing Charges ratio uses the annual recurring operational expenses as a percentage of the average net asset value over the period.

	2015 £000	2014 £000	2013 £000
Property expenses	**4,809**	4,210	4,102
Management expenses	**2,591**	2,127	1,682
Other operating expenses	**1,194**	1,139	1,592
Exclude:			
Exceptional costs (see Note 8)	**–**	–	(225)
Recurring operational expenses	**8,594**	7,476	7,151
Average Net Asset Value over the year	**304,546**	192,073	177,279
Ongoing Charges	**2.8%**	3.9%	4.0%
Ongoing Charges (excluding property expenses)	**1.2%**	1.7%	1.7%

Loan to value

The loan to value (LTV) is calculated by taking the Group's total borrowings, net of cash, as a percentage of the total portfolio value.

	2015 £000	2014 £000	2013 £000
Total borrowings	**232,846**	234,016	233,400
Less:			
Cash and cash equivalents	**(70,092)**	(32,352)	(22,906)
Total net borrowings	**162,754**	201,664	210,494
Investment property valuation	**540,905**	423,020	386,391
Loan to value	**30.1%**	47.7%	54.5%

Gearing

Using the method recommended by the AIC, Gearing is calculated by dividing the Group's total assets, less cash, by shareholders' funds.

	2015 £000	2014 £000	2013 £000
Total assets	**621,009**	464,272	418,268
Less:			
Cash and cash equivalents	**(70,092)**	(32,352)	(22,906)
	550,917	431,920	395,362
Total equity	**369,970**	214,096	169,416
Gearing	**48.9%**	101.7%	133.4%

Investment assets – by valuation bands

Properties valued in excess of £30 million

- Parkbury Industrial Estate, Radlett, Herts.
- Units A-G2, River Way Industrial Estate, Harlow, Essex
- Stanford House, 12-14 Long Acre, London WC2

Properties valued between £25 million and £30 million

- Angel Gate Office Village, City Road, London EC1

Properties valued between £20 million and £25 million

- 50 Farringdon Road, London EC1
- Boundary House, Jewry Street, London EC3
- Belkin Unit, 3 Shipton Way, Rushden, Northants.

Properties valued between £15 million and £20 million

- Parc Tawe, Phase II, Link Road, Swansea
- Angouleme Way Retail Park, Bury, Greater Manchester

Properties valued between £10 million and £15 million

- Colchester Business Park, The Crescent, Colchester, Essex
- Gloucester Retail Park, Eastern Avenue, Gloucester
- 1-3 Chancery Lane, London WC2
- Citylink, Addiscombe Road, Croydon
- Unit 3220, Magna Park, Lutterworth, Leics.
- Grantham Book Services, Trent Road, Grantham, Lincs.
- Lyon Business Park, Barking, Essex

Properties valued between £5 million and £10 million

- 401 Grafton Gate East, Milton Keynes, Bucks.
- Datapoint Business Centre, Cody Road, London E16
- Vigo 250, Birtley Road, Washington, Tyne and Wear
- 62/68 Bridge Street, Peterborough
- Nonsuch Industrial Estate, 1-25 Kiln Lane, Epsom, Surrey
- Units 1-13 Dencora Way, Sundon Park, Luton, Beds.
- The Business Centre, Molly Millars Lane, Wokingham, Berks.
- Regency Wharf, Broad Street, Birmingham
- 56 Castle Street, 2/12 English Street and 12-21 St Cuthberts Lane, Carlisle, Cumbria
- Lawson Mardon Buildings, Kettlestring Lane, York
- 53/55/57 Broadmead, Bristol
- 800 Pavilion Drive, Northampton Business Park, Northampton
- Scots Corner, High Street/Institute Road, Birmingham
- 78-80 Briggate, Leeds
- Haynes Way, Swift Valley Industrial Estate, Rugby, Warwickshire
- 17/19 Fishergate, Preston, Lancs.
- Queens House, 19/29 St Vincent Place, Glasgow
- Western Industrial Estate, Downmill Road, Bracknell, Berks.
- L'Avenir, Opladen Way, Westwick, Bracknell, Berks.
- Strathmore Hotel, Arndale Centre, Luton, Beds.

Properties valued under £5 million

- Longcross Court, Newport Road, Cardiff
- Easter Court, Gemini Park, Warrington
- Trident House, 42/48 Victoria Street, St Albans, Herts.
- Land at Westlea Campus, Swindon, Wilts.
- Atlas House, Third Avenue, Globe Park, Marlow, Bucks.
- 72/78 Murraygate, Dundee
- 123 High Street, Guildford, Surrey
- Units 1-3, 18/28 Victoria Lane, Huddersfield, West Yorks.
- Waterside Park, Longshot Lane, Bracknell, Berks.
- Merchants House, Crook Street, Chester
- Sentinel House, Ancells Business Park, Fleet, Hants.
- Waterside House, Kirkstall Road, Leeds
- 2 Bath Street, Bath
- Abbey Business Park, Mill Road, Newtownabbey, Belfast
- 7 & 9 Warren Street, Stockport
- 6/12 Parliament Row, Hanley, Staffs.
- Magnet Trade Centre, Winnersh, Reading
- 8-9 College Place, Southampton
- Manchester Road/Drury Lane, Oldham, Lancs.
- Marshall Building,122-124 Donegall Street, Belfast
- 6 Argyle Street, Bath

5 YEAR FINANCIAL SUMMARY

	2015	2014	2013	2012	2010
Income Statements					
Net property income	**30.3**	27.7	29.8	36.2	30.8
Management expenses	**(2.6)**	(2.1)	(1.7)	(3.8)	(2.9)
Other operating expenses	**(1.2)**	(1.1)	(1.4)	(1.4)	(2.4)
Exceptional costs	**–**	–	(0.2)	(2.5)	(0.9)
Income profit	**26.5**	24.5	26.5	28.5	24.6
Net finance costs	**(10.9)**	(10.9)	(11.5)	(14.6)	(10.1)
Income profit before tax	**15.6**	13.6	15.0	13.9	14.5
Tax	**(0.3)**	(0.4)	(0.3)	0.3	(0.3)
Income profit after tax	**15.3**	13.2	14.7	14.2	14.2
Property gains and losses	**53.6**	24.1	(30.9)	(13.9)	18.0
Financing gains and losses	**–**	–	1.6	6.2	(0.6)
Profit/loss after tax	**68.9**	37.3	(14.6)	6.5	31.6
Dividends paid	**13.1**	10.7	12.1	17.3	13.5

	2015	2014	2013	2012	2010
Balance Sheets					
Investment properties	**532.9**	417.6	382.7	411.7	424.3
Borrowings	**(232.8)**	(234.0)	(233.4)	(233.0)	(245.9)
Other assets and liabilities	**69.9**	30.5	20.1	17.4	28.5
Net assets	**370.0**	214.1	169.4	196.1	206.9
Net asset value per share (pence)	**69**	56	49	57	60
EPRA net asset value per share (pence)	**69**	56	49	58	63
Earnings per share (pence)	**15.4**	10.4	(4.2)	1.9	9.3
Dividends per share (pence)	**3.0**	3.0	3.5	5.0	4.0
Dividend cover (%)	**117**	124	122	82	105
Share price (pence)	**71.8**	56.8	40.0	41.3	53.5

All figures are in £million unless otherwise stated.

Reporting dates are annually except 2012 which is a 15 month period to 31 March 2012.

GLOSSARY

AIC	Association of Investment Companies.
AIFMD	Alternative Investment Fund Managers Directive.
Annual Rental Income	Cash rents passing at the Balance Sheet date.
CIPS	Chartered Institute of Purchasing and Supply.
Contracted rent	The contracted gross rent receivable which becomes payable after all the occupier incentives in the letting have expired.
DTR	Disclosure and Transparency Rules, issued by the United Kingdom Listing Authority.
Dividend cover	Income profit after tax divided by dividends paid.
Earnings per share (EPS)	Profit for the period attributable to equity shareholders divided by the average number of shares in issue during the period.
EPC	Energy performance certificate.
EPRA	European Public Real Estate Association, the industry body representing listed companies in the real estate sector.
Estimated rental value (ERV)	The external valuers' opinion as to the open market rent which, on the date of the valuation, could reasonably be expected to be obtained on a new letting or rent review of a property.
Fair value	The estimated amount for which a property should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after the proper marketing and where parties had each acted knowledgeably, prudently and without compulsion.
Fair value movement	An accounting adjustment to change the book value of an asset or liability to its fair value.
FRI lease	A lease which imposes full repairing and insuring obligations on the tenant, relieving the landlord from all liability for the cost of insurance and repairs.
Gearing	Total assets, less cash, divided by shareholders' funds, expressed as a percentage, as defined by the AIC.
Group	Picton Property Income Limited and its subsidiaries.
IASB	International Accounting Standards Board.
IFRS	International Financial Reporting Standards.
Property Income return	The ungeared income return of the portfolio as calculated by IPD.
Initial yield	Annual cash rents receivable (net of head rents and the cost of vacancy), as a percentage of gross property value, as provided by the Group's external valuers. Rents receivable following the expiry of rent-free periods are not included.
IPD	Investment Property Databank. An organisation supplying independent market indices and portfolio benchmarks to the property industry.
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.
NAV	Net Asset Value is the equity attributable to shareholders calculated under IFRS.
Ongoing Charges ratio	Total operating expenses, excluding one off costs, as a percentage of the average net asset value over the period, as defined by the AIC.
Over-rented	Space where the passing rent is above the ERV.
PMI	Purchasing Managers Indexes.
Rack-rented	Space where the passing rent is the same as the ERV.
Reversionary yield	The estimated rental value as a percentage of the gross property value.
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 (including rent-frees).
ZDP	Zero dividend preference share.
ZDP share cover	The Group's net asset value, including any accrued ZDP capital additions, divided by the final ZDP liability on their maturity.

Financial Calendar

Annual Results announced	9 June 2015
Annual Results posted to shareholders	15 July 2015
Annual General Meeting	12 November 2015 (provisional)
June 2015 NAV announcement	July 2015 (provisional)
2015 Half Year Results to be announced	November 2015 (provisional)
December 2015 NAV announcement	January 2016 (provisional)
Dividend Payment Dates	August/November/February/May

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Trevor Ash
Vic Holmes
Roger Lewis
Robert Sinclair

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Shareholder enquiries

All enquiries relating to holdings in Picton Property Income Limited, including notification of change of address, queries regarding dividend/interest payments or the loss of a certificate, should be addressed to the Company's registrars.

Website

The Company has a corporate website which holds, amongst other information, a copy of our latest annual report and accounts, a list of properties held by the Group and copies of all press announcements released over the last five years.

The site can be found at:
www.picton.co.uk

PICTON

AS WE ENTER OUR 10TH YEAR

2005

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

2015 marks the tenth anniversary of the Company's launch. During that time there have been many significant events, both specifically for the Company but also impacting the environment in which we operate. As a business I believe that we are now in a strong position to look forward to the next ten years with confidence, and can build on the achievements we have made so far.

Nicholas Thompson
Chairman

2006

- Strong commercial property market returns, with falling yields
- Increase in the Company's property assets, including a £125 million portfolio purchase
- Disposal of a portfolio of public houses, including the General Picton, to a pub operating company, at a significant profit

2007

- The US sub-prime mortgage crisis starts
- UK commercial property capital values correct sharply in latter half of year

2008

- Peak of financial crisis
- Unprecedented decline in asset values including commercial property
- The Company disposed of a number of assets to facilitate debt repayment

2009

- Restructuring of the Company's securitised debt successfully completed with further asset sales
- Recession in the UK finally ended

2010

- Acquisition of Rugby Estates Investment Trust plc by the Company
- Improvement in asset values
- Decision taken to internalise the Company's management

2011

- Name changed to Picton Property Income Limited
- Picton Capital Limited created
- UK economy weakens and re-enters recession

2012

- Internalisation is effective from 1 January, with significant saving in costs
- Company's debt facilities re-financed
- Introduction of covered dividend policy

2013

- Share price moved to a premium to net asset value
- New equity raised to fund property acquisitions
- Capital values stabilised

2014

- Placing Programme initiated to raise £100 million of new equity
- Recovery in UK economy continues
- Increase in Company's market capitalisation to over £300 million
- £81 million of new property assets acquired

2015

- Increase in quarterly dividend
- Highest reported profit and total return since 2006
- New revolving credit facility established
- New website launched and branding refreshed **www.picton.co.uk**
- **To be continued . . .**

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