



PICTON PROPERTY INCOME LIMITED
Annual Report 2017

Opportunities Focused Opportunity



WHO WE ARE

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

Our property portfolio currently consists of 53 assets and is invested in the industrial, office, retail, retail warehouse and leisure sectors. These assets generate a rental income stream from a diverse range of over 350 occupiers in a wide range of businesses.

We are total return driven with an income bias.

WHAT WE DO

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

We have delivered consistent outperformance due to our team culture, work ethic and expertise. With a strong cash flow underpinning our business strategy, we have an occupier focused, opportunity led approach.

We aim to be one of the consistently best performing diversified property investment companies listed on the main market of the London Stock Exchange.

Front Cover Image:

Metro Building, Greater Manchester

PORTFOLIO KEY FACTS

Number of Assets

53

Area

4.5 million sq ft

Value

£624.4 million

Occupancy

94%

Net initial yield

5.9%

Reversionary yield

6.9%

WELCOME TO OUR 2017 ANNUAL REPORT

WHY INVEST

WE OFFER DIVERSIFIED EXPOSURE TO THE UK COMMERCIAL PROPERTY MARKET.

WE ACTIVELY MANAGE OUR ASSETS WITH AN OCCUPIER FOCUSED AND OPPORTUNITY LED APPROACH.

WE OPERATE A COVERED DIVIDEND POLICY, ALLOWING US TO INVEST BACK INTO THE PORTFOLIO.

WE HAVE ESTABLISHED A CONSISTENT TRACK RECORD OF OUTPERFORMANCE.

OUR MANAGEMENT TEAM IS ALIGNED WITH SHAREHOLDERS.



Visit us online at www.picton.co.uk and see our Year in Review



WHAT MAKES US DIFFERENT

We are internally managed, unlike many traditional investment companies. We have an experienced and dedicated team of 12 who are focused entirely on Picton and its success.

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



Read more about Our Business Model on page 12

PORTFOLIO ALLOCATION

Sector %

Industrial 40.1

South East 26.9

Rest of UK 13.2

Office 34.3

South East 21.4

Rest of UK 8.7

City & West End 4.2

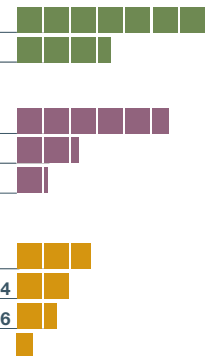
Retail & Leisure 25.6

Retail warehouse 10.4

High Street - Rest of UK 7.4


High Street - South East 5.6

Leisure 2.2





CHIEF EXECUTIVE'S REVIEW

 Read more on pages 24 and 25




OUR BUSINESS MODEL

 Read more on page 12



INVESTMENT MANAGER'S REPORT

 Read more on pages 28 to 39

Strategic Report

2017 Highlights	2
2017 EPRA Measures	4
Chairman's Statement	6
Our Marketplace	9
Our Business Model	12
Five Years of Picton	13
Our Strategy	14
Strategy in Action	16
Chief Executive's Review	24
Key Performance Indicators	26
Investment Manager's Report	28
Financial Review	40
Managing Risk	43
Being Responsible	46

Governance

Chairman's Introduction	51
Board of Directors	52
Investment Management Team	54
Corporate Governance Report	56
Nominations Committee Report	58
Audit and Risk Committee Report	59
Property Valuation Committee Report	62
Remuneration Report	64
Directors' Report	67

Financial Statements

Independent Auditor's Report	70
Consolidated Statement of Comprehensive Income	74
Consolidated Statement of Changes in Equity	75
Consolidated Balance Sheet	76
Consolidated Statement of Cash Flows	77
Notes to the Consolidated Financial Statements	78

Other Information

EPRA Disclosures	97
Supplementary Disclosures	104
Property Portfolio	105
Five Year Financial Summary	106
Glossary	107
Shareholder Information	108
Financial Calendar	IBC

Look out for these icons:

 Read more information in this Report

 Visit www.picton.co.uk for more details

2017 HIGHLIGHTS

“The Company’s investment objective is to provide investors with an attractive level of income and the potential for capital growth. Both have been achieved in the last twelve months as shown by the performance figures.”

 Read more in the Chairman’s Statement on pages 6 to 8

 Read more in the Chief Executive’s Review on pages 24 to 25

POSITIVE RESULTS AGAINST AN UNCERTAIN ECONOMIC BACKDROP

- Increase in EPRA NAV per share of 6.0%, to 82 pence per share
- Income profit increased by 30% to £25.8 million
- Total return of 10.4%
- Shareholder total return of 25.6%
- Dividend increase of 3% in February 2017 to 3.4 pence per share per annum
- Dividend cover of 144%, or 115% prior to one-off exceptional income of £5.3 million

POSITIVE VALUATION AND INCOME GROWTH

- Like-for-like valuation increase of 3.0%
- Like-for-like passing rent at 31 March 2017 increased by 4.4% to £40.0 million
- Like-for-like ERV growth of 3.3% with total portfolio ERV of £45.9 million

CONTINUE TO OUTPERFORM MSCI IPD QUARTERLY BENCHMARK

- Total property return of 9.9%, outperforming benchmark of 4.6%
- Income return of 6.7%, outperforming benchmark of 4.7%
- Total property return and income return outperformance ahead of MSCI IPD over 1, 3, 5 & 10 years

STRONGER BALANCE SHEET AND LOWER FINANCE COSTS

- Total debt reduced by 18% to £204.6 million
- Repaid £29.1 million of 7.25% zero dividend preference shares in full
- Net gearing reduced to 27.4% from 34.6%
- Weighted average interest rate now 4.2% from 4.4%
- Established new £27 million revolving credit facility
- Access to over £50 million of committed but undrawn debt facilities

MAINTAINED FOCUS ON ASSET MANAGEMENT

- Occupancy at 94%, ahead of the MSCI IPD Quarterly Benchmark of 93%
- 35 lettings completed securing £3.2 million of additional annual income, on average 6.9% above March 2016 ERV
- 23 lease renewals and re-gears retaining £1.2 million per annum, on average 5.7% above March 2016 ERV

ONGOING REPOSITIONING OF PORTFOLIO

- Sold two central London assets for £45 million, on average 4% above the March 2016 valuation
- Sold four non-core assets for £7 million, on average 41% above the March 2016 valuation
- Invested £2.8 million into refurbishment projects across portfolio
- Increased average lot size by 4.4% to £11.8 million

NAV per Share (p)

82p



Earnings per Share (p)

7.9p



Dividends per Share (p)

3.3p



Net Assets (£m)

£441.9m



Profit after Tax (£m)

£42.8m



Dividend Cover (%)

144%



** 115% prior to one-off income

Property Assets* (£m)

£615.2m



* net of lease incentives

Total Return (%)

10.4%



Shareholder Total Return (%)

25.6%



EPRA MEASURES



EPRA PERFORMANCE MEASURES (EPM)

The European Public Real Estate Association's (EPRA) mission is to promote, develop and represent the European public real estate sector. As an EPRA member, Picton fully supports the EPRA Best Practices Recommendations which recognise the six key performance measures, as detailed above. Further disclosures and supporting calculations, including sustainability measures, can be found on pages 97 to 103. We have also highlighted other specific EPRA metrics throughout the Report.

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.

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.

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.

EPRA COST RATIOS:

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

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.

EPRA VACANCY RATE:

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

ALTERNATIVE PERFORMANCE MEASURES

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

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

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

Other APMs are set out in the Supplementary Disclosures section of the Report.

EPRA NAV per Share (p)

82p



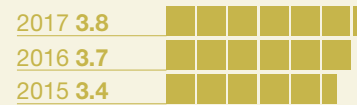
EPRA Earnings (£m)

£20.6m



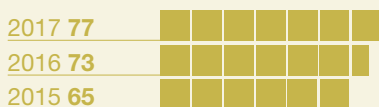
EPRA Earnings per Share (p)

3.8p



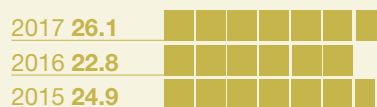
EPRA NNAV per Share (p)

77p



EPRA Cost Ratio¹ (%)

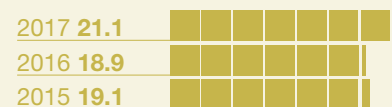
26.1%



1. Including direct vacancy costs

EPRA Cost Ratio² (%)

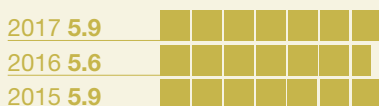
21.1%



2. Excluding direct vacancy costs

EPRA Net Initial Yield (%)

5.9%



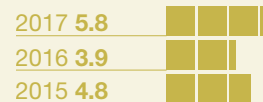
EPRA 'topped-up' Net Initial Yield (%)

6.3%



EPRA Vacancy Rate (%)

5.8%





CAPITAL STRUCTURE

Picton is well positioned for any future challenges, or indeed opportunities, with modest gearing and immediate access to funds through two undrawn revolving credit facilities. Our current net gearing is 27%, down from 35% last year. During the year, we reduced the level of debt to £205 million and the average interest rate from 4.4% to 4.2%.

A significant milestone for the Company was the repayment of its 7.25% zero dividend preference shares, which were a legacy of our 2012 refinancing. We wanted to simplify our corporate structure and this repayment helps achieve that aim.

Additionally, we have put in place a second revolving credit facility, which provides further operational flexibility, and are working towards extending our other revolving credit facility which matures next year.

By repaying shorter term debt, our debt maturity profile has increased from 10.7 to 11.7 years, which remains one of the longest debt profiles within the listed real estate sector. This means on our drawn borrowings there is no short-term refinancing risk and no exposure to interest rate risk.

Our strategy is to only increase gearing on a tactical basis, if and when specific asset opportunities arise. We believe our investors would on balance prefer a larger, more liquid, and lowly geared company, so we will only seek to grow where there is a clear financial rationale and we can further take advantage of the economies of scale that our internalised structure provides.

PROPERTY PORTFOLIO

The property portfolio has performed well and our relatively high exposure to the industrial, warehouse and logistics sectors has contributed positively. We have not made any acquisitions during the last 12 months, but we have undertaken some portfolio restructuring, which has focused on reducing our central London exposure and continuing to sell non-core assets. At the year end, the Group owned 53 assets, with an average lot size of £11.8 million, 4% higher than a year ago.

Occupancy is at 94% and we are hopeful that this will increase in 2017, as we let more space at 50 Farringdon Road, London EC1 and elsewhere within the portfolio.

DIVIDENDS

The Company's dividend was increased with effect from February 2017. The increase of 3% was in part a reflection of lower financing costs resulting from the activity referred to above. The Board regularly reviews the dividend level and will consider this again at the time of the interim results in November.

CORPORATE STRUCTURE

We have been monitoring the Government's responses to the OECD project on Base Erosion and Profit Shifting. Recently, new legislation was introduced in the UK restricting interest deductibility for UK companies, and at the same time a consultation was launched to bring non-resident landlord companies, such as Picton, into the scope of UK corporation tax. As a result of this potential change, the Directors believe it is likely to be in the interests of the Company to convert to a UK REIT during 2018.

The Company continues to examine all its options in this regard with a view to seeking any necessary shareholder approval in due course.

During 2016, shareholders approved a new long-term incentive plan, which is for the benefit of all Picton employees. The first vesting period for this new plan does not end until 31 March 2019, but is another important part of further aligning staff interests with those of shareholders. More details of this plan are provided in the Remuneration Report. We engaged with shareholders as part of this process and are grateful for their feedback and subsequent support for all resolutions at last year's Annual General Meeting.

We continue to welcome dialogue, engagement and feedback from shareholders generally.

CHAIRMAN'S STATEMENT

CONTINUED



BOARD COMPOSITION

I stated at the time of our half year results that we would start to consider recruiting an additional member to the Picton board. This process has commenced, and I hope that we will have a new Board member in place later this year. It is our intention, once the new Director is in place, to appoint a new chairman of the Audit and Risk Committee in due course, as Robert Sinclair has indicated that he wishes to retire from the Board in 2018 once any potential transition to UK REIT status is complete.

OUTLOOK

Picton is well positioned, with an engaged team and a high quality, income focused portfolio. Our approach is well suited to long-term property investment and our track record demonstrates this.

This year marks the fifth anniversary since our change to a self-managed investment company. In our view this has delivered significant benefits for shareholders. Our net assets have grown 125% or £246 million over the last five years and our net asset value per share has risen by 44%. We have made significant cost savings relative to the previous external management arrangements and have a team dedicated to Picton and aligned with its shareholders' interests. Our MSCI IPD performance numbers, highlighted above, demonstrate this and we have added more detail about some of our key milestones within this report.

The market is stable at present, but not without risk. As ever, not all parts of the market are as positive or as attractive as others but our diversified approach enables us to focus on opportunities that will provide attractive risk adjusted returns for shareholders. We are confident that our team is more than capable of ensuring that Picton continues to deliver on its strategic objectives.

As we evolve our strategy further, we want shareholders to remain clear about what they get from an investment in Picton. Our diversified portfolio and opportunity led, occupier focused approach, is more a means than an end. Our aim is to be consistently one of the best performing diversified property investment companies listed on the main market of the London Stock Exchange.

Nicholas Thompson

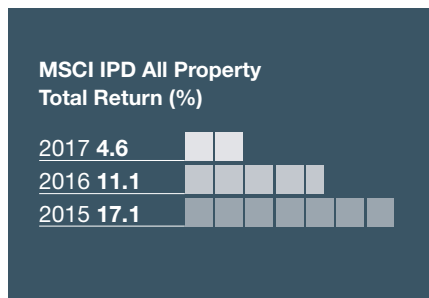
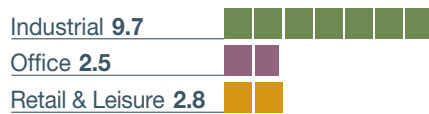
Chairman

6 June 2017

OUR MARKETPLACE

“The MSCI IPD Quarterly Index recorded a total return for All Property for the year to March 2017 of 4.6%, an income return of 4.9% and a fall of 0.3% in capital values.”

All Property Sector Returns 2017 (%)



ECONOMIC BACKDROP

Uncertainty surrounding economic prospects following the EU referendum continues to impact markets and the June general election has only exacerbated this. Despite this, based on preliminary GDP estimates from the Office of National Statistics, UK GDP grew by 2.0% in the year to March 2017 compared to 1.6% in the year to March 2016. However, recent data shows that UK GDP in the first quarter of 2017 slowed to 0.2% compared to the previous quarter's 0.7%. Whilst the economy seems to have lost some momentum, it is surprisingly stronger than many had predicted.

Since the referendum vote, sterling has weakened against other currencies, which has caused the cost of imported goods to rise, which in turn is contributing to rising inflation in the UK. On the positive side, the weaker pound has had a favourable impact on exports, which is reflected in the latest Manufacturing Markit/PMI survey which showed an unexpected rise in April 2017.

Between January and March 2017, the employment rate was 74.8%, the highest level since comparable records began in 1971. While employment remains at historically high levels, a pay squeeze has led to consumers feeling less well off. The 12 month Consumer Price Index (CPI) was 2.3% in March 2017, higher than the 0.5% in March 2016. The CPI rate has been steadily increasing following a period of relatively low inflation and in the latest release for April 2017 recorded 2.7%. When compared to the average wage growth of 2.1%, in real terms, wage growth is negative. The slowdown in real wages has been reflected in retail sales volumes, which have been on a weakening trend since the end of last year. However, there are reasons to remain positive. Both high employment and low interest rates remain supportive of consumer spending, and consumer confidence, as measured by Gfk NOP, is resilient compared to historical levels. Also, the latest retail sales figures released by the Office of National Statistics were better than expected, rising by 4.0% in the year to April 2017. As long as the squeeze on real income proves to be temporary, consumer spending should hold up.

The Markit Purchasers Managers Index (PMI), which monitors the pace of growth for the manufacturing, construction and services sector, recorded encouraging results for all three sectors in March/April 2017. The combined results of the PMI surveys imply that UK output is expected to recover over the next quarter. Encouragingly, the Governor of the Bank of England expects economic productivity and wage growth to improve in the medium term.

Current UK bond yields and interest rates continue to be supportive of growth. The Bank of England base rate was cut from 0.5% to 0.25% on 4 August 2016 and has remained unchanged since then. Ten year government bond yields are now 1.1%, down from the 1.6% recorded a year ago.

MSCI IPD Capital Value Growth

-0.3%

MSCI IPD Rental Growth

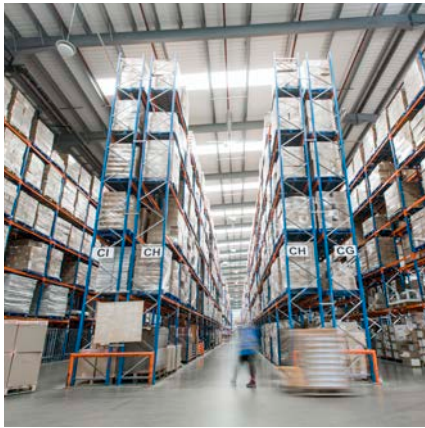
1.9%

MSCI IPD Occupancy

92.8%

OUR MARKETPLACE

CONTINUED



UK PROPERTY MARKET

The MSCI IPD Quarterly Index recorded a total return for All Property for the year to March 2017 of 4.6%, an income return of 4.9% and a fall of 0.3% in capital values. The industrial sector outperformed the other sectors by delivering 9.7% while retail delivered 2.8% and offices recorded 2.5%. In comparison to the previous year, MSCI IPD net initial yields have been stable across all three sectors.

By sector, retail values fell by 2.3% and offices by 1.5%. In contrast, the industrial sector recorded a rise of 4.2% and was the strongest sector in the index. Recently released data from the MSCI IPD monthly digest showed capital growth is stronger than 12 months ago and more evenly spread across the segments, with London offices showing slower growth than historically. 29 segments recorded positive capital growth and only eight recorded negative movements. This is an improvement on a year ago when only 19 segments recorded positive capital growth. In terms of overall ranking, four of the top five segments were in the industrial sector, and regional retail featured for the first time as the best performing segment in the past year.

In the year to March 2017, All Property rental growth was 1.9%. The industrial sector recorded the strongest rise at 3.9% for the year to March 2017, offices rose by 1.9% and retail by 0.9%. Recently released data for the MSCI IPD monthly digest showed rental growth is weaker than 12 months ago with Central London retail slowing significantly. 23 segments recorded positive rental growth and 16 recorded negative or nil rental growth. This is less than a year ago when 26 segments recorded positive rental growth. In terms of overall ranking, three of the top five segments were in the industrial sector, the remaining two were in the office and retail sectors.

The MSCI IPD Quarterly Index recorded an occupancy rate of 92.8% in March 2017, lower than the 93.4% recorded in March 2016. The highest occupancy was recorded for retail at 95.9% (March 2016: 96.1%) followed by industrial at 93.4% (March 2016: 93.0%) and offices at 86.6% (March 2016: 89.3%).

Prevailing uncertainty surrounding the terms of the UK's exit from the European Union has led to lower investment volumes in the past 12 months. Property Data showed that in the year to March 2017 investment volumes fell by more than 25% from the previous year to £49.8 billion.

According to the latest figures from the Bank of England, at the end of March 2017, total outstanding debt to commercial property stood at £150 billion. Property as a percentage of total outstanding debt fell to 7.1% in March 2017 from 7.5% in March 2016.

INDUSTRIAL MARKET TRENDS

The MSCI IPD Quarterly Digest showed industrial total returns were 9.7% in the year to March 2017 with income delivering the majority of this return at 5.3% and capital growth returning 4.2%.

Over the past year, industrial take-up has been robust, with this trend being maintained into the first quarter of the year. Furthermore, consensus forecasts suggest the sector will outperform both retail and offices over the short to medium term.

Falling levels of availability in ready-to-occupy buildings, together with resilient occupier demand will help rents to hold up. What is also particularly encouraging is that rental values in the South East and Rest of UK Industrial segments still remain favourable compared to their historical trend.

The logistics element of the industrial sector is closely linked to consumer spending and while prospects for retail spending remain uncertain, at this stage, based on forward indicators, they still remain encouraging. Moreover, it is also worth noting that the weaker pound, as mentioned previously, has fuelled demand for industrial occupiers in the manufacturing and exporting sectors. And so, if retail sales do slow, some of this may be offset by stronger demand in these sectors.



RETAIL MARKET TRENDS

Retail total returns were 2.8% in the year to March 2017. Returns comprised 5.2% income return and a fall of 2.3% in capital values. Consensus forecasts suggest that while the retail sector faces some headwinds over the next few years, its performance will vary by segment with retail warehouses expected to perform better than high street shops.

Following a period of low confidence in the sector, the latest retail sales data from the Office for National Statistics has been strong. Sales over the past year have grown by 4.0%, and are ahead of prior estimates. The latest confidence survey from GfK NOP also remains at higher levels compared to historical readings. While these figures are encouraging, challenges remain in the sector. The latest reading from the Office for National Statistics shows that average real wage growth turned negative in April 2017, and house price growth indicators suggest prices may stall or fall going forwards. On the positive side, employment levels are encouraging. Overall, there is the possibility that consumers reduce their spending in response to less disposable income. However, this depends on inflation and real wage growth, which at this stage is uncertain.

It is worth noting that where London retail has traditionally driven returns in the sector, the latest reading from the MSCI IPD Monthly Digest suggests rental growth has started to slow in this market. In the regions, the revaluation of business rates outside of London should help reduce costs for retailers.

OFFICE MARKET TRENDS

Office total returns were 2.5% in the year to March 2017. Returns comprised 4.1% income return and a fall in capital values of 1.5%. Consensus forecasts suggest that the office sector will lag behind retail and industrial. However, there will be a wide disparity in performance with returns driven by regional offices rather than London offices.

The outlook for central London offices remains uncertain following the EU referendum and its potential consequences for businesses, particularly financial services. Take-up in central London offices is still above the ten year average and a sectoral breakdown shows that 55% of take-up in the main central London submarkets came from business services, media and tech firms, compared to approximately 25% from legal and financial firms.

Regional office market prospects are more positive. Office rental levels do not look particularly high compared to their historic levels. If employment levels continue to be robust, then rents in the regions should grow. Capital growth predictions are also encouraging for the regions, with some forecasters predicting regional offices to deliver the strongest returns in the market.




 Read more in the Investment Manager's Report on pages 28 to 39

OUR BUSINESS MODEL

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

Our property portfolio currently consists of 53 assets and is invested in the industrial, office, retail, retail warehouse and leisure sectors. These assets generate a rental income stream from a diverse range of more than 350 occupiers in a wide range of businesses.

After deducting operational and financing costs, the majority is then paid out as dividends to our shareholders and the remaining balance is retained and can be invested back into the portfolio.

 Read more in Our Strategy in Action on pages 16 to 23



DEPTH OF EXPERTISE
Our investment management team has on average 12 years of experience in commercial property and is focused on achieving success for Picton.

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


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

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

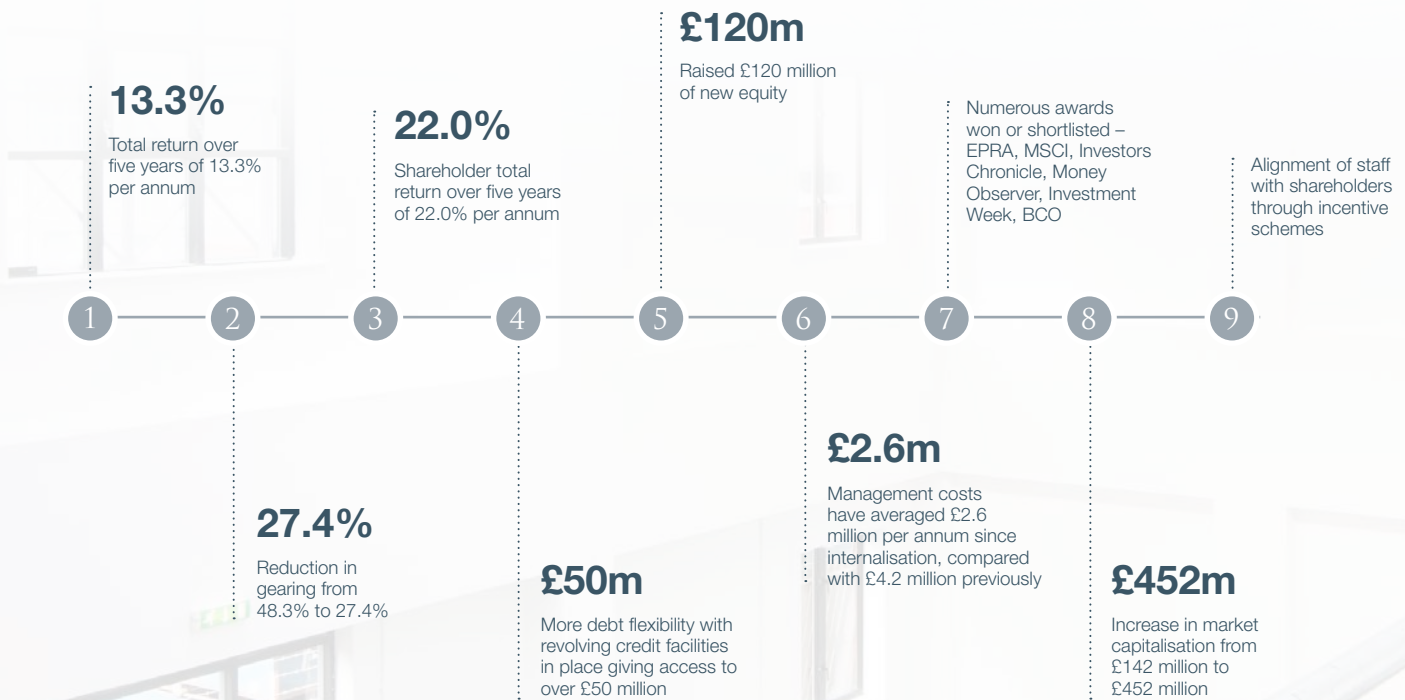
DELIVERING LONG TERM SHAREHOLDER VALUE
Our business model gives us the flexibility to adapt to changing market conditions and so deliver value to our shareholders through the property cycle and over the long-term.

FIVE YEARS OF PICTON

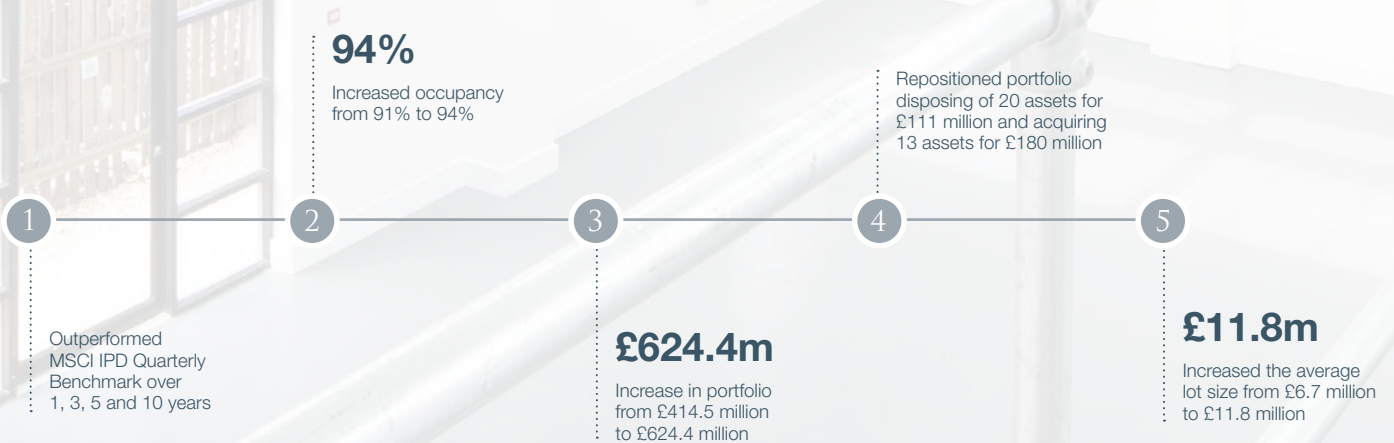
In 2012, Picton became an internally managed investment company, having changed its name from ING UK Real Estate Income Trust Limited. We look back on some of the key achievements since then.

 You can read more online about Our History at: www.picton.co.uk

CORPORATE ACHIEVEMENTS



PROPERTY ACHIEVEMENTS








OUR STRATEGY

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

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

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

OUR FIVE KEY STRATEGIC PRIORITIES

Strategic priority		Progress this year
 <p>Growth of net income</p>	<p>We aim to grow net income. Our aim is to add additional annual income from new lettings, lease renewals, rent reviews 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, which helps to generate rental growth.</p>	<p>Net property income has grown by 18% this year to over £42 million.</p>
 <p>Working with our occupiers</p>	<p>We maintain regular communication with our occupiers. By doing this, we understand their needs and can work to meet their requirements. Our successful occupier focused initiatives include the 'Picton Promise' – eight commitments to quality and service that underpin our occupier experience. We believe that these initiatives maintain occupancy and improve retention rates.</p>	<p>Our occupancy is 94%, this remains ahead of the MSCI IPD Quarterly Benchmark which was 93.1% at March 2017.</p>
 <p>Operational efficiency</p>	<p>Picton is an internally managed investment company. Unlike many investment companies Picton is internally managed with a dedicated team of 12 staff. We believe this is an efficient operating model and allows Picton to benefit from economies of scale as it grows.</p>	<p>Although our operating costs have risen this year, this is largely the result of the alignment in variable remuneration with property performance and shareholder returns.</p>
 <p>Portfolio and asset management</p>	<p>Active asset management is core to our approach. We seek to enhance the value of our assets through active management. We will also look to acquire new assets that offer the potential to enhance income and value, whilst disposing of assets that we believe will contribute less in terms of performance.</p>	<p>The capital value of our portfolio has increased by 3% on a like-for-like basis. We have reduced our central London exposure and disposed of non-core assets.</p>
 <p>Effective use of debt</p>	<p>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. We review our level of gearing regularly to adapt to changing market conditions.</p>	<p>Although our gearing is still making a positive contribution to returns, we have reduced the overall level of borrowing within the Group which we believe is appropriate in the current market.</p>



Pictured: Queen's House, Glasgow

STRATEGY IN ACTION

RESHAPING OUR PORTFOLIO




During the year we have continued to reshape the portfolio, not only reducing our core London exposure, but also recycling capital, in particular from smaller assets, in order to further concentrate the portfolio.

Our average lot size has increased by 76% in the five years post internalisation.

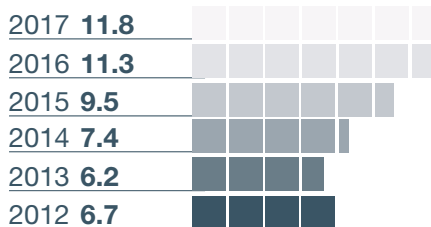
This year, we passed a milestone, being seven years since the acquisition of Rugby Estates Investment Trust Plc and its portfolio of 34 properties. Since that time we have sold 27 assets as business plans have been completed and realised in excess of £30 million through disposals.

The remaining seven assets are valued at £66 million, higher than the original purchase price for the entire portfolio in 2010 of £62 million.

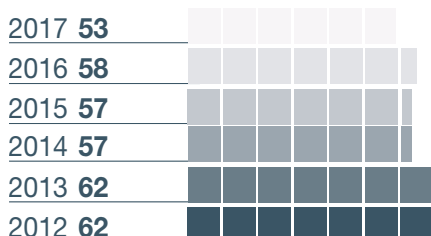
Strategy in action

-  PORTFOLIO AND ASSET MANAGEMENT
-  OPERATIONAL EFFICIENCY
-  GROWTH OF NET INCOME

Portfolio Average Lot Size (£m)



Number of Assets



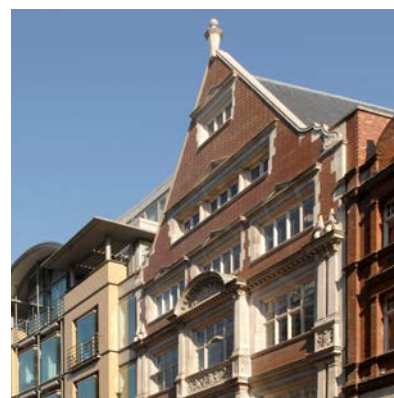
RETAINED PROPERTIES

We have retained seven properties where we identified opportunities for enhancing valuation or income through our asset management skills.

Stanford House in Covent Garden is a prime retail property with planning secured for a residential scheme on the upper parts. 78-80 Briggate in Leeds, which is well located opposite the Victoria Quarter, is let to Starbucks and Dune and has active management potential.

We have seen significant rental growth at our multi-let estates in Bromley-by-Bow and Epsom, where we have attracted occupiers such as Arriva, Edmundson Electrical, MGN and Toolstation.

The three final properties are considerably smaller and we are executing our business plans.



Valuation increase

104%

Retained Property:
Stanford House, London WC2

SOLD PROPERTIES

We have sold 27 of the former Rugby assets. These were mainly smaller assets where we had completed our business plans and are able to realise gains through disposal.

The proceeds were then re-cycled into investment in new and existing properties where more attractive returns could be sought, thereby improving the quality of the overall portfolio.





Increase in ERV

29%

Retained Property:
Datapoint, London E16



Valuation increase

76%

Retained Property:
Nonsuch Industrial Estate - Epsom



Occupancy maintained

100%

Retained Property:
78-80 Briggate, Leeds



Profit on disposal

33%

Compared to the original acquisition cost, the average gain on disposal of the sold properties is 33%.

Average lot size

£1.1 million

The average lot size of the sold properties is £1.1 million.

STRATEGY IN ACTION

INDUSTRIAL

LYON BUSINESS PARK

BARKING



REPOSITIONING OUR ASSET TO MEET OCCUPIER NEEDS

Lyon Business Park is a prominent, well located multi-let distribution and warehouse scheme in east London, adjacent to the A13 and close to the A406 North Circular Road and equidistant from central London and the M25. It comprises 12 units purpose built in the early 1990s, totalling 99,450 sq ft. Two larger distribution units represent 72% of the floor space, with ten small business units comprising the remainder.

Following a surrender of one of the distribution units, where the occupier paid a premium of £0.3 million plus dilapidations, we refurbished the unit during the year and leased it to an airline catering company servicing London City Airport on a ten year lease, with a break, at a rent of £0.25 million per annum with three months rent free. This transaction was 17% ahead of March 2016 ERV and the previous passing rent.

We worked with another occupier to expand into an adjacent unit, in line with the Picton Promise to help occupiers to 'right size' their business space. These lettings and two further lease renewals means the estate is fully let and the income is currently 107% higher than on 31 March 2016, with the valuation having increased by 29% over the same period.

KEY PROPERTY DETAILS

Increase in Value

29%

Number of Occupiers

9

Size

99,450sq ft

Annual Rent

£0.84m

Year Built

1990

EPC Rating

E

Strategy in action

-  PORTFOLIO AND ASSET MANAGEMENT
-  WORKING WITH OUR OCCUPIERS
-  GROWTH OF NET INCOME



STRATEGY IN ACTION

OFFICE

TRIDENT HOUSE

ST ALBANS



PROVIDING SPACE IN A STRONG OCCUPATIONAL MARKET

Trident House comprises an 18,900 sq ft multi-let office building built in the 1980s with 50 parking spaces. It is located in the centre of St. Albans, close to the railway station with frequent services to central London.

We accepted a lease surrender of the first floor, with the occupier paying a premium equivalent to the full liability under the lease. The floor was comprehensively refurbished and split into two 3,500 sq ft suites.

Both suites were let within two months of completion of the works at a combined rent of £0.21 million per annum, 15% ahead of March 2016 ERV and 23% ahead of the previous passing rent. Subsequently we pre-let a 2,900 sq ft suite on the second floor prior to the existing lease expiring.

These lettings represent record rents in St. Albans, with the final letting being at £37.50 per sq ft.

The building is now fully let and the income is 86% higher than on 31 March 2016 with the valuation having increased by 24% over the same period.

KEY PROPERTY DETAILS

Increase in Value

24%

Number of Occupiers

9

Size

18,900sq ft

Annual Rent

£0.4m

Year Built

1985

EPC Rating

C

Strategy in action

 PORTFOLIO AND ASSET MANAGEMENT

 WORKING WITH OUR OCCUPIERS

 GROWTH OF NET INCOME



STRATEGY IN ACTION

RETAIL AND LEISURE

DRURY LANE

OLDHAM



CREATING VALUE THROUGH CHANGE OF USE

In 2010, Picton acquired, as part of a portfolio, a 16,400 sq ft warehouse in Oldham, previously used as a builders' merchants. The building was leased to a national trade retailer at £74,000 per annum who was not in occupation.

Planning consent was obtained to convert the unit into a gym and a small adjacent piece of land was acquired to increase the size of the car park.

On lease expiry the unit was then comprehensively refurbished and during the year let on a 15 year lease to The Gym Group at an annual rent of £0.15 million per annum.

The property was subsequently sold for £2.2 million, reflecting a net initial yield of 6.4% and an 85% premium to the March 2016 external valuation. Net of the £0.5 million of costs incurred since acquisition, the asset was sold at a 130% profit.

KEY PROPERTY DETAILS

Increase in Value

130%

Number of Occupiers

1

Size

16,400 sq ft

Annual Rent

£0.15m

Year Built

1985

EPC Rating

B

Strategy in action



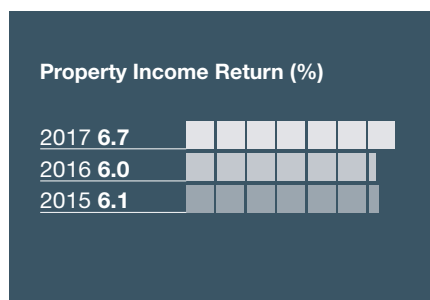
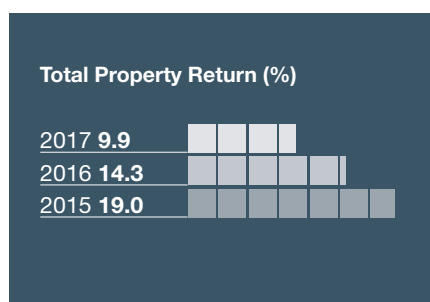
PORTFOLIO AND
ASSET MANAGEMENT



CHIEF EXECUTIVE'S REVIEW

MICHAEL MORRIS

“We have reshaped the portfolio through the sales of two central London office buildings and four smaller non-core assets. This has reduced the number of assets in the portfolio and increased the average lot size to £11.8 million.”



Total Return

10.4%

Total Property Return

9.9%

Earnings per Share

7.9p

The last 12 months have not been without their challenges. The uncertainty caused by the EU referendum and consequent nervousness within the investment and occupier markets undoubtedly impacted performance.

We have made progress on many fronts and have delivered strong relative property performance, which has further been enhanced by our use of debt.

Our entrepreneurial approach has enabled us to react quickly as market conditions have changed. We have put ourselves in a strong position, through our strategy of realising profits from low yielding London assets and using proceeds to repay debt.

PORTFOLIO AND ASSET MANAGEMENT

Our outperformance against MSCI IPD is significant and we cover this in more detail further on. As I have said in previous years, there is always a balance to be struck between income and capital returns. A pure focus on income, and a lack of investment into assets, is likely to be at the expense of future capital returns and income sustainability.

We have retained our overweight position to the industrial, warehouse and logistics sector and this has again had a positive impact on our relative performance.

We have reshaped the portfolio through the sales of two central London office buildings and four smaller non-core assets. This has reduced the number of assets in the portfolio and increased the average lot size to £11.8 million.

The work of the asset management team in adding value across the portfolio is covered in more detail within the Investment Manager's Report.

OPERATIONAL EFFICIENCY

An increase in performance related remuneration across the team has contributed to a small increase in Picton's Ongoing Charges ratio for the year. It is worth noting that in 2012 Picton moved to an internalised management structure as part of a process to reduce ongoing costs and become more aligned with its shareholders. Since then, total management costs have averaged £2.6 million per annum, compared to £4.2 million per annum in the preceding five years under the old external management model.

EFFECTIVE USE OF DEBT

In common with other asset classes, commercial property has experienced more volatility this year and therefore the impact of gearing on returns has been both positive and negative over time. Despite an uncertain summer last year, the property market has now returned to a more stable position.

The key event for us in 2016 was the maturity of our zero dividend preference shares. Given current market conditions we believed that it was appropriate to operate with a lower level of gearing and used the proceeds from asset sales to repay these shares in full, rather than re-financing. Consequently, we have also simplified our corporate structure.

We also put in place a second revolving credit facility, which matures in 2021, and can be drawn down when required to provide the Group with additional operational flexibility.

Our net gearing now stands at 27%, with a maturity profile of 11.7 years and an average interest rate of 4.2%.



OUTLOOK

We remain positive about the prospects for commercial property as an asset class and investment opportunity for three key reasons:

- Firstly, income drives returns. Income from real estate remains a key component of total return and is supportive of the underlying investment case relative to other asset classes;
- Secondly, although our occupiers' businesses are naturally changing which creates different real estate requirements, we believe that most businesses will continue to need premises to operate from over the longer term. By having a well managed diversified portfolio of assets Picton can also adapt and change with these requirements; and
- Thirdly, there is the potential for a competent owner to add value in an imperfect and illiquid market when no two assets are identical, through clever buying, good management and well timed disposals.

The defensive qualities of the asset class reinforce why real estate has performed so well in recent years, even off significantly repriced levels. With most assets, there is a high residual value, which can be unlocked by pursuing alternative uses either from the buildings, or from the land itself.

One of our strengths as a team is the focus we put on getting to know our occupiers, where possible building relationships that help us to understand their businesses and property needs.

We maintain regular communication with our occupiers, keeping them up to date with matters that may affect their occupation. For example, earlier this year we provided guidance on how the changes to business rates might impact their business. Our asset managers are always available to deal with any issues relating to their properties and resolve problems. on hand to advise, sort out a problem or help where possible. This remains very much at the heart of our Picton Promise and is something that a dedicated team can genuinely deliver.

We will continue to adopt a long-term approach, with our closed ended structure, enabling us to control the timings of both acquisitions and disposals. Against a backdrop of forecast lower returns, we believe there will be subsectors of the market that continue to perform more strongly. Our role is to identify and secure these opportunities on the back of a strong balance sheet and execution track record.

Michael Morris

Chief Executive, Picton Capital Limited

6 June 2017

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.

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

 LTIP condition

 Read more in the Remuneration Report on pages 64 to 66

Our Five Strategic Priorities

 Growth of net income

 Working with our occupiers

 Operational efficiency

 Portfolio and asset management

 Effective use of debt

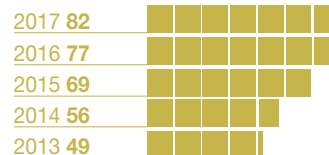


LINKING OUR PERFORMANCE TO EPRA BEST PRACTICES RECOMMENDATIONS

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



Why we use this indicator

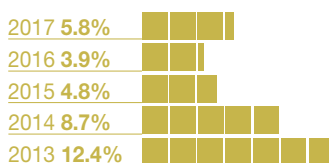
The net asset value per share, calculated in accordance with EPRA, measures the value of shareholders' equity in the business.

Our Performance in 2017

The EPRA NAV per share has continued to grow despite challenging market conditions.

Strategic link  

EPRA Vacancy Rate (%)



Why we use this indicator

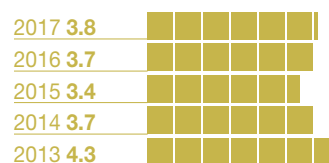
The vacancy rate measures the amount of vacant space in the portfolio at the end of each financial period.

Our Performance in 2017

The EPRA vacancy rate has risen due to lease expiries over the course of the year, most notably at Farringdon Road. The vacancy rate is still below the MSCI IPD Quarterly Benchmark vacancy rate of 6.9%.

Strategic link   

EPRA Earnings per Share (p)



Why we use this indicator

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

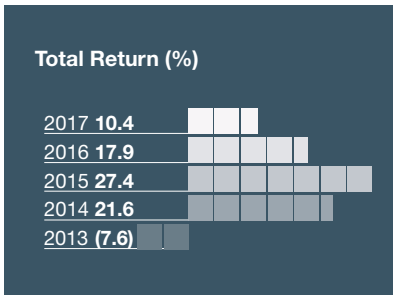
The growth in EPRA earnings per share is one of the metrics used for the Long-term Incentive Plan.

Our Performance in 2017

EPRA earnings per share continues to rise due to rental growth and additional income generated through active management.

Strategic link  

LTIP condition 



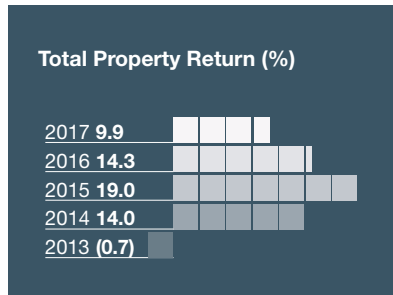
Why we use this indicator

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

Our Performance in 2017

The increase in net income and modest valuation gains has delivered double digit returns for the year.

Strategic link    



Why we use this indicator

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

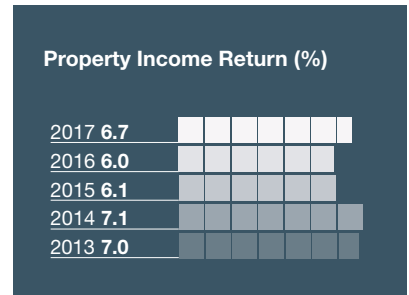
Our Total Property Return relative to the MSCI IPD Quarterly Benchmark is a Long-term Incentive Plan metric.

Our Performance in 2017

For the fourth year running we have outperformed the MSCI IPD Quarterly Benchmark, delivering a return of 9.9% compared to the MSCI IPD Quarterly Benchmark return of 4.6% for the year, and we have also outperformed on a three, five and ten year basis.

Strategic link   

LTIP condition 



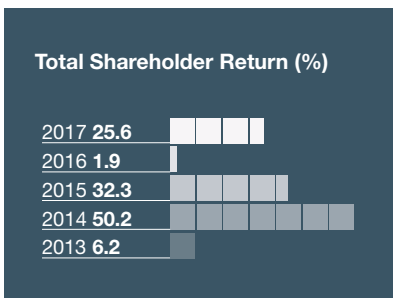
Why we use this indicator

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

Our Performance in 2017

With our portfolio biased towards income generation, this is an important indicator. The income return for the year of 6.7% was ahead of the MSCI IPD Quarterly Benchmark of 4.7%, and we have also outperformed on a three, five and ten year basis.

Strategic link   



Why we use this indicator

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

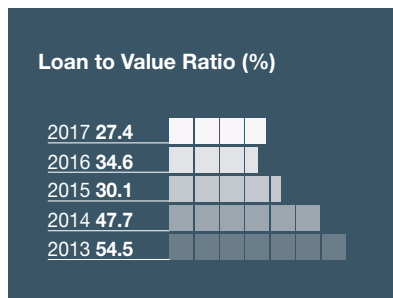
Our Total Shareholder Return relative to a bespoke comparator group is the final performance metric used in the Long-term Incentive Plan.

Our Performance in 2017

The positive movement in the share price, reflecting a move from a discount to a premium share price rating, has generated a positive 25.6% return to investors.

Strategic link   

LTIP condition 



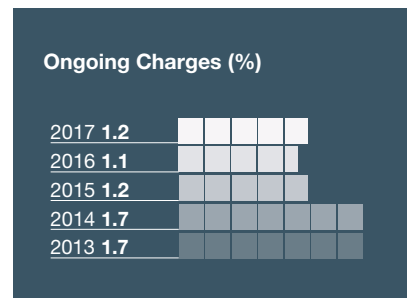
Why we use this indicator

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 2017

Proceeds from asset disposals were used to repay borrowings and this has resulted in a lower loan to value ratio.

Strategic link 



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 2017

The Ongoing Charges ratio has risen this year. Operating costs are higher, due principally to the variable elements of staff costs, which are linked to the performance of the property portfolio and the increase in share price.

Strategic link 

INVESTMENT MANAGER'S REPORT

PICTON CAPITAL LIMITED

“Our portfolio now comprises 53 assets, with over 350 occupiers and is valued at £624.4 million. As a result of leasing activity, income growth and active management, the passing rent on a like-for-like basis has increased by 4.4% to £40.0 million, with an estimated rental value of £45.9 million.”

Occupancy

94%

Average Lot Size

£11.8m

Estimated Rental Value

£45.9m

We have had another successful year whilst continuing to embrace our occupier focused and opportunity led approach.

Our asset allocation and proactive management of the portfolio, including some value accretive disposals, has enabled us to again outperform the MSCI IPD Quarterly Benchmark, on a total return basis over one, three, five and ten years. Additionally, we have won an award for the quality of our data submitted to MSCI as part of the benchmarking process.

Our portfolio now comprises 53 assets, with over 350 occupiers and is valued at £624.4 million. As a result of leasing activity, income growth and active management, the passing rent on a like-for-like basis has increased by 4.4% to £40.0 million, with an ERV of £45.9 million.

We have completed 35 lettings securing over £3.2 million of income, 6.9% ahead of the March 2016 ERV. The year ended with occupancy at 94%, which we have already subsequently increased after the year end. Income retained through lease renewals and re-gears totalled £1.2 million, 5.7% ahead of the March 2016 estimated rental value.

Two City office buildings were sold for total proceeds of £45 million, 4% ahead of the March 2016 valuation. These sales were in line with our strategy to realise value and reduce our exposure to this market, where we believe growth prospects are weaker due to a combination of factors, including the EU referendum, business rate revaluations and high rental values. Three central London buildings have been retained: at Covent Garden, where we have residential planning consent; at Farringdon, where we have good quality space to let and which will benefit from Crossrail; and, at Angel Gate, which is highly reversionary. We have value add initiatives at all of these properties.

In addition, we have sold four smaller assets where business plans have been completed generating total proceeds of £7.0 million, 41% ahead of the March 2016 valuation. The net effect of these disposals is to have increased the average lot size to £11.8 million.



Pictured: Queen's House, Glasgow



We have set out below the principal activity in each of the sectors in which we are invested. We believe our proactive approach will continue to unlock further value through active management initiatives.

Despite the EU referendum, the occupational markets remain resilient, especially in the industrial and regional office sectors and take-up remains positive which is demonstrated by more recent activity showing further occupancy improvements. Our focus remains being exposed to areas of the market where occupational demand is likely to lead to positive rental and, in turn, income growth.

In terms of wider trends affecting the markets we are operating in, we are conscious of the Government led proposals aiming to increase economic growth, wealth and employment in regions outside of London and the South East. We already have exposure in the cities of Birmingham, Bristol, Glasgow, Leeds and Manchester but during the year we reduced our London exposure and placed more reliance on our existing buildings in regional cities that we think offer interesting opportunities.

The office environment is continuing to evolve and workers increasingly require a more socially cohesive environment with informal seating areas, cafés and relaxation zones to encourage creativity, collaboration, well-being and enjoyment. Office providers need to adapt to these changing dynamics in order to deliver space that meets the requirements of modern businesses.

An example of where we are embracing this change is at our Angel Gate property where over the past few years we have been working to reposition it to meet modern occupier requirements. This has been achieved through the refurbishment of the office suites, the internal and external common areas and provision of onsite amenities. We have seen an increase of approximately 150% in ERV since commencing the repositioning process.

PORTFOLIO PERFORMANCE

The portfolio's total return for the year to 31 March 2017 was 9.9%, outperforming the MSCI IPD Quarterly Benchmark, which delivered 4.6%. Our overweight position to the industrial sector and regional offices together with the active management carried out has contributed to this outperformance.

As at 31 March 2017, the portfolio generated a net initial yield of 5.9% after void costs with a reversion to 6.9%. Overall, like-for-like growth in the portfolio's estimated rental values was 3.3% during the year to March 2017. Estimated rental values in the industrial sector grew 4.3% and by 2.9% in the office sector. The retail and leisure estimated rental values remained flat, with the exception of our London retail, which saw positive rental growth.

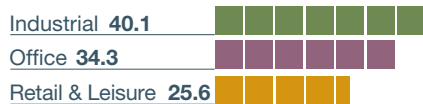
The portfolio's capital value for the year grew by 3.0% on a like-for-like basis. We saw positive valuation growth in the industrial sector of 6.3% and in the office sector of 2.5%. The retail and leisure holdings, despite remaining 99% let, declined in value by 2.0% reflecting the subdued outlook in the retail sector.

The estimated rental value of the void space is £2.6 million per annum and 94% has been vacant for less than a year.

INVESTMENT MANAGER'S REPORT

CONTINUED

Sector split (%)

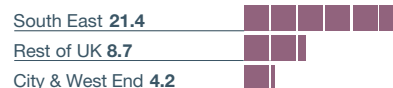


Portfolio Allocation (%)

Sector %



Office 34.3



Retail & Leisure 25.6



OUTLOOK FOR THE COMING YEAR

The occupational market remains robust in the industrial and regional office markets. The uncertainty surrounding the EU referendum and more recently the forthcoming general election has resulted in lower demand for central London offices. The retail sector is going through a fundamental change due to shopping habits evolving and the continued momentum of online retailing, meaning that retail markets continue to suffer from a structural void.

We have maintained a high occupancy level and captured rental growth. Whilst we have a shorter than average lease expiry profile in the industrial and office sectors, we see this as a positive in an active market. On lettings and renewals, we are able to secure longer leases locking in higher rents and creating value.

Our two largest letting opportunities are at 50 Farringdon Road in London and at 180 West George Street in Glasgow, where a comprehensive refurbishment completes this summer. Both buildings provide high quality space in central locations and we expect to secure occupiers quickly and improve our income position.

The focus is on continuing the strategy of de-risking income through active management and capturing rental growth. With high occupancy levels and good demand, we believe we are in a strong position to capitalise on this throughout the portfolio.

Jay Cable

Head of Asset Management,
Picton Capital Limited

Fraser D'Arcy

Investment Director,
Picton Capital Limited

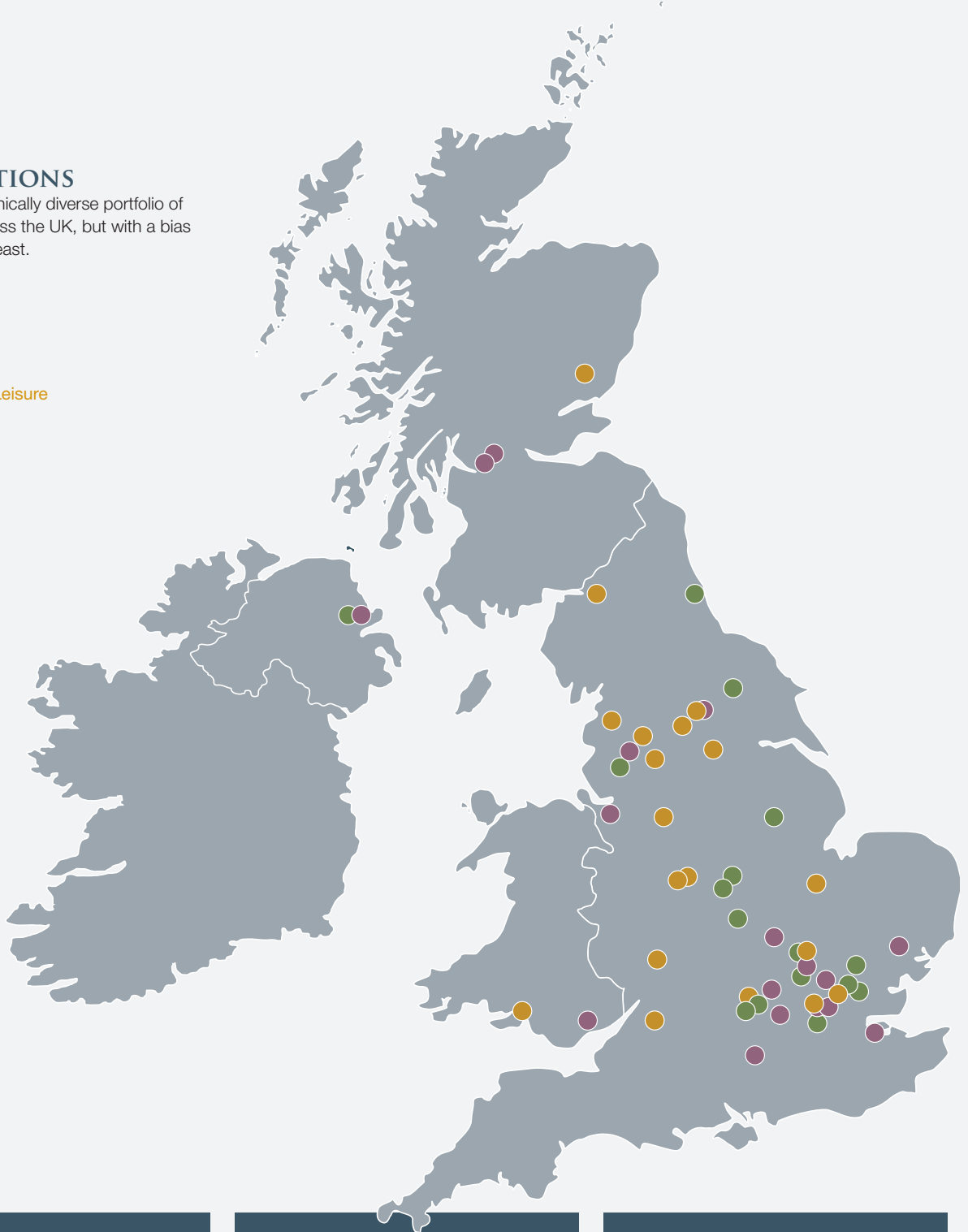
6 June 2017

OUR LOCATIONS

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

Key to map:

- Industrial
- Office
- Retail and Leisure



Number of Assets

53

2016: 58

Portfolio Value

£624.4m

2016: £646.0m

Floor Area

4.5m sq ft

2016: 4.6m sq ft

INVESTMENT MANAGER'S REPORT

CONTINUED

LONGEVITY OF INCOME

As at 31 March 2017, based as a percentage of contracted rent, the average length of the leases to the first termination was 5.7 years. This is summarised as follows:



The average length of the leases to lease expiry is 6.6 years.

TOP TEN OCCUPIERS

The largest occupiers, based as a percentage of contracted rent, as at 31 March 2017, are summarised as follows:

Occupier	Contracted Rent (£000)	%
1. Belkin Limited	1,691	4.0
2. DHL Supply Chain Limited	1,505	3.6
3. B&Q Plc	1,243	3.0
4. Snorkel Europe Limited	1,123	2.7
5. The Random House Group Limited	1,000	2.4
6. Cadence Design Systems Limited	972	2.3
7. Edward Stanford Limited	785	1.9
8. Portal Chatham LLP	725	1.7
9. XMA Limited	653	1.6
10. Ricoh UK Limited	640	1.5
Total	10,337	24.7

RETENTION RATES

Over the year total income at risk due to leases expiring or break options totalled £4.3 million, compared to £2.4 million for the year to March 2016, a 77% increase.

The portfolio retained 29% of total income at risk in the year to March 2017; this comprised 21% retention for those on lease expiry and 8% after break options. Occupancy reduced during the year, but at 94% is still ahead of the MSCI IPD Quarterly Benchmark.

The retention figure is significantly lower for the year; however, it includes the floors at 50 Farringdon Road becoming vacant, which creates an opportunity to increase income ahead of the capped level in the previous lease. As expected, two floors at 180 West George Street in Glasgow were returned which was envisaged on purchase and forms part of the repositioning strategy for this asset. A small office building in Bracknell fell vacant and is now being sold, with vacant possession, considerably in excess of the March 2016 valuation. If these three properties are excluded, our retention rate for the year is 76%.

INCOME CONCENTRATION







There is a wide diversity of occupiers within the portfolio, as set out below, which are compared to the MSCI IPD Quarterly Benchmark by contracted rent, as at 31 March 2017.

Industry Sector	Picton (%)	Benchmark (%)
Services	30.2	22.8
Retail Trade	22.7	36.7
Manufacturing	12.9	7.2
Financial Services	12.7	14.7
Transportation, Communications	8.8	5.4
Wholesale Trade	5.4	4.4
Public Administration	3.8	4.0
Construction	2.0	1.2
Mining	0.0	0.5
Other	1.5	3.1
Total	100	100

Source: MSCI IPD IRIS Report March 2017

TOP TEN ASSETS

The largest assets as at 31 March 2017, ranked by capital value, represent just over 48% of the total portfolio valuation and are detailed below.

<p>01. PARKBURY INDUSTRIAL ESTATE, RADLETT, HERTS</p> <p>Acquisition date 03/2014 Property type Industrial Tenure Freehold Approx. area (sq ft) 336,700 No. of occupiers 23 Occupancy rate (%) 100</p>		<p>02. RIVER WAY INDUSTRIAL ESTATE, HARLOW, ESSEX</p> <p>Acquisition date 12/2006 Property type Industrial Tenure Freehold Approx. area (sq ft) 455,000 No. of occupiers 10 Occupancy rate (%) 93</p>	
<p>03. ANGEL GATE, CITY ROAD, LONDON EC1</p> <p>Acquisition date 10/2005 Property type Office Tenure Freehold Approx. area (sq ft) 64,500 No. of occupiers 37 Occupancy rate (%) 93</p>	<p>04. STANFORD HOUSE, LONG ACRE, LONDON WC2</p> <p>Acquisition date 05/2010 Property type Retail Tenure Freehold Approx. area (sq ft) 19,700 No. of occupiers 4 Occupancy rate (%) 100</p>		<p>05. 50 FARRINGDON ROAD, LONDON EC1</p> <p>Acquisition date 10/2005 Property type Office Tenure Leasehold Approx. area (sq ft) 32,000 No. of occupiers 2 Occupancy rate (%) 35</p>
	<p>06. BELKIN UNIT, SHIPTON WAY, RUSHDEN, NORTHANTS</p> <p>Acquisition date 07/2014 Property type Industrial Tenure Freehold Approx. area (sq ft) 312,850 No. of occupiers 1 Occupancy rate (%) 100</p>	<p>07. PEMBROKE COURT, CHATHAM, KENT</p> <p>Acquisition date 06/2015 Property type Office Tenure Leasehold Approx. area (sq ft) 86,300 No. of occupiers 3 Occupancy rate (%) 100</p>	
<p>08. QUEENS ROAD, SHEFFIELD</p> <p>Acquisition date 08/2015 Property type Retail Tenure Freehold Approx. area (sq ft) 103,000 No. of occupiers 1 Occupancy rate (%) 100</p>		<p>09. PHASE II, PARC TAWE RETAIL PARK, SWANSEA</p> <p>Acquisition date 10/2005 Property type Retail Tenure Leasehold Approx. area (sq ft) 116,700 No. of occupiers 8 Occupancy rate (%) 100</p>	<p>10. METRO, SALFORD QUAYS, MANCHESTER</p> <p>Acquisition date 02/2016 Property type Office Tenure Freehold Approx. area (sq ft) 71,000 No. of occupiers 4 Occupancy rate (%) 100</p>

INVESTMENT MANAGER'S REPORT

INDUSTRIAL PORTFOLIO REVIEW

The industrial portfolio delivered the strongest sector performance for the year, due to a combination of positive rental growth, a shortage of supply, limited development, yield hardening and significant asset management activity.

Values increased by 6.3% on a like-for-like basis and the rent roll increased by 5.8% to £15.3 million per annum, while reducing holding costs. The portfolio has a weighted average lease length of five years and £2.0 million of reversionary potential.

Our portfolio comprised two main asset types: strategically located distribution warehouses and light industrial units, which generally comprise multi-let estates.

The distribution warehouse portfolio totals 1.3 million sq ft in six units, let to occupiers including Belkin, DHL and The Random House Group, and remains fully income producing. The only notable activity was at our 246,800 sq ft warehouse in Washington where we secured a rental uplift of £0.1 million at the June 2016 rent review, increasing the passing rent by 11% to £1.12 million per annum, which was 12% ahead of ERV.

The multi-let portfolio, totalling 1.4 million sq ft in 131 units, is 98.6% let. We had one vacant unit in Harlow (where we completed a new letting post year end) and two small units in Belfast with a combined ERV of £20,000 per annum.

We are experiencing occupier demand across all of our estates, which is demonstrated by the 16 lettings completed during the year for a combined rent of £1.5 million, 5.8% ahead of the March 2016 ERV.

Notable lettings include our largest industrial void, at Unit D River Way in Harlow. This was comprehensively refurbished and let less than three months after the works completed, to a gas provider on a ten year lease with no break at £0.35 million per annum, which is in line with the March 2016 ERV.

The second largest void, at Unit O Lyon Business Park in Barking, was let to a catering firm servicing London City Airport on a ten year lease, subject to break, at £0.25 million per annum, 17% ahead of the March 2016 ERV and the previous passing rent.

Seven lease renewals or re-gears were completed during the year, securing £0.33 million per annum, 3% ahead of the March 2016 ERV. Eight rent reviews were settled, increasing the combined passing rent by £0.18 million to £1.65 million per annum which was 10% ahead of the March 2016 ERV.

Break clauses were removed from two leases at Parkbury, Radlett and Datapoint, London E16, securing £0.14 million per annum for an additional five years term certain and we also actively surrendered three leases in order to facilitate re-lettings.

Several of our estates will benefit from infrastructure improvements in the short and medium term. Dencora Way in Luton will benefit from the recently completed Junction 11a on the M1, improving connectivity. Harlow Council are proposing to create a new access to River Way, Harlow alleviating traffic congestion and providing a faster link to the M11. At Parkbury in Radlett, a proposed new rail freight terminal and associated road improvements will significantly improve journey times to the M25, albeit this is a longer term project.

INVESTMENT ACTIVITY

During the year, there were no acquisitions or disposals in the industrial portfolio but we secured a change of use at our asset in Oldham from industrial to leisure. This accounts for the reduction in the number of assets held within the sector.

SECTOR OUTLOOK

Tight supply, limited development and healthy demand across the majority of the country will continue to support rental growth, which has been positive since 2013. This sector has seen significant valuation growth over the past five years. Looking forward, we expect to see valuations stabilising, with active management and the capturing of rental growth being the main drivers of value in the short to medium term.

Our portfolio consists of good quality units in strong locations demonstrated by the current occupancy level. Over the coming year, we have 17 lease events with a passing rent of £0.84 million and an ERV of £0.94 million per annum.

INDUSTRIAL PORTFOLIO KEY METRICS

	2017	2016
Value	£250.4 million	£236.6 million
Internal Area	2,730,000 sq ft	2,745,200 sq ft
Annual Rental Income	£15.3 million	£14.4 million
Estimated Rental Value	£17.3 million	£16.8 million
Occupancy	98.6%	94.2%
Number of Assets	17	18

Property	Area (sq ft)	Freehold/ Leasehold
Units A-G2, River Way Industrial Estate, Harlow, Essex	455,000	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.	312,850	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	F
The Business Centre, Molly Millars Lane, Wokingham, Berks.	100,500	F
Lyon Business Park, Barking, Essex	99,450	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	54,800	L
Nonsuch Industrial Estate, 1-25 Kiln Lane, Epsom, Surrey	41,700	L
Western Industrial Estate, Downmill Road, Bracknell, Berks.	41,500	F
Magnet Trade Centre, Winnersh, Reading	13,700	F

Largest occupiers	% of total portfolio
1. Belkin Limited	4.0
2. DHL Supply Chain Limited	3.6
3. Snorkel Europe Limited	2.7
4. The Random House Group Limited	2.4
5. XMA Limited	1.6

INVESTMENT MANAGER'S REPORT

OFFICE PORTFOLIO REVIEW

The office portfolio delivered the second strongest sector performance for the year. This was a result of attractive sale prices being achieved in London, positive rental growth across most regional markets and significant asset management activity.

Values increased by 2.5% on a like-for-like basis and we were able to increase the rent roll by 7.0%, while reducing holding costs. The portfolio has a weighted average lease length of four years and has £3.8 million of reversionary potential.

Our portfolio comprises both single and multi-let offices, which total 925,000 sq ft in 19 assets and is 87.5% let with the largest void at 50 Farringdon Road in London. At this location, we have let 7,800 sq ft of office space to a leading multidisciplinary engineering contractor at an annual rent of £0.42 million, in line with the preceding ERV but 3% less than the March 2016 ERV. The second floor and small suites on the ground and first floors remain available to let and there is good interest.

The second largest void is at 180 West George Street in Glasgow, which was acquired with short income in 2015 for £14.25 million, reflecting a high net initial yield of 7.8%. We were expecting on purchase to have four floors falling vacant; however, we have retained Standard Life and Michael Page on two floors at a rent of £0.34 million per annum, 8% ahead of the March 2016 ERV. The two vacant floors and common areas are currently being refurbished to launch as some of the best in class space available in this market.

These two properties account for 55% of the total void across the entire portfolio and provide further opportunity to increase the rent roll. We are confident of securing occupiers in the short term.

We are seeing good demand, which is demonstrated by the 14 lettings completed during the year for a combined rent of £1.3 million, 8% ahead of the March 2016 ERV.

Notable lettings in the regions include the repositioned Trident House in St. Albans, where we comprehensively refurbished one floor and secured three new occupiers at a combined rent of £0.32 million per annum, 29% ahead of the March 2016 ERV. The final letting was at a rent of £37.50 per sq ft, which we believe sets a new rental level in this market.

We secured Benugo at Angel Gate, London for their head office at a rent of £0.15 million per annum, in line with the March 2016 ERV.

12 lease renewals or re-gears were completed during the year, securing £0.77 million per annum, 7% ahead of the March 2016 ERV. Two rent reviews were settled, increasing the combined passing rent to £80,000, 11% ahead of the March 2016 ERV. We actively surrendered seven leases in order to facilitate re-lettings and sales, as detailed below.

INVESTMENT ACTIVITY

Boundary House, Jewry Street, London EC3, where we completed two lettings (one following an active management surrender) achieving full occupancy, was sold in August 2016 for £27.8 million, which (including a Rights of Light settlement) was 3.3% ahead of the March 2016 valuation. The property was acquired in 2006 for £16.1 million.

The sale of 1 Chancery Lane, London WC2 completed in October 2016 realising £17.25 million and reflecting a net initial yield of 3.9%, which was 9.3% ahead of the March 2016 valuation. The property was acquired in 2005 for £9.0 million.

These sales crystallised the value created since purchase and concluded our strategy to reduce the portfolio's central London exposure whilst capturing significant valuation gains over the last few years.

A small office building was sold in Bracknell, following the occupier vacating on lease expiry. Dilapidations of £0.4 million were secured and the building sold for £1.5 million, 23% ahead of the March 2016 valuation.

SECTOR OUTLOOK

The impact of the decision to leave the EU, and in particular its effect on London and the financial services sector, remains uncertain. Consequently, sentiment towards London is weakening. However, it appears to be improving in the stronger regional office markets where there is a shortage of suitable space and a limited development pipeline.

We are seeing good occupational activity in the regions, with low supply in many markets and positive rental growth. By providing the best space in the local market we are maintaining good occupancy levels and capturing rental growth.

The short-term opportunities are the letting of 50 Farringdon Road, London which is being marketed with good interest and 180 West George Street, Glasgow where we have already received interest. With a combined ERV of £1.4 million, the lettings will be significantly income accretive and further save void hold costs.

Over the coming year, we have 26 lease events with a passing rent of £1.9 million and an ERV of £1.7 million per annum.

OFFICE PORTFOLIO KEY METRICS

	2017	2016
Value	£213.9 million	£252.1 million
Internal Area	925,000 sq ft	999,400 sq ft
Annual Rental Income	£13.8 million	£14.8 million
Estimated Rental Value	£17.6 million	£19.9 million
Occupancy	87.5%	95.8%
Number of Assets	19	21

Property	Area (sq ft)	Freehold/Leasehold
Colchester Business Park, The Crescent, Colchester, Essex	150,700	L
Pembroke Court, Chatham, Kent	86,300	L
Longcross Court, Newport Road, Cardiff	72,100	F
Metro, Salford Quays, Manchester	71,000	F
Angel Gate Office Village, City Road, London EC1	64,500	F
401 Grafton Gate East, Milton Keynes, Bucks.	57,100	F
180 West George Street, Glasgow	52,000	F
800 Pavilion Drive, Northampton Business Park, Northampton	49,400	F
Queens House, 19/29 St Vincent Place, Glasgow	49,400	F
Citylink, Addiscombe Road, Croydon	48,200	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 House, Kirkstall Road, Leeds	25,200	F
Atlas House, Third Avenue, Globe Park, Marlow, Bucks.	24,800	F
Merchants House, Crook Street, Chester	21,900	F
Trident House, 42/48 Victoria Street, St Albans, Herts.	18,900	F
Waterside Park, Longshot Lane, Bracknell, Berks.	18,000	F
Marshall Building, 122-124 Donegall Street, Belfast	8,700	F

Largest occupiers	% of total portfolio
1. Cadence Design Systems Limited	2.3
2. Portal Chatham LLP	1.7
3. Ricoh UK Limited	1.5
4. Canterbury Christ Church University	1.5
5. BPP Holdings Limited	1.2

INVESTMENT MANAGER'S REPORT

RETAIL AND LEISURE PORTFOLIO REVIEW

Despite positive activity during the year, as outlined below, and continued high occupancy, the retail portfolio delivered the weakest sector performance, which was primarily a result of limited rental growth across the wider market.

Values decreased by 2% on a like-for-like basis and the rent roll remained static with the only notable ERV growth at Stanford House, London and Gloucester Retail Park, Gloucester. The portfolio has a weighted average lease length of just over eight years and is slightly over rented.

Our portfolio comprises 17 assets across retail warehouse parks, retail shops and two leisure assets and remains 99% let for the second year in a row. We have four small retail units available, and a restaurant in Birmingham, with a combined ERV of £0.13 million per annum.

We completed five lettings during the year for a combined rent of £0.37 million, 17% ahead of the March 2016 ERV. The most notable letting was at Gloucester Retail Park, where in a back-to-back transaction we accepted the surrender of Carpetright's lease for a premium of £0.21 million and let the unit to Pure Gym for a minimum of ten years at a rent of £0.14 million per annum, which is 32% ahead of the March 2016 ERV. We believe the letting significantly improves the occupier line up and has helped us to attract Starbucks onto the park where we are currently on site developing a new unit for them.

A settlement of £5.25 million was received in relation to a dispute at the Strathmore Hotel, Luton. The existing valuation and leasing arrangements at this asset remained unchanged. The hotel is currently being comprehensively refurbished by the tenant and is due to re-open in the summer.

Four lease renewals or re-gears were completed during the year, securing £0.12 million per annum, 9% ahead of the March 2016 ERV. At Queens House in Glasgow, an increase of over 60% on the prior passing rent was achieved on a restaurant unit securing a new rent of £0.16 million per annum, over 50% ahead of the March 2016 ERV.

INVESTMENT ACTIVITY

Two small non-core retail assets in Bath were sold for a total of £3.2 million, reflecting an aggregate net initial yield of 4.7% and a 30% premium to the March 2016 valuation. These assets were originally purchased with a combined value of £2.1 million as part of the Rugby REIT acquisition in 2010 and have since generated attractive income and capital returns.

Drury Lane in Oldham was sold for £2.2 million, completing the business plan for this asset. The warehouse was purchased in April 2010 for £0.4 million with an annual rent of £74,000 as part of the acquisition of Rugby REIT. During Picton's ownership, we secured planning consent to change the use from industrial to leisure, completed a full refurbishment, acquired adjacent land for car parking and subsequently let the transformed asset to The Gym Group Limited until 2031 at an annual rent of £150,000. The sale price reflects a net initial yield of 6.4% and a 85% premium to the March 2016 external valuation. Net of the £0.5 million of costs incurred since acquisition, the asset was sold at an 130% profit.

The disposals are in line with our ongoing strategy to reshape the portfolio in favour of larger assets with greater potential for capital and income growth.

SECTOR OUTLOOK

Online retailing continues to challenge traditional shopping habits and in turn the demand for retail assets. Changes in the delivery of goods, such as same-day delivery and e-lockers, are changing the retail landscape and we see that with more discerning demand from retailers.

Our portfolio is currently significantly underweight to the retail sector, compared to the MSCI IPD Quarterly Benchmark, and overweight to the industrial sector, which is more likely to be positively affected by these changing trends. The retail we do hold in the portfolio is approximately 45% invested in retail warehouses, which are expected, by consensus forecasts, to be one of the better performing segments over the medium term.

Rental levels have been static in the majority of the UK high streets and retail parks, with the exceptions being central London, busy shopping destinations in major cities and prime parks. Rents are still below their 2008 peak and it is unlikely that high street rents will recover to pre-recession levels due to an over-supply and structural changes in shopping habits. Retail warehousing is seeing a resurgence due to additional demand from leisure occupiers.

68% of our retail and leisure portfolio is invested in five assets, which are Stanford House in Covent Garden and four fully let retail warehouse parks. We believe these properties are well positioned to perform in the medium term. The remaining portfolio is well let, with values rebased and the majority of the rents reset, providing a strong income return of 8.3% from our high street portfolio.

Over the coming year we have six lease events with a passing rent of £0.36 million and an ERV of £0.27 million per annum.

RETAIL AND LEISURE PORTFOLIO KEY METRICS

	2017	2016
Value	£160.1 million	£165.9 million
Internal Area	824,000 sq ft	830,700 sq ft
Annual Rental Income	£11.0 million	£11.2 million
Estimated Rental Value	£11.0 million	£10.9 million
Occupancy	98.8%	99.4%
Number of Assets	17	19

Property	Area (sq ft)	Freehold/Leasehold
Parc Tawe, Phase II, Link Road, Swansea	116,700	L
Gloucester Retail Park, Eastern Avenue, Gloucester	113,900	F
Queens Road, Sheffield	103,000	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	23,900	F
Stanford House, 12-14 Long Acre, London WC2	19,600	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

Largest occupiers	% of total portfolio
1. B&Q Plc	3.0
2. Edward Stanford Limited	1.9
3. Asda Stores Limited	1.4
4. Homebase Limited	1.1
5. Central England Co-operative Limited	1.0

FINANCIAL REVIEW

ANDREW DEWHIRST

“The net assets of the Group increased to £441.9 million, which was a rise of 6.0% over the year, driven by a total profit for the year of £42.8 million, or earnings per share of 7.9 pence. The EPRA net asset value rose from 77 pence to 82 pence.”



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

Total Revenue

£54.4m

Dividend

3.3p

Property Assets

£615.2m

Despite the uncertainties regarding economic and political events, we have recorded a total profit for the year of over £42 million.

Our property portfolio increased on a like-for-like basis by 3.0%, giving a capital profit of nearly £17 million, while the income profit for the year was £25.8 million, an increase of 30% from the 2016 result. The income result does include some exceptional income, as stated below.

Our total return for the year based on these results was 10.4%.

NET ASSET VALUE

The net assets of the Group increased to £441.9 million, which was a rise of 6.0% over the year, driven by a total profit for the year of £42.8 million, or earnings per share of 7.9 pence. The EPRA net asset value rose from 77 pence to 82 pence.

	2017 £m	2016 £m	2015 £m
Net asset value – EPRA and IFRS	441.9	417.1	370.0
Fair value of debt	(24.5)	(21.8)	(19.8)
EPRA Triple Net Asset Value	417.4	395.3	350.2
Net Asset Value per share (pence)	82	77	69
EPRA Net Asset Value per share (pence)	82	77	69
EPRA Triple Net Asset Value per share (pence)	77	73	65

INCOME STATEMENT

Total revenue from the property portfolio was £54.4 million, an increase of 18.5% over 2016. This increase largely reflects the additional income that was received in the year from the settlement of the dispute concerning the Strathmore Hotel in Luton. Net property income, after deducting the direct expenses associated with the portfolio, was up 18% to £42.4 million.

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 99.

Operating expenses increased to £5.2 million, from £4.4 million. A significant part of this increase is due to the variable elements of the Group’s remuneration policy, and reflects the strong performance this year, both the return from the property portfolio and the shareholder return. We have established a new Long-term Incentive Plan this year, which is discussed in more detail in the Remuneration Report, and this is linked to shareholder return, property performance and EPRA earnings per share growth over three year performance periods.

Financing costs have fallen to £10.9 million from £11.6 million in 2016. This is as a result of the repayment in full of our zero dividend preference shares in October 2016. We would expect a further fall in finance costs next year as the full impact of this repayment works through into our results.



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 97. 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.

Capital gains on the portfolio were £16.9 million for the year, as detailed further under the Investment Properties section.

The Group is subject to UK tax on its net property income and management fees, in total £0.5 million for the year. Towards the end of last year the Government introduced new legislation covering interest deductibility for UK companies, in response to the ongoing Base Erosion and Profit Shifting project. This came into effect from 1 April 2017. At the same time a consultation has been launched by the Treasury to bring non resident landlord corporations, such as Picton, into the scope of UK corporation tax. We are working with our advisers on the potential implications for the Group, but, as mentioned in the Chairman's Statement, we believe that conversion to a UK REIT in 2018 will be in the interests of the Company.

The income profit for the year was £25.8 million, an increase of nearly 30% from 2016. This, together with the capital gains, resulted in a total profit for the year of £42.8 million.

DIVIDENDS

We increased our annual dividend rate from 3.3 pence to 3.4 pence, with effect from our February 2017 quarterly dividend, bringing the total dividend paid in this financial year to 3.325 pence. Dividend cover for the full year was 144%.

INVESTMENT PROPERTIES

The fair value of our investment property portfolio was £615.2 million at 31 March 2017, lower than the £646.0 million a year previously. The main reason for the decrease was disposals in the year, principally two central London office properties, but also a number of small non-core assets. There were no acquisitions in the year, but £2.8 million of capital expenditure was incurred across the portfolio. The overall revaluation gain was £15.1 million, representing a 3.0% like-for-like increase in the valuation of the portfolio. At 31 March 2017 the portfolio comprised 53 assets, with an average lot size of £11.8 million.

A further analysis of capital expenditure, in accordance with EPRA Best Practice Recommendations, is set out in the EPRA Disclosures section on page 99.

FINANCIAL REVIEW

CONTINUED

BORROWINGS

Total borrowings decreased to £204.6 million at 31 March 2017, following the repayment of both the zero dividend preference shares and the outstanding balance of the revolving credit facility. As a result our loan to value ratio was 27.4% at the year end, its lowest ever reported level. The weighted average interest rate on our borrowings has also fallen and now stands at 4.2%, while the average loan duration has moved out to 11.7 years.

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

At the year end we had over £50 million of committed but undrawn facilities provided by Santander. If drawn, interest would be payable at 175 basis points over three month LIBOR, which at current LIBOR rates equates to an all-in interest cost of 2.1%. We are currently in the process of extending our initial revolving credit facility ahead of its maturity next year.

As stated above, we repaid in full our 22 million zero dividend preference shares when they matured in October 2016. As well as the ongoing saving in annual finance costs, this repayment has helped to simplify the Group's capital structure.

Loan arrangement costs are capitalised and are amortised over the terms of the respective loans. At 31 March 2017 the unamortised balance of these costs were £3.7 million.

The fair value of our borrowings at 31 March 2017 was £229.1 million, higher than the book amount. Although lending margins have tended to increase over the past year, gilt rates have continued to remain at historically low levels.

A summary of our borrowings is set out below:

	2017	2016	2015
Total borrowings (£m)	204.6	249.5	232.8
Borrowings net of cash (£m)	170.8	226.8	162.8
Undrawn facilities (£m)	53.0	10.2	26.0
Loan to value ratio (%)	27.4	34.6	30.1
Weighted average interest rate (%)	4.2	4.4	4.6
Average duration (years)	11.7	10.7	12.4

CAPITAL STRUCTURE

Our equity balance has remained unchanged over the year, but we have reduced our level of borrowings as stated above.

The Group's net gearing ratio, using the method prescribed by the AIC, decreased to 43.6%, from 59.2% a year ago. Further details are provided in the Supplementary Disclosures section.

CASH FLOW AND LIQUIDITY

The cash flow from our operating activities increased from £24 million to nearly £27 million this year. This, together with the asset sales of over £51 million, facilitated the repayment of the zero dividend preference shares and dividend payments. Our cash balance at the year end stood at close to £34 million.

Andrew Dewhirst

Finance Director
Picton Capital Limited

6 June 2017

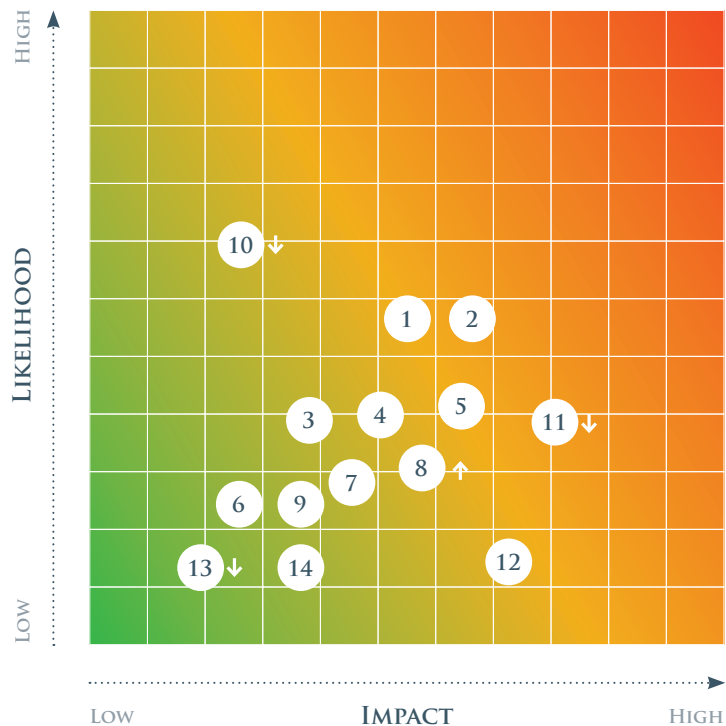
MANAGING RISK

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

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

The 2014 UK Corporate Governance Code requires the Board to make a ‘viability statement’ which considers the Company’s current position and principal risks and uncertainties combined with an assessment of the future prospects for the Company, in order that the Board can state that the Company will be able to continue its operations over the period of their assessment. This statement is set out in the Directors’ Report.

Principal risk	Trend
1. Macroeconomic	→
2. Property market	→
3. Portfolio allocation	→
4. Property investment	→
5. Active management	→
6. Property management	→
7. People	→
8. Tax and regulation	↑
9. Health and safety	→
10. Property valuation	↓
11. Loan covenants	↓
12. Interest rates	→
13. Gearing	↓
14. Liquidity	→



MANAGING RISK

CONTINUED

Risk and Impact	Mitigation	Risk Trend
Corporate Strategy and Performance		
<p>1. Macroeconomic conditions and future political events (whilst uncertain in outcome) bring risks to the property market generally and to the businesses of our occupiers.</p> <p>The level of uncertainty in financial markets has remained high following the political and economic events of the last year.</p>	<p>The Board considers economic conditions and the uncertainty regarding political events when setting strategy and in making investment decisions.</p>	→
<p>2. 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.</p>	<p>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.</p>	→
<p>3. Returns can vary significantly between different geographical areas and sectors. Our properties could underperform as a result of a poor portfolio strategy.</p>	<p>We maintain a diversified portfolio in order to minimise exposure to any one geographical area or market sector.</p>	→
Investment and Property Management		
<p>4. Decisions to buy or sell assets based on incorrect assumptions, poor research or incomplete due diligence could result in lower investment returns.</p>	<p>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.</p>	→
<p>5. Active management initiatives or capital expenditure decisions do not enhance values due to flawed analysis or assumptions.</p>	<p>All asset management and investment decisions are subject to a formal internal review process with clear authority limits.</p>	→
<p>6. Poor asset management can lead to long void periods, low occupier retention, high occupier arrears and defaults, and cash flow problems.</p>	<p>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.</p>	→
Operational		
<p>7. A failure to attract and retain employees of a suitable calibre to manage our affairs could lead to poor shareholder returns.</p> <p>We have implemented a new Long-Term Incentive Plan for the investment management team based on three year performance conditions.</p>	<p>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.</p>	→
<p>8. We could fail to anticipate legal, fiscal or regulatory changes, which may lead to an adverse financial or regulatory impact.</p> <p>The UK government has commenced a consultation process on bringing companies such as Picton into the scope of UK corporation tax.</p>	<p>We have appointed professional advisers to consider the implications of potential tax changes and advise on possible courses of action. We also receive regular updates in relevant laws and regulations.</p>	↑
<p>9. Health and safety management processes could fail, leading to financial or reputational loss.</p>	<p>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.</p>	→

Risk and Impact	Mitigation	Risk Trend
Financial		
10. 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.	↓
11. 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.	↓
12. An increase in interest rates could lead to a fall in our earnings.	We have entered into long-term fixed interest rate loans on the majority of our facilities and hence have reasonable certainty over interest cost for the foreseeable future.	→
13. 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. Our current strategy is to reduce the level of gearing as the property cycle progresses.	↓
14. 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.	→

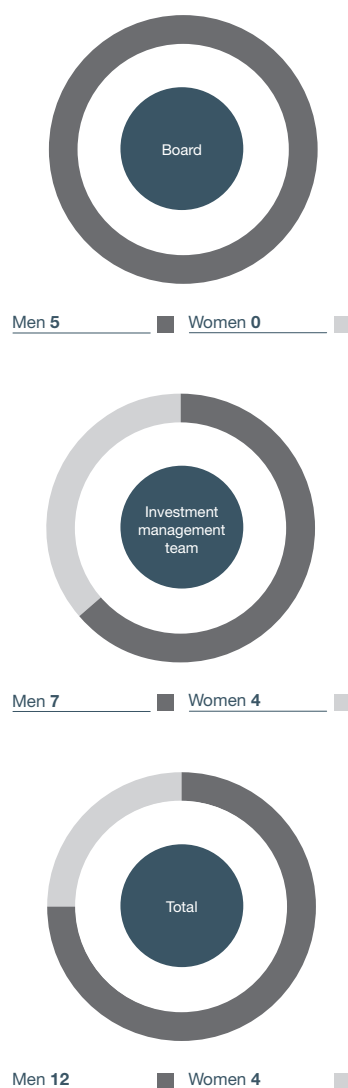
Risk Trend key

- ↑ Increase in risk
- ↓ Decrease in risk
- No change in risk

BEING RESPONSIBLE

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

Diversity



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 sustainability is integral to 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 family and well-being policies
- Being opposed to any form of less favourable treatment, whether through direct or indirect discrimination, harassment or victimisation, accorded to employees and applicants for employment on the grounds of sex, sexual orientation, marital or parental status, disability, race, religious beliefs, age, ethnic or national origin, or any other protected characteristic.

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, ensuring that outperformance is suitably recognised in both annual bonus and Long-term Incentive Plan 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.

CHARITY AND LOCAL COMMUNITIES

We continue to support a variety of charities, principally through The Funding Network, whose aim is to achieve long-term social change.

The Funding Network enables individuals to join together to support social change projects. They are the UK's first public open giving forum and have been described as the 'Dragons' Den' for charities. They have raised over £10 million for over 1,400 diverse local, national and international projects.

For the year ended 31 March 2017 the Group made charitable donations totalling £9,000.

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

OUR ENVIRONMENT

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

Sustainability initiatives have been incorporated into all maintenance schedules, including: replacing conventional light bulbs with LEDs in common areas, installing motion sensitive lighting and optimising plant equipment and building management systems to reduce energy consumption.

Our 50kWp solar panel array at one of our multi-let office buildings, 401 Grafton Gate in Milton Keynes, has now been operational for over a year and is in line with forecasted savings. This is reducing our carbon footprint and providing cheaper electricity from a renewable source to the occupiers of the building. We continue to explore further opportunities in the renewables sector as a way of reducing our environmental impact.

At one of our key sites in London, 50 Farringdon Road, we have deployed an Asset Analytics tool to measure the energy use throughout the different pieces of plant equipment. The tool is in its infancy but has already highlighted equipment that is running inefficiently. This tool coupled with in-depth energy audits identifies the most efficient means of reducing energy consumption while delivering value to the occupiers. The recommendations made through these operations will be assessed with a view to implementation over the next year. If the Asset Analytics tool proves to be successful at reducing emissions, we will look to deploy it at further sites across our portfolio.

The UK has pledged to reduce carbon emissions from 1990 levels by 57% in 2030. In addition, on 1 April 2018 the Minimum Energy Efficiency Standards will change and new leases on properties will require Energy Performance Certificates (EPCs) at a minimum of an E rating or better. This will therefore have a significant impact on the marketability and rental growth prospects for buildings which have lower EPC ratings.

Our EPC risk project mitigates the risk posed under the Minimum Energy Performance Standards that come into force from April 2018. During 2016 we successfully reduced our F and G assets to 1.2% of the portfolio through numerous measures including: energy efficiency improvements, sales and conducting new EPCs. Corrective measures have been identified for all remaining assets with an F or G rating and will be integrated into the asset business plans before April 2018 in order to achieve the appropriate improved ratings.

Bede

Believing in community.

Bede is a local community charity based in Southwark. Its aim is to support local people in creating better lives for themselves, their families and their communities.

In December two members of the Picton team spent a day helping at the Bede Christmas Fair.



BEING RESPONSIBLE

CONTINUED



This year, we have rolled out a tenant engagement programme, covering 60% of the tenanted floor area. The programme aims to collect tenant data so that we can fully understand the energy efficiency of our portfolio while also offering our tenants advice and support on how they can reduce their carbon emissions. We have currently seen 30% of contacted tenants actively engage in the programme.

Our absolute carbon emissions have increased this year, due to increased consumption, improved methodology, increased scope and fluctuations in occupancy. This year we are aiming to reduce both absolute and like-for-like emissions through the identification and implementation of further energy efficiency measures across the portfolio.

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 CO₂ 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



EPRA

REPORTING AGAINST EPRA SUSTAINABILITY BEST PRACTICE

We report our overall energy, greenhouse gas, water and waste usage by sector. In the EPRA Disclosures section we have disclosed the absolute and intensity performance measures as set out by the EPRA Sustainability Best Practice Recommendations, and we have also provided further commentary in that section around the measures and the results for the year. For the first time we have started collecting tenant consumption data to increase the scope of our reporting and allow us to report whole building consumption. These steps 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.

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
Greenhouse gas emissions	Building energy intensity
	Total direct GHG emissions
	Total indirect GHG emissions
	Like-for-like total direct GHG emissions
Water	Like-for-like total indirect GHG emissions
	GHG intensity from building energy
	Total water consumption
	Like-for-like total water consumption
Waste	Building water intensity
	Total weight of waste by disposal route
Business travel	Like-for-like total weight of waste by disposal route
	Total business travel emissions

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, Angel Gate Office Village, has a sustainability certification (ISO 14001), while our most recent acquisition, Metro in Salford Quays, has a BREEAM 'Excellent' rating, giving an overall level of certification of 3.6% across the portfolio.

-3%

reduction in like-for-like emissions from purchased energy for own use

83%

of Scope 2 emissions from renewable sources

Key initiatives

We continue to improve the coverage and accuracy of our carbon footprint.



Installation of AMR meters at multi-let sites



Inclusion of new reporting metrics, such as tenant consumption

GREENHOUSE GAS EMISSIONS

We have measured our greenhouse gas (GHG) footprint for the fourth time for the 2017 annual report, building on the recommendations given last year. Our GHG emissions for the calendar year 2016 totalled 17,423 tCO₂e. The table below shows this separated by scope, as provisioned in the GHG Protocol. Picton's GHG inventory has been compiled using an operational control approach with a greater emphasis in 2016 of obtaining tenant controlled consumption data. This along with an improved methodology has resulted in an increase in our emissions.

Emission source	GHG Scope	2016		2015	
		Absolute GHG emissions (tCO ₂ e)	GHG Intensity (tCO ₂ e/m ²)	Absolute GHG emissions (tCO ₂ e)	GHG Intensity (tCO ₂ e/m ²)
Combustion of fuel and operation of facilities	1	1,503	0.015	994	0.005
Electricity, heat, steam and cooling purchased for own use	2	4,655	0.023	4,342	0.022
Business travel	3	8	N/A	8	N/A
Occupier data	3	11,149	N/A	N/A	N/A
Office premises	3	12	N/A	N/A	N/A
Landlord water and treatment	3	61	0.000	10	0.000
Landlord waste	3	35	0.001	N/A	N/A
Total		17,423	0.039	5,354	0.012

This year we significantly improved the coverage and accuracy of our carbon footprint. Our GHG emissions for the year 2016 were 17,423 tCO₂e. This uplift on our 2015 figure is explained by the inclusion for the first time of new purchases (180 West George Street and Metro, Salford Quays), the inclusion of occupier consumption data and some increases in site emissions.

Scope 1

Scope 1 emissions account for 1,503 tCO₂e, which is an increase of 52% from 2015. This is due to the acquisition of 180 West George Street in late 2015 and some increases in occupancy across our remaining sites. Excluding the impact of new acquisitions, the like-for-like consumption has also increased by 27%. This is due to the impact of Stanford House (which accounts for a third of this increase) where gas fired chillers were repaired in 2015 and were fully operational for the first time in 2016.

Scope 2

Like-for-like emissions decreased by 3% year on year but there was an absolute increase of 7% in Scope 2 emissions from 2015 to 4,655 tCO₂e.

This increase is largely due to the inclusion of emissions from Metro, Salford Quays, Manchester (acquired during 2016). The new site is a significant consumer as it is the third largest office in the portfolio by floor area. A 0.4% reduction of our overall energy intensity ratio across all Scope 2 emissions year on year demonstrates our portfolio continues to become more sustainable and run more efficiently.

83% of our Scope 2 emissions are from renewable sources.

Scope 3

Scope 3 emissions account for 11,265 tCO₂e, which is a significant increase from 2015 due to including new reporting metrics such as tenant consumption and home office consumption.

Methodology

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 CO₂ per square metre of property floor area (tCO₂e/m²).

We have calculated and reported our emissions in line with the GHG Protocol Corporate Accounting and Reporting Standard (revised edition). We count a supply as actual if more than half the year has had actual or customer reads. In 2016, 45% of supplies were estimated but these supplies counted for less than 4% of the total GHG emissions in 2016. This shows that a majority of the data collected is from reliable sources. During the last year a programme has been deployed by the CBRE asset services team to install AMR meters at multi-let sites. This programme will continue over the next year and will provide ever increasing clarity on the consumption throughout our portfolio.



Pictured: Queens Road, Sheffield

CHAIRMAN'S INTRODUCTION

NICHOLAS THOMPSON

The Board is committed to maintaining a high standard of corporate governance and transparency throughout the business.

 Read more about our Audit and Risk Committee on pages 59 to 61

 Read more in our Remuneration Report on pages 64 to 66



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.

I stated at the time of our half year results that we would start to consider recruiting an additional member to the Picton Board. This process has commenced, and I hope that we will have a new Board member in place later this year. It is our intention, once the new Director is in place, to appoint a new chairman of the Audit and Risk Committee in due course, as Robert Sinclair has indicated that he wishes to retire from the Board in 2018 once any potential transition to UK REIT status is complete.

This year we have implemented a new long-term incentive plan for the management team. We believe that this new arrangement provides greater alignment with the Company's shareholders. The initial awards under this plan were made at the start of 2017, and further details on this are provided in the following Remuneration Report.

As a Board we recognise the importance of good corporate governance and aim to be open and transparent in our dealings with shareholders. We encourage involvement with industry bodies, and a number of the Directors actively participate with the AIC in both Guernsey and the UK.

I would like to thank shareholders for their support in passing all of the resolutions presented at last year's Annual General Meeting.

Nicholas Thompson

Chairman

6 June 2017

BOARD OF DIRECTORS

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



1. NICHOLAS THOMPSON
CHAIRMAN

Age 68, 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. ROBERT SINCLAIR
CHAIRMAN OF THE AUDIT
AND RISK COMMITTEE

Age 67, is Managing Director of the Guernsey based Artemis Group and a director of a number of investment fund management companies and investment funds associated with clients of that Group. He has served on the Board since 2005. Robert is Chairman of Schroder Oriental Income Fund Limited, a director of Sirius Real Estate Limited, a director of Chariot Oil & Gas Limited, a director of EF Realisation Limited and a director of Rainbow Rare Earths Limited. He is a Fellow of the Institute of Chartered Accountants in England and Wales, and a member of the Institute of Chartered Accountants of Scotland.



3. ROGER LEWIS

CHAIRMAN OF THE PROPERTY VALUATION COMMITTEE

Age 69, has extensive experience in the property sector, most recently as a director of Berkeley Group Holdings Plc for over 15 years, the last eight of which were as Chairman, a position from which he retired at the end of July 2007. He subsequently acted as a consultant to the Berkeley Group and is currently a non-executive director of three Jersey based subsidiaries of the Berkeley Group. Prior to this, he was UK Group Chief Executive Officer of Crest Nicholson Group PLC from 1983 to 1991. He is also currently a director of Grand Harbour Marina Plc (Malta), of Camper and Nicholsons Marina Investments Limited and of Cambian Global Timberland Limited. He was appointed to the Board in 2010.



4. VIC HOLMES

CHAIRMAN OF THE REMUNERATION COMMITTEE

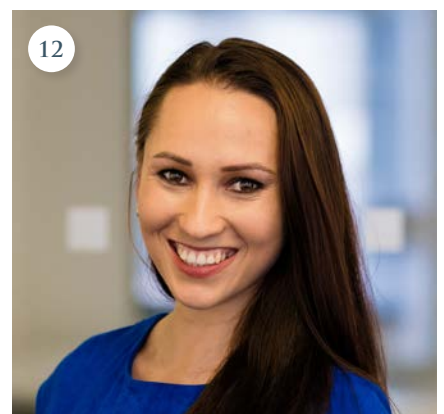
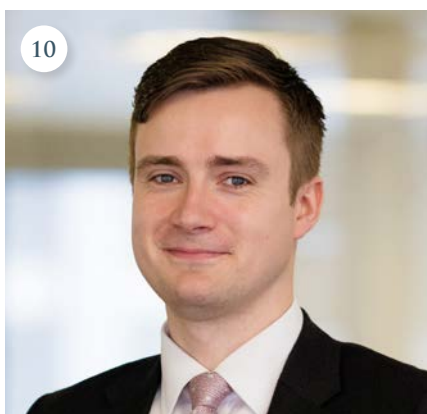
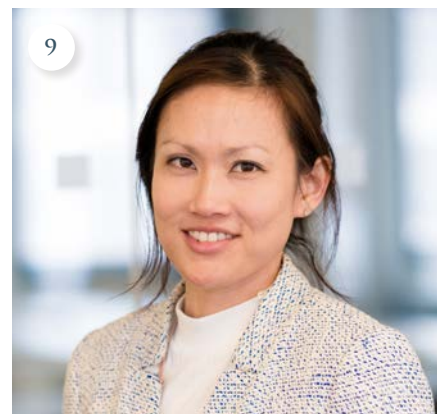
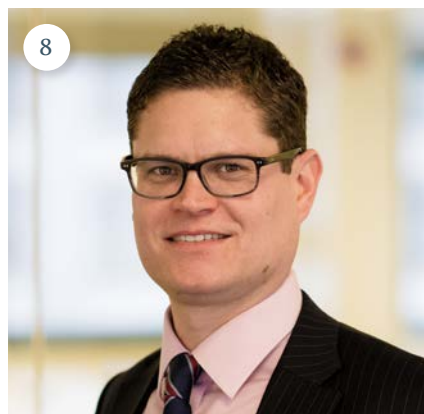
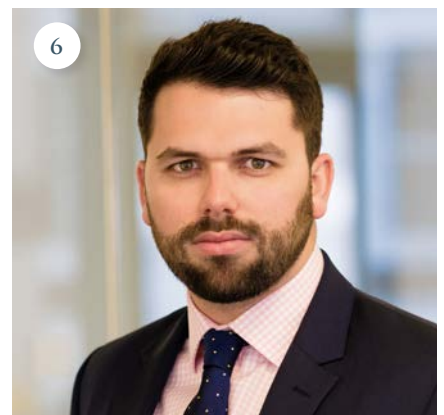
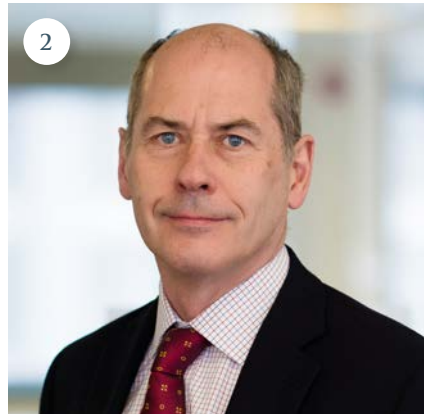
Age 60, was Chief Executive of Northern Trust's businesses in the Channel Islands until he retired from full-time employment in November 2011. He joined the Board on 1 January 2013. He serves as a director for a number of companies involved in the funds sector, for groups such as Permira, Ashmore, DBAG, and GAM. He is also Chairman of Generali Worldwide Insurance Company Limited, a director of Next Energy Solar Fund Limited and Chairman of Highbridge Multi-Strategy Fund Limited (both London listed companies), and was Chairman of the Guernsey Investment Funds Association from April 2013 until April 2015. He is a Fellow of the Association of Chartered Certified Accountants.



5. MICHAEL MORRIS

Michael, age 44, has over 23 years' experience in the UK commercial property sector and was appointed to the Board on 1 October 2015. He has worked with the Group since launch in 2005 and is also Chief Executive of its UK investment management subsidiary, Picton Capital Limited. Within this role he is responsible for the Group's Investment Management operation, overseeing the implementation of all aspects of the Company's investment strategy. Prior to this, he worked in private practice, then becoming a Senior Director and Fund Manager at ING Real Estate Investment Management (UK) Limited. He is a member of the Investment Property Forum and sits on both the Property & Infrastructure Forum of the Association of Investment Companies and the CPD steering committee of the Investment Property Forum. He has also obtained the Investment Management Certificate and the IPF Diploma in Property Investment.

INVESTMENT MANAGEMENT TEAM



The investment management team at Picton Capital Limited comprises 12 permanent employees, and includes five real estate professionals, four qualified accountants and three further support employees.

1. MICHAEL MORRIS

CHIEF EXECUTIVE

Michael, age 44, is Chief Executive and is responsible for devising and overseeing the implementation of all aspects of the Company's investment strategy. He is also a non-executive Director of Picton Property Income Limited.

2. ANDREW DEWHIRST

FINANCE DIRECTOR

Andrew, age 57, joined as Finance Director in March 2011. Previously he was Director of Client Accounting at ING Real Estate Investment Management (UK) Limited, a role he had held since January 2006. At ING he was responsible for the accounting and administration of all the UK real estate vehicles and separate client accounts. He has over 25 years' experience in the real estate and financial services sector. Andrew is an associate member of the Institute of Chartered Accountants in England and Wales and a member of the Investment Property Forum.

3. JAY CABLE

DIRECTOR

Jay, age 39, is Head of Asset Management. In this role he is responsible for overseeing all asset management activities in respect of the Group's property portfolio. Formerly he was Director at ING Real Estate Investment Management (UK) Limited, and has worked with the Group since it launched in 2005. He has over 17 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 41, joined as Investment Director in January 2013 and is primarily responsible for transactional activity within the portfolio to manage effective recycling of capital. Previously he was an Investment Surveyor at Threadneedle Property Investments Limited from 2006. He has 17 years of investment experience in UK real estate, is a Member of the Royal Institution of Chartered Surveyors, has obtained the Investment Management Certificate and is a member of the Investment Property Forum.

5. TIM HAMLIN

SENIOR ASSET MANAGER

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

6. MATTHEW BARKER

ASSET MANAGER

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

7. SONYA KAPUR

RESEARCH ANALYST

Sonya is responsible for all aspects of analysis and research within the Company and also contributes to investment strategy. She joined in January 2012 and has ten years of real estate research experience. Previously she worked at BNP Paribas Real Estate as an investment analyst. Sonya has the IPF Diploma in Property Investment and is a committee member of the IPF Research steering group.

8. JAMES FORMAN

FINANCIAL CONTROLLER

James is the Financial Controller. In this role he is responsible for all the accounting and financial reporting for the Group. He has worked with the Group since 2005 and has 17 years' experience in the real estate sector. James is a Fellow of the Association of Chartered Certified Accountants.

9. SHERYL BATES

MARKETING & COMMUNICATIONS MANGER

Sheryl joined in June 2017, focusing on marketing and communications. Previously Sheryl worked in marketing, investor relations and finance roles at AXA Investment Managers, Permira and Barclays. She qualified as a Chartered Accountant with Deloitte.

10. ADAM GREEN

SENIOR ACCOUNTANT

Adam is a Senior Accountant joining from Invista Real Estate in January 2012. He is a member of the Association of Chartered Certified Accountants and has completed the IPF Introduction to Property Investment module.

11. SARAH BARNES

OFFICE MANAGER

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

12. MELISSA RICARDO

TEAM SECRETARY

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

CORPORATE GOVERNANCE REPORT

As a member of the Association of Investment Companies (“AIC”), the Company has been reporting against the principles and recommendations of the AIC Code of Corporate Governance (the “AIC Code”) and the accompanying AIC Corporate Governance Guide for Investment Companies (the “AIC Guide”). In these financial statements, the Company is reporting against the February 2015 AIC Code and AIC Guide which take into account updates made to the UK Corporate Governance Code in September 2014.

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

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

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

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

THE BOARD

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

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

COMPOSITION

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

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 reappointment. 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. However, the Board has determined that any Director who has served for more than nine years will offer themselves for reappointment on an annual basis. The Board believes that it is in the shareholders’ best interests for the Chairman to be the point of contact for all matters relating to the governance of the Company and as such has not appointed a senior independent non-executive Director.

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

ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

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

The above meetings were the scheduled Board and Committee meetings. Additional meetings were held to deal with other matters as required and are not included above.

EVALUATION

The performance of the Board and its Committees is evaluated on an annual basis. This is carried out by external consultants every three years and internally by the Directors for intervening years. The latest external evaluation was performed in August 2014, by Trust Associates, who have carried out previous external evaluations. An internal evaluation was carried out in February 2017, using questionnaires prepared by the Company's Administrator. The evaluation addressed all aspects of the running of the Board.

INTERNAL CONTROL AND RISK MANAGEMENT

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

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

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

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

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

RELATIONS WITH SHAREHOLDERS

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

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

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

NOMINATIONS COMMITTEE REPORT

NICHOLAS THOMPSON

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



TERMS OF REFERENCE

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

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

ACTIVITY

The Committee met twice during the year ended 31 March 2017 and considered the following matters:

- Succession planning for the Board; and
- Appointment of recruitment consultants.

SUCCESSION PLANNING

The Board has not set a finite tenure policy, as it does not believe that the length of time each Director serves should be limited; however, it has determined that all Directors who have served more than nine years will offer themselves for re-appointment annually.

During the year the Committee further considered succession planning, which was part of the Board evaluation process. Robert Sinclair, who has served on the Board since the Company's launch in 2005, has indicated that he wishes to retire from the Board in 2018. The process to appoint a new Director has started, with the appointment of consultants to identify suitable candidates.

AUDIT AND RISK COMMITTEE REPORT

ROBERT SINCLAIR

The Audit and Risk Committee is chaired by Robert Sinclair. The other members of the Committee are Nicholas Thompson, Roger Lewis and Vic Holmes. Meetings of the Audit and Risk 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;
- Adoption of the Group's Risk Management Policy;
- Monitoring and evaluating the risks relating to the Group;
- Evaluation of the Group's risk profile and risk appetite, and whether these are aligned with its investment objectives;
- Internal controls and risk management systems;
- Ensuring that key risks are being effectively measured, managed and mitigated;
- The Group's relationship with the external auditor, including effectiveness and independence;
- Internal audit and the programme of controls testing; and
- Reporting responsibilities.

ACTIVITY

The Audit and Risk Committee met three times during the year ended 31 March 2017 and considered the following matters:

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

AUDIT AND RISK COMMITTEE REPORT

CONTINUED

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 2017 Annual Report was fair, balanced and understandable and whether it provided the necessary information for shareholders to assess the Group's performance, business model and strategy.

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

The valuation is conducted on a quarterly basis by independent valuers, and is subject to oversight by the Property Valuation Committee. It is a key component of the annual and half year financial statements and is inherently subjective, requiring significant judgement. Members of the Property Valuation Committee, together with the Investment Manager, meet with the independent valuer on a quarterly basis to review the valuations and underlying assumptions, including the year end valuation process. The Chairman of the Property Valuation Committee reported to the Audit and Risk Committee at its meeting in May 2017 and confirmed that the following matters had been considered in discussions with the independent valuers:

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

The Audit and Risk Committee reviewed the report from the Chairman of the Property Valuation Committee including the assumptions applied to the valuation and considered their appropriateness, as well as considering current market trends and conditions, and valuation movements compared to previous quarters. The Committee considered the valuation and agreed that this was appropriate for the financial statements. The Committee was satisfied that the 2017 Annual Report is fair, balanced and understandable and included the necessary information as set out above, and it has confirmed this to the Board.

RISK MANAGEMENT POLICY

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

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

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

INTERNAL CONTROLS

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

As part of this process, a risk matrix has been prepared that identifies the Company's key functions and the individual activities undertaken within those functions. From this, the Board has identified the Company's principal risks and the controls employed to manage those risks. These are reviewed at each Audit and Risk Committee meeting. Also the Committee has agreed a programme of additional controls testing which is carried out by the external auditor, in order to provide the Board with comfort that the controls are operating as intended and have been in place throughout the year. The Board also monitors the investment performance of the Company against its objectives and receives reports from the Investment Manager and Administrator each quarter on their activities. The Committee has received and reviewed a copy of CBRE Limited's Real Estate Accounting Services – Service Organisation Control Report as at 31 December 2016, prepared in accordance with International Standard on Assurance Engagements 3402, in respect of property management accounting services provided to Picton Capital Limited.

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

INDEPENDENCE OF AUDITOR

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

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

	31 March 2017 £000	31 March 2016 £000
Audit fees	108	104
Interim review fees	14	19
Non-audit fees	23	19
	145	142

The non-audit fees include £14,000 for additional controls testing and £4,000 for tax services, carried out by KPMG Channel Islands Limited, and £5,000 in respect of the Picton Capital Limited FCA CASS review, carried out by KPMG LLP.

ANNUAL AUDITOR ASSESSMENT

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

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

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

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

KPMG Channel Islands Limited have been auditor to the Group since the year ended 31 December 2009 following a tender process in July 2009. The current audit engagement partner, Neale Jehan, has now served five years and will be rotated following the 2017 audit. The Committee recommends that KPMG Channel Islands Limited are recommended for reappointment at the next Annual General Meeting.

Robert Sinclair

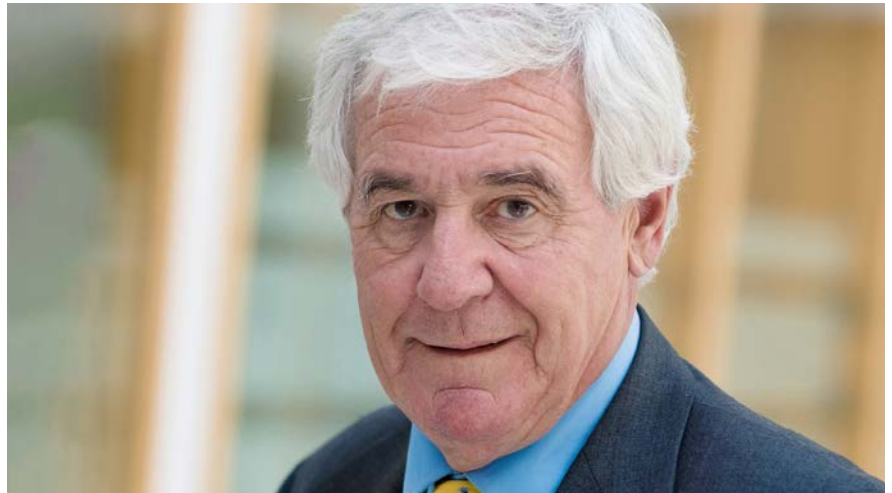
Chairman of the Audit and Risk Committee

6 June 2017

PROPERTY VALUATION COMMITTEE REPORT

ROGER LEWIS

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



TERMS OF REFERENCE

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

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

ACTIVITY

The Committee met four times during the year ended 31 March 2017. Members of the Property Valuation Committee, together with the Investment Manager, met with the independent valuer each quarter to review the valuations and considered the following matters:

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

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

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

6 June 2017

Dear Sirs

PICTON PROPERTY PORTFOLIO — VALUATION AS AT 31 MARCH 2017

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 2017, 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 2017, we are of the opinion that the aggregate values of the properties we value in the Picton investment property portfolio, as at 31 March 2017, is £624,410,000 (SIX HUNDRED AND TWENTY FOUR MILLION FOUR HUNDRED AND TEN 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) are 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

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



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 St Martin's Court 10 Paternoster Row London EC4M 6HP
 CBRE Limited is regulated by the RICS and is an appointed representative of CBRE Indirect
 Investments Service Limited which is authorised and regulated by the Financial Conduct Authority.



REMUNERATION REPORT

VIC HOLMES

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



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; and
- Reviewing remuneration trends across the sector.

ACTIVITY

The Committee met twice during the year ended 31 March 2017 and considered the following matters:

- Annual remuneration review and bonus awards for Picton Capital Limited employees;
- Benchmark market levels of salary and benefits applicable to Picton Capital employees;
- Appointment of external consultants to advise on the design and implementation of a new long-term incentive plan;
- Consideration of detailed proposals for the long-term incentive plan including suitable performance conditions; and
- Establishment of an employee benefit trust and the appointment of its trustee.

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

Directors receive an annual fee as set out below. The independent 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 independent 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 independent 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. The fees of the independent Directors are recommended by the Board. Michael Morris does not receive a fee as a Director of the Company but is remunerated in his capacity as Chief Executive of Picton Capital Limited. The level of Directors' fees was independently reviewed in September 2014 by Deloitte LLP against a benchmark group of similar companies. The new rates became effective on 1 January 2015, and will next be reviewed after three years.

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

The total fees earned by each Director for the year ended 31 March 2017 were as follows:

	31 March 2017 £	31 March 2016 £
Nicholas Thompson	82,500	82,500
Robert Sinclair	43,000	43,000
Roger Lewis	40,000	40,000
Vic Holmes	40,000	40,000
Trevor Ash	–	18,000
Michael Morris	–	–
	205,500	223,500

No additional fees were earned above the annual expected time commitment for the year ended 31 March 2017. The Company's Articles set an annual limit of £300,000 for Directors' remuneration.

The remuneration earned by Michael Morris, as Chief Executive of Picton Capital Limited, for the year ended 31 March 2017 was as follows:

	31 March 2017 £	31 March 2016 £
Basic salary	227,000	220,000
Annual bonus	114,700	95,000
Company pension contributions	–	37,400
Salary supplement (in lieu of pension contributions)	34,050	–
Deferred bonus scheme awards	242,143	175,925
	617,893	528,325

Michael Morris also was granted a contingent share award under the Long-term Incentive Plan of 358,791 shares.

PICTON CAPITAL LIMITED REMUNERATION

The Group's Investment Manager employed 12 staff as at 31 March 2017 (2016: 13 staff).

The policy and components of current 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 10% 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. The Directors of Picton Capital Limited receive a salary supplement of 15% of base salary in lieu of company pension contributions.

Annual bonus

A discretionary annual cash bonus may be awarded to recognise individual performance. An award will take into account three factors: the performance of the Group, the property portfolio return and the individual's performance. Bonus payments are not pensionable.

Deferred bonus scheme

A share-based deferred bonus scheme has been established that aligns remuneration with that of shareholders. An award will take into account three factors: the performance of the Group, the property portfolio return and the individual's performance. Deferred bonus awards are not pensionable. Any award under the scheme is linked to both share price movement and dividend distributions. Awards will normally vest in two years.

Long-term incentive plan

An equity settled long-term incentive plan (LTIP) was established in the year following approval from shareholders. All employees are eligible for awards on an annual basis. With the exception of the initial awards, awards are normally made within six weeks of the announcement of the Company's annual results. Awards will vest in three years, and are subject to three performance conditions being met.

Other benefits

These include private medical insurance and life cover.

REMUNERATION REPORT

CONTINUED

During the year the Committee considered the design and implementation of a new long-term incentive plan (LTIP) for Picton Capital Limited employees. The proposals were approved at the Annual General Meeting on 30 November 2016, following a consultation with a number of major shareholders. The LTIP will increase alignment between the investment management team and investors, by linking remuneration to long-term financial targets. The plan will be based on three year periods, with three performance metrics measured over each period. These metrics are:

- Total shareholder return, compared to a bespoke comparator group of similar listed property companies;
- Total property return, compared to the MSCI IPD Quarterly Benchmark; and
- Growth in EPRA earnings.

Awards will only vest if minimum threshold levels are met, increasing to a maximum for exceptional performance against all three metrics. Initial awards were made on 27 January 2017 in respect of the three year period from 1 April 2016 to 31 March 2019. Awards will subsequently be made annually, once the Company's annual results have been announced. The next awards, for the period from 1 April 2017 to 31 March 2020, will be made within six weeks of the announcement of this year's results.

In considering the salary and bonus review for 2017, the Committee reviewed relevant market data as well as 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 no increase in base salaries from 1 April 2016 (2016: 6.0%) and an overall bonus pool of 102% of base salaries (2016: 94%).

For the year ended 31 March 2017, the Committee agreed that bonuses awarded to Picton Capital staff would total £537,000 payable on 28 April 2017 (2016: £458,000) and £555,000 in Deferred Bonus Scheme awards (2016: £519,000). The Deferred Bonus Scheme awards were made at the prevailing share price, and equate to 662,000 units, which vest on 31 March 2019. 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 2017 was £1,177,000 (2016: £971,000). A summary of the awards made to Picton Capital Limited staff is set out in Note 7 to the financial statements.

On 27 January 2017 the Committee agreed the initial awards made under the Long-term Incentive Plan. These were in respect of the three year performance period from 1 April 2016 to 31 March 2019, and are conditional on the three metrics set out above. The initial awards were for a total of 1,170,258 shares, of which 872,036 were awarded to the Directors of Picton Capital Limited.

SHARE OWNERSHIP

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

The numbers of shares beneficially held by each Director and senior management (including spouses), as at 31 March 2017, were as follows:

Directors	31 March 2017	31 March 2016
Nicholas Thompson*	215,000	200,000
Robert Sinclair	15,000	15,000
Roger Lewis	600,000	530,000
Vic Holmes	27,214	27,214
Michael Morris†	53,596	53,596
Senior management	31 March 2017	31 March 2016
Andrew Dewhirst	24,000	20,000
Jay Cable	9,505	9,505
Fraser D'Arcy ††	8,687	8,687

* Includes 81,634 shares held by Mrs Elizabeth Thompson

† Includes 28,596 shares held by Mrs Joanne Morris

†† Held by Mrs Rebecca D'Arcy

The Directors of Picton Capital Limited (Michael Morris and senior management, as above) also hold units in the Deferred Bonus Scheme. At 31 March 2017 the number of units that had been awarded to Picton Capital Limited Directors and yet to vest was 1,530,718 (2016: 1,583,685).

Vic Holmes

Chairman of the Remuneration Committee

6 June 2017

DIRECTORS' REPORT

The Directors of Picton Property Income Limited present the Annual Report and audited financial statements for the year ended 31 March 2017.

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

PRINCIPAL ACTIVITY

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

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

RESULTS AND DIVIDENDS

The results for the year are set out in the Consolidated Statement of Comprehensive Income. As set out in Note 11 to the consolidated financial statements, the Company has paid four interim dividends, three of 0.825 pence per share and one of 0.85 pence per share, making a total dividend for the year ended 31 March 2017 of 3.325 pence per share (2016: 3.3 pence).

DIRECTORS AND DIRECTORS' INTERESTS

The Directors of the Company who served throughout the year are set out on page 40.

The Directors' interests in the shares of the Company as at 31 March 2017 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 2017 was 540,053,660 (2017: 540,053,660) ordinary shares of no par value.

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.

VIABILITY ASSESSMENT AND STATEMENT

The 2014 UK Corporate Governance Code requires the Board to make a 'viability statement' which considers the Company's current position and principal risks and uncertainties combined with an assessment of the future prospects for the Company, in order that the Board can state that the Company will be able to continue its operations over the period of their assessment.

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

The major risks identified as relevant to the viability assessment were those relating to a downturn in the UK commercial property market and the resultant impact on the valuation of the property portfolio, the level of rental income receivable and the subsequent effect on cash resources and financial covenants. The Board took into account the illiquid nature of the Company's property assets, the existence of long-term borrowings, the effects of significant falls in valuations and rental income on the ability to remain within financial covenants, maintain dividend payments and retain investors. These matters were assessed over the period to 31 March 2022, and will continue to be assessed over five year rolling periods.

DIRECTORS' REPORT

CONTINUED

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

Based on their assessment, and in the context of the Group's business model and strategy, the Directors expect that the Group will be able to continue in operation and meet its liabilities as they fall due over the five year period to 31 March 2022.

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 22 May 2017.

	% of issued share capital
Investec Wealth & Investment Limited	16.4
Alliance Trust Savings Limited	5.4
Canaccord Genuity Wealth Management	5.1
Transact Nominees Limited	4.2
Mattioli Woods Plc	3.6
Brewin Dolphin Limited	3.5
BlackRock Inc.	3.4

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.

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

DIRECTORS' RESPONSIBILITY STATEMENT IN RESPECT OF THE ANNUAL REPORT AND FINANCIAL STATEMENTS

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, as issued by the IASB, 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

6 June 2017

FINANCIAL STATEMENTS

Independent Auditor's Report	70
Consolidated Statement of Comprehensive Income	74
Consolidated Statement of Changes in Equity	75
Consolidated Balance Sheet	76
Consolidated Statement of Cash Flows	77
Notes to the Consolidated Financial Statements	78



 Lockton Companies LLP

1 Frantz Law
 Lucifica Ltd

2

Black & Veatch
 Truist Capital Ltd

3

Trinity Building
 Consultancy Ltd
 Next Development
 Evers

4

Westchester
 Employment
 JNC Butler
 LI Vertical Ltd
 CP

5

Scotiabank
 Investment Services
 M&J Services
 East Street
 Energy Services
 87-88

6

Scotiabank
 Investment Services

INDEPENDENT AUDITOR’S REPORT

TO THE MEMBERS OF PICTON PROPERTY INCOME LIMITED



Opinions and conclusions arising from our audit

1. OUR OPINION ON THE GROUP FINANCIAL STATEMENTS IS UNMODIFIED

We have audited the Group financial statements (the “financial statements”) of Picton Property Income Limited (the “Company”) and its subsidiaries (together, the “Group”) for the year ended 31 March 2017 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. In our opinion the financial statements:

- give a true and fair view of the state of the Group’s affairs as at 31 March 2017 and of its profit and total comprehensive income for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards; and
- comply with the Companies (Guernsey) Law, 2008.

Overview	
Materiality Group financial statements as a whole	£6.68m (2016: £6.46m) 1% (2016: 1% of Total Assets)
Coverage	100% (2016: 100% of Total Assets)
Risk of material misstatement vs 2016	
Recurring risks	Valuation of investment property



2. 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:

	The risk	Our response
<p>Valuation of investment property Investment property £615 million; 2016: £646 million</p> <p>Refer to pages 59-61 of the Audit and Risk Committee Report, Note 2 significant accounting policies and Note 14 Investment Property disclosures.</p>	<p>The Group's investment property portfolio accounted for 92% of the Group's total assets as at 31 March 2017. The fair value of the investment property portfolio at 31 March 2017 was assessed by the Property Valuation Committee and approved by the Board of Directors based on independent valuations prepared by the Group's external property valuer.</p> <p>As highlighted in the Audit and Risk Committee Report, the valuation of the Group's investment 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.</p>	<p>Procedures to address this audit risk included those listed below:</p> <p>Controls evaluation We tested the design, implementation and operating effectiveness of certain controls over the valuation including the review and approval by the Board of Directors and the capture and recording of information contained in the lease database for investment properties.</p> <p>Evaluating Group's external property valuer We assessed the competence, capabilities and objectivity of the valuer. We also assessed the independence of the valuer by considering the scope of their work and the terms of their engagement.</p> <p>Evaluating inputs used in the valuations We assessed the valuations prepared by the external property valuer by evaluating the appropriateness of the valuation methodologies and assumptions used, including undertaking discussions on key findings with the external valuer with the assistance of our own Real Estate specialist to challenge the valuations based on market information and knowledge.</p> <p>We also compared a sample of key inputs to the valuation such as annual rental, occupancy and tenancy contracts for consistency with other audit findings and observable market evidence.</p> <p>Consideration of accounting policies We also considered the Group's investment property valuation policies and their application as described in the notes to the financial statements for compliance with International Financial Reporting Standards in addition to the adequacy of disclosures in Note 14 in relation to the fair value of the investment properties.</p>

INDEPENDENT AUDITOR’S REPORT

TO THE MEMBERS OF PICTON PROPERTY INCOME LIMITED CONTINUED



TOTAL ASSETS

£668.35m

(2016: £686.81m)



Total assets ■ Group materiality ■

Whole financial statements materiality:
£6.68m (2016: £6.46m)

3. OUR APPLICATION OF MATERIALITY AND AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Materiality for the financial statements as a whole was set at £6.68 million determined with reference to a benchmark of Group Total Assets of £668.35 million, of which it represents approximately 1% (2016: approximately 1%).

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £334,150, in addition to other identified misstatements that warranted reporting on qualitative grounds.

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.

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, total Group assets and total Group liabilities.

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.

4. WE HAVE NOTHING TO REPORT ON THE DISCLOSURES OF PRINCIPAL RISKS

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

- the directors’ Viability Assessment and Statement on page 67-68, concerning the principal risks, their management, and, based on that, the directors’ assessment and expectations of the Company’s continuing in operation over the 5 years to 31 March 2022; or
- the disclosures in Note 2 of the financial statements concerning the use of the going concern basis of accounting.



5. WE HAVE NOTHING TO REPORT IN RESPECT OF THE 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 shareholders to assess the Group's position and performance, business model and strategy; or
- the Report of the Audit Committee 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 beliefs are necessary for the purposes of our audit.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement on page 56 relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

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

Scope and responsibilities

6. 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.

7. RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement set out on page 68, 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.

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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

6 June 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2017

	Notes	Income £000	Capital £000	2017 Total £000	2016 Total £000
Income					
Revenue from properties	3	54,398	-	54,398	45,923
Property expenses	4	(12,011)	-	(12,011)	(10,001)
Net property income		42,387	-	42,387	35,922
Expenses					
Management expenses	6	(3,636)	-	(3,636)	(2,901)
Other operating expenses	8	(1,613)	-	(1,613)	(1,510)
Total operating expenses		(5,249)	-	(5,249)	(4,411)
Operating profit before movement on investments		37,138	-	37,138	31,511
Investments					
Profit on disposal of investment properties	14	-	1,847	1,847	799
Investment property valuation movements	14	-	15,087	15,087	44,171
Total profit on investments		-	16,934	16,934	44,970
Operating profit		37,138	16,934	54,072	76,481
Financing					
Interest received		62	-	62	144
Interest paid	9	(10,885)	-	(10,885)	(11,561)
Total finance costs		(10,823)	-	(10,823)	(11,417)
Profit before tax		26,315	16,934	43,249	65,064
Tax	10	(499)	-	(499)	(216)
Profit and total comprehensive income for the period		25,816	16,934	42,750	64,848
Earnings per share					
Basic and diluted	12	4.8p	3.1p	7.9p	12.0p

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 2017

	Notes	Share Capital £000	Retained Earnings £000	Total £000
Balance as at 31 March 2015		157,313	212,657	369,970
Issue costs of shares		136	-	136
Profit for the year		-	64,848	64,848
Dividends paid	11	-	(17,822)	(17,822)
Balance as at 31 March 2016		157,449	259,683	417,132
Profit for the year		-	42,750	42,750
Dividends paid	11	-	(17,957)	(17,957)
Balance as at 31 March 2017		157,449	284,476	441,925

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

CONSOLIDATED BALANCE SHEET

AS AT 31 MARCH 2017

	Notes	2017 £000	2016 £000
Non-current assets			
Investment properties	14	615,170	646,018
Tangible assets		17	57
Accounts receivable	15	3,204	3,331
Total non-current assets		618,391	649,406
Current assets			
Accounts receivable	15	16,077	14,649
Cash and cash equivalents	16	33,883	22,759
Total current assets		49,960	37,408
Total assets		668,351	686,814
Current liabilities			
Accounts payable and accruals	17	(19,958)	(18,321)
Loans and borrowings	18	(1,104)	(29,091)
Obligations under finance leases	22	(109)	(109)
Total current liabilities		(21,171)	(47,521)
Non-current liabilities			
Loans and borrowings	18	(203,540)	(220,444)
Obligations under finance leases	22	(1,715)	(1,717)
Total non-current liabilities		(205,255)	(222,161)
Total liabilities		(226,426)	(269,682)
Net assets		441,925	417,132
Equity			
Share capital	20	157,449	157,449
Retained earnings		284,476	259,683
Total equity		441,925	417,132
Net asset value per share	23	82p	77p

These consolidated financial statements were approved by the Board of Directors on 6 June 2017 and signed on its behalf by:

Robert Sinclair

Director

6 June 2017

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2017

	Notes	2017 £000	2016 £000
Operating activities			
Profit for the period		54,072	76,481
Adjustments for non-cash items	21	(16,894)	(44,925)
Interest received		62	144
Interest paid		(9,273)	(8,980)
Tax paid		(232)	(426)
Increase in receivables		(2,344)	(712)
Increase in payables		1,449	2,439
Cash inflows from operating activities		26,840	24,021
Investing activities			
Capital expenditure on investment properties	14	(2,819)	(4,403)
Acquisition of investment properties	14	-	(73,084)
Disposal of investment properties		51,510	9,365
Purchase of tangible assets		-	(1)
Cash inflows/(outflows) from investing activities		48,691	(68,123)
Financing activities			
Borrowings repaid		(45,965)	(1,011)
Borrowings drawn		-	15,800
Financing costs		(485)	(198)
Dividends paid	11	(17,957)	(17,822)
Cash outflows from financing activities		(64,407)	(3,231)
Net increase/(decrease) in cash and cash equivalents		11,124	(47,333)
Cash and cash equivalents at beginning of year		22,759	70,092
Cash and cash equivalents at end of year	16	33,883	22,759

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017

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 2017 with comparatives for the year ended 31 March 2016.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

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

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

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

New or amended standards issued

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

- Amendments to IAS 1: Disclosure Initiative
- Amendments to IAS 16: Property, Plant and Equipment
- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Amendments to IAS 38: Intangible Assets
- Annual Improvements to IFRSs (2014)

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 ended 31 March 2017 and have not been adopted early:

- IFRS 9: Financial Instruments
- IFRS 15: Revenue from Contracts with Customers
- IFRS 16: Leases
- Amendments to IAS 7: Disclosure Initiative
- Amendments to IAS 12: Deferred Tax Assets for Unrealised Losses
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions

The Directors are in the process of assessing the full impact of the standards listed above but do not expect them to 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.

Significant estimates

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

Significant judgements

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

Basis of consolidation

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

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

Presentation of the Consolidated Statement of Comprehensive Income

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

Fair value hierarchy

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

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

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

Level 3: unobservable inputs for the asset or liability.

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

Investment properties

Freehold property held by the Group to earn income or for capital appreciation or both is classified as investment property in accordance with IAS 40 'Investment Property'. Property held under finance leases for similar purposes is also classified as investment property. Investment property is initially recognised at purchase cost plus directly attributable acquisition expenses. 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 Consolidated Statement of Comprehensive Income in the year in which they arise. Purchases and sales of investment property are recognised when contracts have been unconditionally exchanged and the significant risks and rewards of ownership have been transferred.

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

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

CONTINUED

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 inception to the lease end. Upon receipt of a surrender premium for the early termination of a lease, the profit, net of dilapidations and non-recoverable outgoings relating to the lease concerned, is immediately reflected in revenue from properties.

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

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

Employee benefits

Defined contribution plans

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

Short-term benefits

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

Share-based payments

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

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

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 profit or loss in the Consolidated Statement of Comprehensive Income when the liabilities are derecognised, as well as through the amortisation process.

Other assets and liabilities

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

Share capital

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

Taxation

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

The Group is subject to United Kingdom taxation on income arising on the investment properties after deduction of allowable debt financing costs and allowable expenses. The Group is tax exempt in Guernsey for the year ended 31 March 2017.

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

	2017 £000	2016 £000
Rents receivable (adjusted for lease incentives)	40,555	39,663
Surrender premiums	263	339
Dilapidation receipts	1,090	108
Other income	6,003	660
Service charge income	6,487	5,153
	54,398	45,923

Rents receivable includes lease incentives recognised of £0.9 million (2016: £1.2 million).

Included within other income is the £5.3 million settlement received in respect of a dispute at the Strathmore Hotel in Luton.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

4. PROPERTY EXPENSES

	2017 £000	2016 £000
Property operating costs	3,501	3,308
Property void costs	2,023	1,540
Recoverable service charge costs	6,487	5,153
	12,011	10,001

5. OPERATING SEGMENTS

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

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

The Investment Manager has been given authority to act on behalf of the Company in certain situations. Under the terms of the Investment Management Agreement, subject to the overall supervision of the Board, the Investment Manager advises on the investment strategy of the Company, advises the Company on its borrowing policy and geared investment position, manages the investment of the Company's short-term liquid resources, and advises on the use and management of derivatives and hedging by the Company. 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 53 commercial properties, which are in the industrial, office, retail, retail warehouse, and leisure sectors.

6. MANAGEMENT EXPENSES

	2017 £000	2016 £000
Staff costs	2,992	2,328
Other management costs	644	573
	3,636	2,901

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

	2017 £000	2016 £000
Wages and salaries	1,729	1,475
Social security costs	287	204
Other pension costs	58	150
Share-based payments	918	499
	2,992	2,328

Staff costs are those of the employees of Picton Capital Limited. Employees in the Group participate in two share-based remuneration arrangements. Awards made under the Deferred Bonus Scheme, which is cash settled, are linked to the Company's share price and dividends paid, and, with effect from 31 March 2017, awards will vest after two years. Employees must still be in the Group's employment on the vesting date to receive payment. During the year the Group made awards of 662,149 units (2016: 744,444 units), which vest on 31 March 2019.

During the year, the Company established a new Long-Term Incentive Plan for all employees which is equity settled. Awards vest three years from the grant date and are conditional on three performance metrics measured over each three-year period. On 27 January 2017, the Company made awards of 1,170,258 shares for the three-year period ending on 31 March 2019.

The table below summarises the awards made under the Deferred Bonus Scheme. Employees have the option to defer the vesting date of their awards for a maximum of seven years. The units which vested at 31 March 2017 and were not deferred were paid out subsequent to the year end at a cost of £494,000 (2016: £391,000).

Vesting Date	Units at 31 March 2015	Units granted in the year	Units redeemed in the year	Units at 31 March 2016	Units granted in the year	Units cancelled in the year	Units redeemed in the year	Units at 31 March 2017
31 March 2014	9,970	-	(7,050)	2,920	-	-	(2,920)	-
31 March 2015	168,050	-	(13,050)	155,000	-	-	(155,000)	-
31 March 2016	580,061	-	(502,385)	77,676	-	-	(12,478)	65,198
31 March 2017	668,567	-	-	668,567	-	(4,191)	(536,460)	127,916
31 March 2018	359,756	372,222	-	731,978	-	(5,998)	-	725,980
31 March 2019	-	372,222	-	372,222	662,149	(2,688)	-	1,031,683
	1,786,404	744,444	(522,485)	2,008,363	662,149	(12,877)	(706,858)	1,950,777

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

The Group employed 12 members of staff at 31 March 2017 (2016: 13). The average number of people employed by the Group for the year ended 31 March 2017 was 12 (2016: 13).

8. OTHER OPERATING EXPENSES

	2017 £000	2016 £000
Valuation expenses	111	108
Administrator fees	171	201
Auditor's remuneration	145	142
Directors' fees	206	224
Professional fees	383	505
Other expenses	430	330
Recurring costs	1,446	1,510
Restructuring costs	167	-
Exceptional costs	167	-
	1,613	1,510

Auditor's remuneration comprises:	2017 £000	2016 £000
Audit fees:		
Audit of Group financial statements	65	56
Audit of subsidiaries' financial statements	43	48
Audit related fees:		
Review of half year financial statements	14	19
	122	123
Non-audit fees:		
Additional controls testing	14	15
FCA CASS audit	5	4
Tax compliance	4	-
	23	19
	145	142

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

9. INTEREST PAID

	2017 £000	2016 £000
Interest payable on loans at amortised cost	8,812	8,751
Capital additions on zero dividend preference shares	1,074	1,900
Interest on obligations under finance leases	114	115
Non-utilisation fees	270	169
Amortisation of finance costs	615	626
	10,885	11,561

The loan arrangement costs incurred to 31 March 2017 are £6,213,000 (2016: £5,728,000). These are amortised over the duration of the loans with £615,000 written off in the year ended 31 March 2017 (2016: £626,000).

10. TAX

The charge for the year is:

	2017 £000	2016 £000
Current UK income tax	331	235
Income tax adjustment to provision for prior year	25	(137)
	356	98
UK corporation tax	143	118
	143	118
Total tax charge	499	216

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:

	2017 £000	2016 £000
Profit before taxation	43,249	65,064
Expected tax charge on ordinary activities at the standard rate of taxation of 20%	8,650	13,013
Less:		
Revaluation gains not taxable	(3,387)	(8,994)
Income not taxable, including interest receivable	(1,223)	(215)
Expenditure not allowed for income tax purposes	552	696
Losses utilised	(179)	(129)
Capital allowances and other allowable deductions	(4,102)	(4,136)
Losses carried forward to future years	20	-
Adjustment to provision for prior years	25	(137)
Total income tax charge	356	98

For the year ended 31 March 2017 there was an income tax liability of £356,000 in respect of the Group (2016: £98,000) and corporation tax of £143,000 (2016: £118,000).

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

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

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

No deferred tax asset has been recognised from unused tax losses which total £4.1 million (2016: £4.6 million) as the Group is only able to utilise the losses to offset taxable profits in certain discrete business streams, and the Directors consider the probability of realising the benefit of these losses, except to an immaterial extent, to be low.

11. DIVIDENDS

	2017 £000	2016 £000
Declared and paid:		
Interim dividend for the period ended 31 March 2015: 0.825 pence	-	4,455
Interim dividend for the period ended 30 June 2015: 0.825 pence	-	4,455
Interim dividend for the period ended 30 September 2015: 0.825 pence	-	4,456
Interim dividend for the period ended 31 December 2015: 0.825 pence	-	4,456
Interim dividend for the period ended 31 March 2016: 0.825 pence	4,455	-
Interim dividend for the period ended 30 June 2016: 0.825 pence	4,456	-
Interim dividend for the period ended 30 September 2016: 0.825 pence	4,456	-
Interim dividend for the period ended 31 December 2016: 0.85 pence	4,590	-
	17,957	17,822

The interim dividend of 0.85 pence per ordinary share in respect of the period ended 31 March 2017 has not been recognised as a liability as it was declared after the year end. A dividend of £4,590,000 was paid on 31 May 2017.

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:

	2017	2016
Net profit attributable to ordinary shareholders of the Company from continuing operations (£000)	42,750	64,848
Weighted average number of ordinary shares for basic and diluted profit per share	540,053,660	540,053,660

13. INVESTMENTS IN SUBSIDIARIES

The Company had the following principal subsidiaries as at 31 March 2017 and 31 March 2016:

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%
Picton Capital Limited	England & Wales	100%
Picton ZDP Limited (in liquidation)	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 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.

During the year Merbrook Business Property Unit Trust, Merbrook Bristol Property Unit Trust and Merbrook Prime Retail Property Unit Trust were wound up following their assets and liabilities being distributed to Picton No 3 Limited Partnership.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

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.

	2017 £000	2016 £000
Fair value at start of year	646,018	532,926
Acquisitions	-	73,084
Capital expenditure on investment properties	2,819	4,403
Disposals	(50,601)	(9,365)
Realised gains on disposal	2,440	799
Realised losses on disposal	(593)	-
Unrealised gains on investment properties	25,729	51,125
Unrealised losses on investment properties	(10,642)	(6,954)
Fair value at the end of the year	615,170	646,018
Historic cost at the end of the year	654,057	685,499

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

	2017 £000	2016 £000
Appraised value	624,410	654,605
Valuation of assets held under finance leases	1,680	1,731
Lease incentives held as debtors	(10,920)	(10,318)
Fair value at the end of the year	615,170	646,018

The investment properties were valued by CBRE Limited, Chartered Surveyors, as at 31 March 2017 and 31 March 2016 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 are less than 5% of their total UK revenue.

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

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

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

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

As at 31 March 2017 and 31 March 2016 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:

	2017			2016		
	Offices	Industrial	Retail and Leisure	Offices	Industrial	Retail and Leisure
Appraised value (£000)	213,935	250,350	160,125	252,085	236,635	165,885
Area (sq ft, 000s)	925	2,730	824	999	2,745	831
Range of unobservable inputs:						
Gross ERV (sq ft per annum)						
— range	£6.42 to £50.45	£3.25 to £16.85	£5.24 to £91.14	£7.57 to £56.35	£3.15 to £16.78	£5.24 to £80.36
— weighted average	£26.39	£7.76	£31.60	£29.38	£7.33	£28.75
Net initial yield						
— range	0% to 16.79%	4.49% to 10.29%	3.15% to 14.23%	1.04% to 18.75%	-4.75% to 9.64%	3.23% to 12.58%
— weighted average	5.67%	5.75%	6.33%	5.23%	5.61%	6.22%
Reversionary yield						
— range	5.74% to 15.39%	5.38% to 11.60%	4.77% to 23.76%	5.05% to 15.94%	5.30% to 11.87%	4.25% to 9.27%
— weighted average	7.52%	6.47%	6.89%	7.12%	6.60%	5.78%
True equivalent yield						
— range	5.59% to 13.04%	5.42% to 10.87%	4.66% to 9.77%	5.05% to 14.73%	5.48% to 10.94%	4.38% to 9.53%
— weighted average	7.32%	6.57%	6.66%	6.98%	6.67%	6.51%

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	2017	2016
		Impact on valuation	Impact on valuation
Industrial	Increase of 50 basis points	Decrease of £19.5m	Decrease of £18.0m
	Decrease of 50 basis points	Increase of £23.0m	Increase of £21.1m
Office	Increase of 50 basis points	Decrease of £16.0m	Decrease of £19.9m
	Decrease of 50 basis points	Increase of £18.5m	Increase of £22.0m
Retail and Leisure	Increase of 50 basis points	Decrease of £12.7m	Decrease of £12.5m
	Decrease of 50 basis points	Increase of £16.4m	Increase of £14.6m

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

15. ACCOUNTS RECEIVABLE

	2017 £000	2016 £000
Current		
Tenant debtors (net of provisions for bad debts)	4,107	3,209
Lease incentives	10,920	10,318
Other debtors	514	578
Income tax receivable	-	4
Capitalised finance costs	536	540
	16,077	14,649
Non-current		
Capitalised finance costs	3,204	3,331
	3,204	3,331
	19,281	17,980

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

16. CASH AND CASH EQUIVALENTS

	2017 £000	2016 £000
Cash at bank and in hand	31,056	20,063
Short-term deposits	2,827	2,696
	33,883	22,759

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

	2017 £000	2016 £000
Accruals	5,092	4,197
Deferred rental income	8,590	8,621
VAT liability	2,345	1,934
Income tax liability	295	-
Trade creditors	125	232
Other creditors	3,511	3,337
	19,958	18,321

18. LOANS AND BORROWINGS

	Maturity	2017 £000	2016 £000
Current			
Aviva facility	-	1,104	1,057
Zero dividend preference shares	15 October 2016	-	28,034
		1,104	29,091
Non-current			
Santander revolving credit facility	25 March 2018	-	15,800
Canada Life facility	20 July 2022	33,718	33,718
Canada Life facility	24 July 2027	80,000	80,000
Aviva facility	24 July 2032	89,822	90,926
		203,540	220,444
		204,644	249,535

The Group has a loan with Canada Life Limited for £113.7 million, which is fully drawn. The loan matures in July 2027, with £33.7 million repayable in July 2022. Interest is fixed at 4.08% over the life of the loan. The loan agreement has a loan to value covenant of 65% and an interest cover test of 1.75. The loan is secured over the Group's properties held by Picton No 2 Limited Partnership and Picton UK Real Estate Trust (Property) No 2 Limited, valued at £270.5 million (2016: £270.5 million).

Additionally the Group has a term loan facility agreement with Aviva Commercial Finance Limited for £95.3 million, which was fully drawn on 24 July 2012. The loan is for a term of 20 years, with approximately one third repayable over the life of the loan in accordance with a scheduled amortisation profile. The Group has repaid £1.1 million in the year (2016: £1.0 million). Interest on the loan is fixed at 4.38% over the life of the loan. The facility has a loan to value covenant of 65% and a debt service cover ratio of 1.4. The facility is secured over the Group's properties held by Picton No 3 Limited Partnership and Picton Property No 3 Limited, valued at £225.2 million (2016: £229.1 million).

The Group has a £26.0 million revolving credit facility with Santander Corporate & Commercial Banking until 25 March 2018. Interest is charged at 175 basis points over three-month LIBOR and the non-utilisation fee is 70 basis points. The facility is secured over properties held by Picton (UK) REIT (SPV No 2) Limited, valued at £58.9 million (2016: £57.1 million).

On 21 June 2016 an additional £27.0 million revolving credit facility was put in place with Santander Corporate & Commercial Banking for five years. Interest is also charged at 175 basis points over three-month LIBOR and the non-utilisation fee is 70 basis points. The facility is secured over properties held by Picton (UK) Listed Real Estate, valued at £67.6 million.

The fair value of the secured loan facilities at 31 March 2017, estimated as the present value of future cash flows discounted at the market rate of interest at that date, was £229.1 million (2016: £243.1 million). The fair value of the secured loan facilities is classified as Level 2 under the hierarchy of fair value measurements.

The Group repaid in full its 22,000,000 zero dividend preference shares ('ZDPs') at the maturity date of 15 October 2016. The ZDPs accrued additional capital at a rate of 7.25% per annum, resulting in a final repayment of £29.1 million.

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

The weighted average interest rate on the Group's borrowings as at 31 March 2017 was 4.21% (2016: 4.43%).

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 2017 are shown below:

	Gross method	Commitment method
Maximum limit	285%	285%
Actual	141%	146%

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

18. LOANS AND BORROWINGS CONTINUED

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 13 properties with commitments outstanding at 31 March 2017 of approximately £2.9 million (2016: £3.3 million). No further obligations to construct or develop investment property or for repairs, maintenance or enhancements were in place as at 31 March 2017.

20. SHARE CAPITAL

	2017 £000	2016 £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 2016: 540,053,660)	-	-
Share premium	157,449	157,449

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. 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

	2017 £000	2016 £000
Profit on disposal of investment properties	(1,847)	(799)
Movement in investment property valuation	(15,087)	(44,171)
Depreciation of tangible assets	40	45
	(16,894)	(44,925)

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:

	2017 £000	2016 £000
Future minimum payments due:		
Within one year	116	116
In the second to fifth years inclusive	466	466
After five years	7,616	7,732
	8,198	8,314
Less: finance charges allocated to future periods	(6,374)	(6,488)
Present value of minimum lease payments	1,824	1,826

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

	2017 £000	2016 £000
Current		
Within one year	109	109
	109	109
Non-current		
In the second to fifth years inclusive	396	397
After five years	1,319	1,320
	1,715	1,717
	1,824	1,826

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):

	2017 £000	2016 £000
Within one year	40,360	39,556
In the second to fifth years inclusive	125,866	124,853
After five years	107,534	116,228
	273,760	280,637

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

23. NET ASSET VALUE

The net asset value per ordinary share is based on net assets at the year end and 540,053,660 (2016: 540,053,660) ordinary shares, being the number of ordinary shares in issue at the year end.

At 31 March 2017, the Company had a net asset value per ordinary share of £0.82 (2016: £0.77).

24. FINANCIAL INSTRUMENTS

The Group's financial instruments comprise cash and cash equivalents, accounts receivable, secured loans, obligations under finance leases and accounts payable that arise from its operations. The Group does not have exposure to any derivative financial instruments. Apart from the secured loans, as disclosed in Note 18, the fair value of the financial assets and liabilities is not materially different from their carrying value in the financial statements.

Categories of financial instruments

31 March 2017	Note	Held at fair value through profit or loss £000	Financial assets and liabilities at amortised cost £000	Total £000
Financial assets				
Debtors and capitalised finance costs	15	-	8,361	8,361
Cash and cash equivalents	16	-	33,883	33,883
		-	42,244	42,244
Financial liabilities				
Loans	18	-	204,644	204,644
Obligations under finance leases	22	-	1,824	1,824
Creditors and accruals	17	-	8,728	8,728
		-	215,196	215,196

31 March 2016	Note	Held at fair value through profit or loss £000	Financial assets and liabilities at amortised cost £000	Total £000
Financial assets				
Debtors and capitalised finance costs	15	-	7,658	7,658
Cash and cash equivalents	16	-	22,759	22,759
		-	30,417	30,417
Financial liabilities				
Loans	18	-	249,535	249,535
Obligations under finance leases	22	-	1,826	1,826
Creditors and accruals	17	-	7,766	7,766
		-	259,127	259,127

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 has two revolving credit facilities which provide greater flexibility in managing the level of borrowings.

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

	2017 £000	2016 £000
Total liabilities	226,426	269,682
Less: cash and cash equivalents	(33,883)	(22,759)
Net debt	192,543	246,923
Total equity	441,925	417,132
Net debt to equity ratio at end of year	0.44	0.59

Credit risk

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

	Note	Held at fair value through profit or loss £000	Financial assets and liabilities at amortised cost £000	Total £000
31 March 2017				
Financial assets				
Tenant debtors	15	-	4,107	4,107
Cash and cash equivalents	16	-	33,883	33,883
		-	37,990	37,990

	Note	Held at fair value through profit or loss £000	Financial assets and liabilities at amortised cost £000	Total £000
31 March 2016				
Financial assets				
Tenant debtors	15	-	3,209	3,209
Cash and cash equivalents	16	-	22,759	22,759
		-	25,968	25,968

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

25. RISK MANAGEMENT CONTINUED

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 £249,000 (2016: £288,000) 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 2017 debtors overdue by more than 30 days totalled £1,840,000 (2016: £227,000).

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 2017 and at 31 March 2016 Standard & Poor's credit rating for Nationwide and Santander was A-1 and the Group's remaining bankers had an A-2 rating.

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

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group's liquidity risk is managed on an ongoing basis by the Investment Manager and monitored on a quarterly basis by the Board by maintaining adequate reserves and loan facilities, continuously monitoring forecasts and actual cash flows and matching the maturity profiles of financial assets and liabilities for a period of at least 12 months.

The table below has been drawn up based on the undiscounted contractual maturities of the financial assets/(liabilities), including interest that will accrue to maturity.

	Less than one year £000	1 to 5 Years £000	More than 5 years £000	Total £000
31 March 2017				
Cash and cash equivalents	33,925	-	-	33,925
Debtors and capitalised finance costs	5,157	1,476	1,728	8,361
Obligations under finance leases	(116)	(466)	(1,242)	(1,824)
Fixed interest rate loans	(9,708)	(38,832)	(252,662)	(301,202)
Creditors and accruals	(8,728)	-	-	(8,728)
	20,530	(37,822)	(252,176)	(269,468)
31 March 2016				
Cash and cash equivalents	22,787	-	-	22,787
Debtors and capitalised finance costs	4,327	1,312	2,019	7,658
Obligations under finance leases	(116)	(466)	(1,244)	(1,826)
Fixed interest rate loans	(38,822)	(38,832)	(262,370)	(340,024)
Floating interest rate loans	(364)	(16,158)	-	(16,522)
Creditors and accruals	(7,766)	-	-	(7,766)
	(19,954)	(54,144)	(261,595)	(335,693)

Market risk

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

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

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

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

The valuation of the Group's property assets is subject to changes in market conditions. Such changes are taken to the Consolidated Statement of Comprehensive Income and thus impact on the Group's net result. A 5% increase or decrease in property values would increase or decrease the Group's net result by £31.2 million (2016: £32.7 million).

Interest rate risk management

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

Interest rate risk

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

	Less than 1 year £000	1 to 5 Years £000	More than 5 years £000	Total £000
31 March 2017				
Floating				
Cash and cash equivalents	33,883	-	-	33,883
Fixed				
Secured loan facilities	(1,104)	(4,928)	(198,612)	(204,644)
Obligations under finance leases	(109)	(396)	(1,319)	(1,824)
	32,670	(5,324)	(199,931)	(172,585)
31 March 2016				
Floating				
Cash and cash equivalents	22,759	-	-	22,759
Secured loan facilities	-	(15,800)	-	(15,800)
Fixed				
Secured loan facilities	(1,057)	(4,718)	(199,926)	(205,701)
Zero dividend preference shares	(28,034)	-	-	(28,034)
Obligations under finance leases	(109)	(397)	(1,320)	(1,826)
	(6,441)	(20,915)	(201,246)	(228,602)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

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 4.0% of the Group's annual contracted rental income.

Currency risk

The Group has no exposure to foreign currency risk.

26. RELATED PARTY TRANSACTIONS

The total fees earned during the year by the Directors of the Company amounted to £205,500 (2016: £223,500). As at 31 March 2017 the Group owed £nil to the Directors (2016: £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 £4,590,000 (0.85 pence per share) was approved by the Board on 24 April 2017 and paid on 31 May 2017.

The Group has exchanged contracts to sell two properties for proceeds of £9,861,000, with completion expected in June 2017.

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.

	2017 £000	2016 £000	2015 £000
Profit for the year after taxation	42,750	64,848	68,855
Exclude:			
Investment property valuation movement	(15,087)	(44,171)	(53,163)
Gains on disposal of investment properties	(1,847)	(799)	(412)
Exceptional income	(5,250)	-	-
EPRA earnings	20,566	19,878	15,280
Weighted average number of shares in issue (000s)	540,054	540,054	445,259
EPRA earnings per share	3.8p	3.7p	3.4p

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.

	2017 £000	2016 £000	2015 £000
Balance sheet net assets	441,925	417,132	369,970
Fair value of financial instruments	-	-	-
Deferred tax	-	-	-
EPRA NAV	441,925	417,132	369,970
Shares in issue (000s)	540,054	540,054	540,054
EPRA NAV per share	82p	77p	69p

EPRA NNNAV per share

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

	2017 £000	2016 £000	2015 £000
EPRA NAV	441,925	417,132	369,970
Fair value of debt	(24,475)	(21,807)	(19,781)
Deferred tax	-	-	-
EPRA NNNAV	417,450	395,325	350,189
Shares in issue (000s)	540,054	540,054	540,054
EPRA NNNAV per share	77p	73p	65p

EPRA DISCLOSURES (UNAUDITED)



CONTINUED

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.

	2017 £000	2016 £000	2015 £000
Investment property valuation	624,410	654,605	540,904
Allowance for estimated purchasers' costs	42,362	44,478	31,629
Gross up property portfolio valuation	666,772	699,083	572,533
Annualised cash passing rental income	39,998	40,365	34,580
Property outgoings	(911)	(957)	(1,026)
Annualised net rents	39,087	39,408	33,554
EPRA Net Initial Yield	5.9%	5.6%	5.9%

EPRA "topped-up" net initial yield

The EPRA "topped-up" NIY is calculated by making an adjustment to the EPRA NIY in respect of the expiration of rent free periods (or other unexpired lease incentives such as discounted rent periods and step rents).

	2017 £000	2016 £000	2015 £000
EPRA NIY annualised net rents	39,087	39,408	33,554
Annualised cash rent that will apply at expiry of lease incentives	2,633	3,947	3,724
Topped-up annualised net rents	41,720	43,355	37,278
EPRA "topped-up" NIY	6.3%	6.2%	6.5%

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.

	2017 £000	2016 £000	2015 £000
Annualised potential rental value of vacant premises	2,647	1,867	1,920
Annualised potential rental value for the complete property portfolio	45,887	47,596	40,013
EPRA Vacancy Rate	5.8%	3.9%	4.8%

EPRA cost ratio

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

	2017 £000	2016 £000	2015 £000
Property operating costs	3,501	3,308	2,861
Property void costs	2,023	1,540	1,948
Management expenses	3,636	2,901	2,591
Other operating expenses	1,613	1,510	1,194
Less:			
Ground rent costs	(239)	(259)	(159)
EPRA costs (including direct vacancy costs)	10,534	9,000	8,435
Property void costs	(2,023)	(1,540)	(1,948)
EPRA costs (excluding direct vacancy costs)	8,511	7,460	6,487
Gross rental income	40,555	39,663	34,088
Less ground rent costs	(239)	(259)	(159)
Gross rental income	40,316	39,404	33,929
EPRA Cost Ratio (including direct vacancy costs)	26.1%	22.8%	24.9%
EPRA Cost Ratio (excluding direct vacancy costs)	21.1%	18.9%	19.1%

Capital expenditure

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

	2017 £000	2016 £000
Acquisitions	-	-
Development	-	-
Like-for-like portfolio	2,819	4,403
Other	-	-
Total capital expenditure	2,819	4,403

Like-for-like rental growth

The table below sets out the like-for-like rental growth of the portfolio, by sector, in accordance with EPRA Best Practices Recommendations.

	Offices		Industrial		Retail and Leisure		Total	
	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000
Like-for-like rental income	10,100	9,755	14,972	14,757	9,617	10,414	34,689	34,926
Properties acquired	3,647	2,036	-	-	1,243	811	4,890	2,847
Properties sold	813	1,644	-	-	163	246	976	1,890
	14,560	13,435	14,972	14,757	11,023	11,471	40,555	39,663

EPRA sustainability reporting

The Group's sustainability data reported below is for the year ended 31 December 2016, with comparatives for the year ended 31 December 2015.

Energy

Electricity and gas consumption has increased by 20% and 52% respectively during 2016 compared to 2015. This is largely due to the acquisitions of Metro, Salford Quays and 180 West George Street, Glasgow, increased occupancy rates and some increases in consumption. Intensity ratios are in line with what is expected from the different portfolio types, with offices occupying 17 out of the top 18 highest intensity buildings within the portfolio. 83% of our electricity consumption is renewably sourced through our main energy supplier.

A number of energy efficiency initiatives have been implemented during 2016, including new LED lighting, the asset analytics tool at 50 Farringdon Road and a mechanical plant replacement at 180 West George Street. We would therefore expect to see a reduction in absolute consumption during 2017 as further energy efficiency measures are implemented and disposed site consumption are realised.

Like-for-like data analysis is conducted at a site level and only included where a site has data in full for 2015 and 2016. We have therefore not included any acquired or disposed sites during the 2015-2016 periods. Gloucester Retail Park has seen an increase in consumption due to car park lighting works, with eight metal halide fittings being repaired and a two hour increased run time per day. The largest office location increase is at Longcross Court, Cardiff which saw a new half hourly supply added to the site in mid-2015. The new supply went ahead to ensure that the current network cables could accommodate for an additional 500,000 kWh load on an annual basis. As a result of this increased load, the capacity of the supply also changed from 120kVA to 550kVA to accommodate the new substation. Four new occupiers moved into the property during 2016, tenanting previously vacant space. At Stanford House there were issues with the gas fired chillers being repaired in 2015. These were fixed and have been running more consistently during 2016 resulting in an increase in consumption of 143%. We therefore expect 2017 to provide a more stable consumption profile for the portfolio.

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/m ² /year)
Industrial	219,003	32,408	2.64
Office	9,875,422	7,393,221	115.91
Retail and Leisure	1,203,944	744,580	46.17
Total	11,298,369	8,170,209	93.46

Where data was unavailable, emissions were estimated by prorating the daily consumption calculated from available information. Estimated data accounts for 3.9% of electricity data and 3.5% of gas data.

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

EPRA DISCLOSURES (UNAUDITED)



CONTINUED

Sector	Electricity consumption (kWh)			Fuel consumption (kWh)		
	2016	2015	Change	2016	2015	Change
Industrial	210,866	113,415	86%	8,344	7,279	15%
Office	6,164,309	6,318,466	-2%	5,156,823	4,330,820	19%
Retail and Leisure	1,203,944	535,483	125%	744,580	306,214	143%
Total	7,579,119	6,967,364	9%	5,909,747	4,644,313	27%

GHG Emissions

Although our total emissions have risen, our Scope 2 emission intensity reduced by 0.4%, indicating that our existing portfolio is more efficient. For the second year running our like-for-like indirect emissions have also reduced due to changes in emission factors. It is our aim over the coming years to couple this reduction with like-for-like consumption so that we see a double benefit.

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

Sector	Total direct emissions (tCO ₂ e)	Total indirect emissions (tCO ₂ e)	GHG emissions intensity (kgCO ₂ e/m ² /year)
Industrial	5.96	90.24	0.00
Office	1,360.33	4,069.17	0.06
Retail and Leisure	137.00	496.09	0.02
Total	1,503.29	4,655.49	0.03

Note: Scope 1 and 2. Where data was unavailable, emissions were estimated by prorating the daily rate of consumption calculated from available information. Estimated data accounts for 3.5% of emissions.

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

Sector	Direct emissions (tCO ₂ e)			Indirect emissions (tCO ₂ e)		
	2016	2015	Change	2016	2015	Change
Industrial	2	1	14%	87	52	66%
Office	949	799	19%	2,540	2,920	-13%
Retail and Leisure	137	57	143%	496	248	100%
Total	1,088	857	27%	3,123	3,220	-3%

Water

Tenanted water data is analysed and reported in its own section under Scope 3 emissions. We have completed a more comprehensive analysis of our water supplies during 2016 and as such the increase in data coverage has been used in the like-for-like comparisons. We have also improved the reporting methodology to include emissions from water treatment which has not been included prior to 2016.

Increases have been seen across the portfolio due to a robust data collection process. We would expect the like-for-like comparisons to level out during 2017. As water is a small percentage of our overall emissions, there has been greater emphasis placed on reducing emissions from other sources. As we obtain a more robust like-for-like data set, we will be able to establish a concrete baseline to set targets on.

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

Sector	Total water withdrawn by source (m ³)	Building water intensity (m ³ /m ² /year)
Industrial	1,808	0.32
Office	55,838	0.68
Retail and Leisure	55	0.02
Total	57,701	0.57

Where data was unavailable, consumption has been estimated by prorating the daily rate of consumption calculated from available information. Estimated data accounts for 4.2% of water consumption.

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

Sector	Water withdrawn (m ³)		
	2016	2015	Change
Industrial	-	-	-
Office	46,201	23,192	99%
Retail and Leisure	50	73	-32%
Total	46,251	23,265	99%

Waste

We continue to monitor our waste supplies using the successful methodology change in 2015, where we obtain waste data direct from the suppliers. We are still awaiting confirmation from the supplier of total consumption levels at Regency Wharf and have left 2015 data unchanged. We expect the data to arrive shortly and will update our records when the data arrives, providing it passes an internal audit check.

The like-for-like waste volume has decreased by 17%, with percentage of waste to landfill falling by 43%. Longcross Court in Cardiff has seen key reductions in reporting of waste going to recycling and landfill disposal, due to data coming directly from the council rather than estimating through number of bins collected per week.

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

Sector	Recycling (kg)	Composting (kg)	Recovery (kg)	Incineration (kg)	Landfill (kg)	Other (kg)	Total (kg)
Industrial	-	-	-	-	-	-	-
Office	151,832	3,800	40,639	86,215	90,543	-	373,029
Retail and Leisure	265,000	-	-	261,000	-	-	526,000
Total	416,832	3,800	40,639	347,215	90,543	-	899,029
Proportion of waste by disposal route (%)	46%	0%	5%	39%	10%	-	100%

Where data was unavailable, waste weights have been estimated by prorating available information or using last year's data using intensity ratios. Proportion of waste by disposal route was calculated using proportions of actual data available.

EPRA DISCLOSURES (UNAUDITED)



CONTINUED

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

		2016	2015	Change
Recycling	Office	140,434	260,331	-46%
	Retail and Leisure	265,000	265,000	0%
		405,434	525,331	-23%
Composting	Office	3,800	21,434	-82%
	Retail and Leisure	-	-	-
		3,800	21,434	-82%
Recovery	Office	40,639	-	-
	Retail and Leisure	-	-	-
		40,639	-	-
Incineration	Office	78,787	90,045	-13%
	Retail and Leisure	261,000	261,000	0%
		339,787	351,045	-3%
Landfill	Office	90,543	158,548	-43%
	Retail and Leisure	-	-	-
		90,543	158,548	-43%
Total	Office	354,203	530,358	-33%
	Retail and Leisure	526,000	526,000	0%
		880,203	1,056,358	-17%

Business Travel

The below tables relate to Picton employees and their expensed mileage via car, air and train. We have conducted a more in-depth study on our business travel emissions and as a result have changed our emissions calculation methodology. For a fair analysis we have switched to distances as the crow flies, resulting in an impartial assessment between journeys. The calculation methodology has been back-dated to the 2015 data set to allow for a like-for-like comparison between the different transportation methods.

An extra 6,019 km were travelled by Picton employees across all transport types in 2016 compared to 2015. This was mainly due to new acquisitions in the portfolio. The increase will have a minimal impact on our Group's overall emissions but should continue to be monitored to see if the trend continues.

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

	Total kgCO ₂ e emissions	Total distance (km)
Car	2.40	12,743
Air	3.61	24,525
Train	1.73	35,362
All transport	7.74	72,630

Austin Friars

This is the first year the Group have reported on consumption data from our office premises at Austin Friars, where Picton Capital is based. While the emissions are a small proportion of our overall emissions, we feel it is important to provide a complete view of our emissions. Through tracking these office emissions and setting a benchmark, it will allow us to track our consumption and explore potential energy efficiency projects. There is no reliable data for the gas and waste contracts and they are not under our control; therefore they have not been included.

The table below sets out the total energy consumption from the Group's office premises.

Supply	2016 Consumption (kWh & m ³)	GHG emissions (tCO ₂ e)
Electricity	29,343	12.09
Water	105	0.11
Total		12.20

Occupier consumption

This is the first reporting year where we have tried to collect occupier data, in an effort to move towards reporting whole building consumption and recognising the landlord-tenant split in energy. Due to this being the first year reporting occupier consumption, there is a limited data set and we are looking to put procedures in place to improve the quality of data moving forward. For instance, waste has been excluded due to unreliable data sets, the data collection moving forward will implement clearer instructions on the type of information we require.

We contacted over 20% of tenants, covering 60% of the tenanted floor area, with a response rate of 30%. Industrial units were the most frequent respondent, accounting for 70% of the total responses. Ahead of the 2017 reporting year, we will look to create whole building breakdowns for key sites in the portfolio with the aim of having 100% coverage across our entire portfolio.

The table below sets out tenant consumption data for 2016 by property type.

	2016 Electricity (kWh)	2016 Gas (kWh)	2016 Water (m ³)
Industrial	18,447,945	11,244,946	53,914
Office	696,095	-	-
Retail and Leisure	2,173,670	1,291,044	1,754
Total consumption	21,317,710	12,535,990	55,668

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.

	2017 £000	2016 £000	2015 £000
Property expenses	5,524	4,848	4,809
Management expenses	3,636	2,901	2,591
Other operating expenses	1,446	1,510	1,194
Recurring operational expenses	10,606	9,259	8,594
Average Net Asset Value over the year	429,546	400,415	304,546
Ongoing Charges	2.5%	2.3%	2.8%
Ongoing Charges (excluding property expenses)	1.2%	1.1%	1.2%

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.

	2017 £000	2016 £000	2015 £000
Total borrowings	204,644	249,535	232,846
Less:			
Cash and cash equivalents	(33,883)	(22,759)	(70,092)
Total net borrowings	170,761	226,776	162,754
Investment property valuation	624,410	654,605	540,905
Loan to value	27.4%	34.6%	30.1%

Gearing

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

	2017 £000	2016 £000	2015 £000
Total assets	668,351	686,814	621,009
Less:			
Cash and cash equivalents	(33,883)	(22,759)	(70,092)
	634,468	664,055	550,917
Total equity	441,925	417,132	369,970
Gearing	43.6%	59.2%	48.9%

PROPERTY PORTFOLIO

Properties valued in excess of £30 million

- Parkbury Industrial Estate, Radlett, Herts.
- Units A-G2, River Way Industrial Estate, Harlow, Essex
- Angel Gate Office Village, City Road, London EC1
- Stanford House, 12-14 Long Acre, London WC2

Properties valued between £25 million and £30 million

- 50 Farringdon Road, London EC1

Properties valued between £20 million and £25 million

- Belkin Unit, 3 Shipton Way, Rushden, Northants.
- 30 & 50 Pembroke Court, Chatham, Kent

Properties valued between £15 million and £20 million

- B&Q, Queens Road, Sheffield
- Parc Tawe, Phase II, Link Road, Swansea
- Metro Building, Salford Quays, Manchester
- Colchester Business Park, The Crescent, Colchester, Essex
- Citylink, Addiscombe Road, Croydon
- Gloucester Retail Park, Eastern Avenue, Gloucester

Properties valued between £10 million and £15 million

- Unit 3220, Magna Park, Lutterworth, Leics.
- Angouleme Way Retail Park, Bury, Greater Manchester
- Lyon Business Park, Barking, Essex
- 180 West George Street, Glasgow
- Grantham Book Services, Trent Road, Grantham, Lincs.
- 401 Grafton Gate East, Milton Keynes, Bucks.
- The Business Centre, Molly Millars Lane, Wokingham, Berks.
- Units 1-13 Dencora Way, Sundon Park, Luton, Beds.
- Datapoint Business Centre, Cody Road, London E16
- Nonsuch Industrial Estate, 1-25 Kiln Lane, Epsom, Surrey
- Vigo 250, Birtley Road, Washington, Tyne and Wear

Properties valued between £5 million and £10 million

- 62/68 Bridge Street, Peterborough
- Regency Wharf, Broad Street, Birmingham
- Trident House, 42/48 Victoria Street, St Albans, Herts.
- Lawson Mardon Buildings, Kettlestring Lane, York
- 56 Castle Street, 2/12 English Street and 12-21 St Cuthberts Lane, Carlisle, Cumbria
- Queens House, 19/29 St Vincent Place, Glasgow
- Longcross Court, Newport Road, Cardiff
- Easter Court, Gemini Park, Warrington
- 53/55/57 Broadmead, Bristol
- Western Industrial Estate, Downmill Road, Bracknell, Berks.
- Haynes Way, Swift Valley Industrial Estate, Rugby, Warwickshire
- Scots Corner, High Street/Institute Road, Birmingham
- 78-80 Briggate, Leeds
- Strathmore Hotel, Arndale Centre, Luton, Beds.
- L'Avenir, Opladen Way, Westwick, Bracknell, Berks.
- 800 Pavilion Drive, Northampton Business Park, Northampton
- Atlas House, Third Avenue, Globe Park, Marlow, Bucks.

Properties valued under £5 million

- Sentinel House, Ancells Business Park, Fleet, Hants.
- 17/19 Fishergate, Preston, Lancs.
- Merchants House, Crook Street, Chester
- Units 1-3, 18/28 Victoria Lane, Huddersfield, West Yorks.
- 72/78 Murraygate, Dundee
- 7 & 9 Warren Street, Stockport
- Waterside Park, Longshot Lane, Bracknell, Berks.
- Abbey Business Park, Mill Road, Newtownabbey, Belfast
- Magnet Trade Centre, Winnersh, Reading
- Waterside House, Kirkstall Road, Leeds
- 6/12 Parliament Row, Hanley, Staffs.
- Marshall Building, 122-124 Donegall Street, Belfast

FIVE YEAR FINANCIAL SUMMARY

	2017	2016	2015	2014	2013
Income Statements					
Net property income	42.3	35.9	30.3	27.7	29.8
Management expenses	(3.6)	(2.9)	(2.6)	(2.1)	(1.7)
Other operating expenses	(1.4)	(1.5)	(1.2)	(1.1)	(1.4)
Exceptional costs	(0.2)	-	-	-	(0.2)
	37.1	31.5	26.5	24.5	26.5
Net finance costs	(10.8)	(11.4)	(10.9)	(10.9)	(11.5)
Income profit before tax	26.3	20.1	15.6	13.6	15.0
Tax	(0.5)	(0.2)	(0.3)	(0.4)	(0.3)
Income profit	25.8	19.9	15.3	13.2	14.7
Property gains and losses	17.0	44.9	53.6	24.1	(30.9)
Financing gains and losses	-	-	-	-	1.6
Profit/loss after tax	42.8	64.8	68.9	37.3	(14.6)
Dividends paid	18.0	17.8	13.1	10.7	12.1

	2017	2016	2015	2014	2013
Balance Sheets					
Investment properties	615.2	646.0	532.9	417.6	382.7
Borrowings	(204.6)	(249.5)	(232.8)	(234.0)	(233.4)
Other assets and liabilities	31.3	20.6	69.9	30.5	20.1
Net assets	441.9	417.1	370.0	214.1	169.4
Net asset value per share (pence)	82	77	69	56	49
EPRA net asset value per share (pence)	82	77	69	56	49
Earnings per share (pence)	7.9	12.0	15.4	10.4	(4.2)
Dividends per share (pence)	3.3	3.3	3.0	3.0	3.5
Dividend cover (%)	144	112	117	124	122
Share price (pence)	83.8	69.8	71.8	56.8	40.0

All figures are in £ million unless otherwise stated.

GLOSSARY

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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.
Group	Picton Property Income Limited and its subsidiaries.
IASB	International Accounting Standards Board.
IFRS	International Financial Reporting Standards.
Property Income return	The ungeared income return of the portfolio as calculated by MSCI IPD.
Initial yield	Annual cash rents receivable (net of head rents and the cost of vacancy), as a percentage of gross property value, as provided by the Group's external valuers. Rents receivable following the expiry of rent-free periods are not included.
Lease incentives	Incentives offered to occupiers to enter into a lease. Typically this will be an initial rent-free period, or a cash contribution to fit-out. Under accounting rules the value of the lease incentives is amortised through the Income Statement on a straight-line basis until the lease expiry.
MSCI IPD	MSCI Investment Property Databank. An organisation supplying independent market indices and portfolio benchmarks to the property industry.
NAV	Net Asset Value is the equity attributable to shareholders calculated under IFRS.
Ongoing Charges ratio	Total operating expenses, excluding one-off costs, as a percentage of the average net asset value over the period, as defined by the AIC.
Over-rented	Space where the passing rent is above the ERV.
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.
Total property return	Combined ungeared income and capital return from the property portfolio.
Total return	Measures the performance of the Group based on its published results.
Total shareholder return	Measures the change in share price over the year plus dividends paid.
Weighted average debt maturity	Each tranche of Group debt is multiplied by the remaining period to its maturity and the result is divided by total Group debt in issue at the period end.
Weighted average interest rate	The Group loan interest per annum at the period end, divided by total Group debt in issue at the period end.
Weighted average lease term	The average lease term remaining to first break, or expiry, across the portfolio weighted by contracted rental income.
ZDP	Zero dividend preference share.

SHAREHOLDER INFORMATION

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Roger Lewis
Michael Morris
Robert Sinclair

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FINANCIAL CALENDAR

Annual Results announced	7 June 2017
Annual Results posted to shareholders	25 July 2017
June 2017 NAV announcement	July 2017 (provisional)
Annual General Meeting	November 2017 (provisional)
2017 Half Year Results to be announced	November 2017 (provisional)
December 2017 NAV announcement	January 2018 (provisional)
Dividend Payment Dates	August/November/February/May

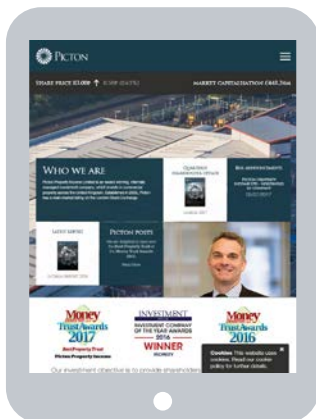
SHAREHOLDER ENQUIRIES

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.

 You can see more about us at www.picton.co.uk



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