

PRIVATE & CONFIDENTIAL

Picton Property Income Limited

ANNUAL REPORT

31 MARCH 2014

Picton Property Income Limited - Review of Business

WHO WE ARE

Picton Property Income Limited is an income focused, internally managed investment company, which invests in commercial property across the United Kingdom.

Established in 2005, Picton has over 850 investors and is listed on the London Stock Exchange. Its investment objective is to provide shareholders with an attractive level of income, together with the potential for capital growth, by investing in the principal commercial property sectors.

Picton has a portfolio of UK commercial property valued at £423.0 million, comprising 57 assets with around 380 occupiers. The portfolio is predominantly invested in the office and industrial sectors (72%) and is biased towards London and the South East (66%).

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.

As at 31 March 2014, based on capital values, the sector and geographical exposure was:

	Industrial (%)	Offices (%)	Retail (%)	Leisure (%)	Total (%)
Central & Greater London	4.3	18.8	7.1	0.0	30.2
South East	25.1	8.8	0.7	1.4	36.0
Rest of UK	9.4	5.4	17.1	1.9	33.8
Total	38.8	33.0	24.9	3.3	100.0

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FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Year ended 31 March 2014	Year ended 31 March 2013	1 January 2011 to 31 March 2012
Property assets*	£417.6m	£382.7m	£411.7m
Net assets	£214.1m	£169.4m	£196.1m
Profit/(loss) after tax	£37.3m	£(14.6)m	£6.5m
Net asset value per share	56p	49p	57p
Earnings per share	10.4p	(4.2)p	1.9p
Dividends paid per share	3.0p	3.5p	5.0p
Dividend cover	124%	122%	83%
Total return	21.6%	(7.6)%	2.4%
Total shareholder return	50.2%	6.2%	-11.1%

* net of lease incentives

EPRA Performance Measures

	Year ended 31 March 2014	Year ended 31 March 2013	1 January 2011 to 31 March 2012
EPRA earnings per share	3.7p	4.3p	4.1p
EPRA NAV per share	56p	49p	58p
EPRA NNNNAV per share	61p	51p	57p
EPRA cost ratio (including direct vacancy costs)	23.5%	22.5%	29.3%
EPRA cost ratio (excluding direct vacancy costs)	18.0%	17.2%	22.9%
EPRA net initial yield	6.5%	7.0%	6.5%
EPRA 'topped-up' net initial yield	6.7%	7.4%	7.1%
EPRA vacancy rate	8.7%	12.4%	8.9%

See Supplementary Disclosures on page 78 for a breakdown of EPRA performance measures and definitions.

Financial

- Total return of 21.6% for the year
- Increase in EPRA NAV to 56 pence per share, up 14.3%
- Profit for the year of £37.3 million, up from a loss of £14.6 million for March 2013
- Gains on investment properties of £24.1 million
- £18.2 million of new equity raised at an average premium to net asset value of 5.7%
- Dividend cover of 124%, reflecting dividends paid of 3 pence per share, or £10.7 million
- Reduction in loan to value ratio to 48%, down from 55%

Operational

- Improved portfolio occupancy from 88% to 91%
- Annual property return of 14.0%, outperforming the IPD Quarterly Benchmark return
- Re-shaped portfolio through the year by reducing the number of assets and increasing the average lot size
 - Invested £53.6 million in new property assets during the year
 - Completed asset disposals for proceeds of £44.9 million, on average 15.7% ahead of the March 2013 valuation
 - Diversified cash flow and income concentration through asset swap
- Over £2 million invested into refurbishment projects to improve income generation and retention
- 47 lettings completed during the year securing £2.4 million in additional income
- 16 lease renewals and re-gears retaining £1.5 million per annum

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CHAIRMAN'S STATEMENT

Introduction

In the 12 months to 31 March 2014 Picton made considerable progress against its strategic objectives and our occupier focused, opportunity led approach is achieving positive results for the Company and its shareholders.

The shareholder total return for the 12 months to 31 March 2014 was 50.2% and the total return, based on net asset value, was 21.6%. It is pleasing for the Company to have had such a strong year, but we are not complacent and intend to build on this positive momentum now that we are operating in more favourable property market conditions.

We have started to see property values stabilise in the UK commercial property market, which is a very different situation compared to this time last year. In particular, markets outside central London are starting to show signs of resilience after a prolonged period of re-pricing. The combination of improving investor sentiment, transaction volumes and market pricing has led to a rise in capital values over twelve consecutive months.

Within our own portfolio there has been valuation growth and we have improved occupancy throughout the year. Our capital structure and use of debt have enhanced performance, leading to an increase in the net asset value over the year.

With the Company's shares now trading at a modest premium to net asset value, we decided to issue more equity and make further investments in the market. This has helped us to re-shape the portfolio with a focus on larger lot sizes, through making both acquisitions and disposals. As we increase the size of the portfolio, Picton will also benefit from the economies of scale resulting from our internalised management structure.

Strategy

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

A clear example of where our 'hands on' approach supports our strategic thinking is our ability to understand and appreciate the issues faced by our occupiers. During the year we launched our 'Occupier Packs', set out our 'Picton Promise' service delivery standards, established London 'Touchdown Rooms' for our occupiers and implemented a referral scheme.

We have improved occupancy throughout the year, which the Board believes is testament to our occupier focus and, in particular, there is evidence that some of the transactions arose as a result of our relationship with occupiers.

Portfolio

We have made good progress at the portfolio level and more detail about activity is contained in the Investment Manager's report. This is most evident through the valuation gains and the growth in occupancy over four consecutive quarters, achieved through both leasing activity and a focus on occupier retention. Occupancy within the portfolio grew from 88% in March 2013 to 91% in March 2014.

Where we have extended income security, this has in turn contributed to the strong growth in net asset value and, as ever, there remains a continual balance between the income and capital position.

We have also re-shaped the portfolio with three acquisitions and seven disposals over the year. This has led to an increase in the average lot size within the portfolio of over 19%, which now stands at £7.4 million, with an average income profile of 6.7 years.

Disposals have been made at a significant premium to their March 2013 valuations, which we believe justifies our decision not to reduce gearing at the time of our refinancing in 2012, when valuations were being assessed against a backdrop of much weaker pricing.

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At a portfolio level we instigated further initiatives to control costs. During the year we re-negotiated a number of key supplier contracts or made changes to suppliers to ensure we continue to receive the best possible advice in the most cost effective manner.

Overview of performance

The strong performance this year, on many levels, demonstrates the success of our internally managed, closed ended investment company structure.

At the portfolio level, thus ignoring the impact of gearing and corporate level costs, the total property return, as measured by IPD, was 14%, ahead of the IPD Quarterly Benchmark, which returned 13.6%.

As stated earlier, the total return, driven principally by the movement in portfolio valuation and the impact of gearing, has also been strong at 21.6% for the year.

The shareholder total return was 50.2% for the year, impacted in part by a marked, and long overdue, re-rating of the Company's shares, which are currently trading at a modest premium to the most recently reported net asset value.

Financing

Following the equity issue on 20 May 2014, Picton has a market capitalisation of around £270 million, which has increased significantly since March 2013.

This increase is a result of the growth in the Company's net assets, the issuance of new equity and a marked re-rating of the Company's ordinary shares. This re-rating enabled the Group to raise £18.2 million in new equity during 2013 and invest further into the recovering UK property market.

One of the Group's key strategic priorities is the effective use of debt, which has, against stable and improving market conditions, positively contributed to a higher return on equity. In an environment where there is expectation that interest rates will rise, we are fortunate to have a fixed cost of debt with a long and staggered maturity profile, which is one of the most attractive in the sector.

The Group's level of gearing has reduced over the year as asset values rose and the new equity was invested. The loan to value ratio now stands at 48%, compared with 55% twelve months ago. Our aim is to have a medium term, mid cycle, gearing ratio of around 35%.

We have previously indicated a desire to grow the business, recognising that economies of scale will result from our internalised management structure. This is evidenced through the small share placings undertaken in September and November last year. Most recently, and following the year end, we announced and successfully completed a further £35 million equity fund raising. We believe the way we structured this fundraising as part of an overall placing programme, which provides the Company with the ability to raise £100 million, will minimise cash drag for shareholders while providing us with the flexibility to take advantage of opportunities arising in the market.

Dividends and income

During the year the Group paid dividends of £10.7 million and maintained one of the strongest levels of dividend cover within the peer group, at 124%. This cover reflects the re-based dividend level which was set in late 2012 and has allowed us to operate with a less obsessive focus on income, and has arguably led to stronger overall total returns.

We believe that the income return this year, combined with the re-rating of the ordinary shares, provides evidence to support the decision taken in 2012 to take a more prudent approach to distribution and that investors accept this was the right choice to deliver better returns in the longer term.

The flexibility afforded by our covered dividend policy has enabled us to focus in particular on the portfolio occupancy position and accept that, in order to achieve longer term capital and income growth, in the short term there may be a lower income return. The income surplus has been retained and where appropriate re-invested back into specific asset management initiatives.

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We are seeing some impact from the over-renting in the portfolio as new rents, albeit on longer leases, are re-set at levels lower than historically, recognising the change in the economic environment post 2007. There will always be a balance between short term income against longer term capital and income growth.

The Board regularly reviews the level of dividend distribution and has concluded that the current policy remains appropriate. Whilst there is undoubtedly improvement in the markets, rental growth is unlikely to directly translate into income growth in the short term. We believe that as the Company continues to deploy funds and achieves efficiencies from growth, this situation will reverse and will provide greater scope to review the policy in the future.

Controls, Governance and Regulation

As set out in the Corporate Governance report, the Group's activities fall within the scope of the Alternative Investment Fund Managers Directive. We have determined that the Company will act as the Manager under these regulations and, as a result of our internalised structure, will not be subject to further corporate level costs.

Specifically, the Board has established a Risk Committee to ensure that the Group's risk management policies are addressed in the context of the responsibilities taken on by the Board under this Directive.

We have continued to keep control of costs and the internalised structure is working well. All members of staff are remunerated in a way that aligns their interests with shareholders, which we think is hugely important for the Company. This alignment and focus on operational efficiency was demonstrated this year when, with the increase in equity, there was no resultant increase in management costs.

Outlook

In terms of the investment markets, the positive change in sentiment is extremely beneficial for the Company. The Board and the wider Picton team are working hard to ensure that the Company continues to prosper and are focused in particular on deploying the new equity into property acquisitions in a disciplined manner.

Whilst improving, occupier markets are generally still subdued, but we are seeing increasingly positive signs and rental growth is starting to emerge, more specifically in pockets outside central London.

The Board remains confident that, with our current capital structure, internalised management, covered dividend and portfolio composition, along with the increased firepower to make accretive acquisitions, Picton is in a strong position to capitalise on opportunities and deliver value for shareholders.

Nicholas Thompson
Chairman
13 June 2014

Picton Property Income Limited – Strategic Report

BUSINESS MODEL AND STRATEGY

Picton invests in commercial property, and owns a portfolio consisting of 57 assets located throughout the United Kingdom. The portfolio covers the main commercial property sectors of office, industrial, retail, retail warehouse and leisure, and has around 380 occupiers providing a diversified income stream from a wide range of businesses. The majority of this income is paid out to investors in the form of quarterly dividends, after deducting operating and financing costs.

The Group is managed and controlled by its Board, which is based in Guernsey.

The Company's Investment Restrictions are set out on the Company's website at www.pictonproperty.co.uk

Strategy

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

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

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

The key strategic priorities are:

- Growth of net income
- Working with our occupiers to understand and meet their requirements
- Portfolio and asset management
- Operational efficiency
- Effective use of debt

Growth of net income

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

Working with our occupiers

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

Portfolio and asset management

Active asset management is core to our approach and will continue to be implemented to achieve further value enhancement of our assets.

In addition, we will seek to acquire new assets for the portfolio that offer the potential of income and value enhancement, whilst disposing of assets that have been identified as contributing less in terms of performance, structure and risk.

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Operational efficiency

Picton is an internally managed investment company. Its Investment Manager, Picton Capital Limited, is a wholly owned subsidiary company and has 11 permanent staff, as at 31 March 2014. We believe this efficient operating model will allow Picton to benefit from economies of scale as it grows. We constantly review property operating costs and employ strategies to reduce costs where possible.

Effective use of debt

Over the long term we believe that 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 the Group's borrowings. At this stage of the property cycle, gearing is proving accretive to returns from the property portfolio. The Board reviews the level of gearing in place on a regular basis so that the Group can adapt to changing market conditions as necessary.

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Key Performance Indicators

The following key performance indicators are considered to be the most appropriate for measuring how successful the business has been in meeting its strategic objectives. They also play a key role in determining remuneration strategy for the Picton Capital team, as set out in the Remuneration Report.

Total Shareholder Return

Year ended 31 March 2014	50.2%
Year ended 31 March 2013	6.2%
15 months ended 31 March 2012	-11.1%

The Total Shareholder Return measures the change in the Company's share price over the year plus dividends paid.

Total Return

Year ended 31 March 2014	21.6%
Year ended 31 March 2013	-7.6%
15 months ended 31 March 2012	2.4%

The Total Return measures the change in the Group's net asset value, calculated in accordance with IFRS, over the year, plus dividends paid.

Total Property Return

Year ended 31 March 2014	14.0%
Year ended 31 March 2013	-0.7%
15 months ended 31 March 2012	5.0%
3 years to 31 March 2014	5.3%
5 years to 31 March 2014	7.7%

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

Property Income Return

Year ended 31 March 2014	7.1%
Year ended 31 March 2013	7.0%
15 months ended 31 March 2012	8.1%
3 years to 31 March 2014	6.8%
5 years to 31 March 2014	7.2%

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

EPRA net asset value per share

31 March 2014	56 pence
31 March 2013	49 pence
31 March 2012	58 pence

The net asset value per share, calculated in accordance with EPRA, measures the value of shareholders' equity in the business. A reconciliation to the reported net asset value under IFRS is provided in the Financial Review.

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EPRA earnings per share

Year ended 31 March 2014	3.7 pence
Year ended 31 March 2013	4.3 pence
15 months ended 31 March 2012	4.1 pence

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

EPRA vacancy rate

31 March 2014	8.7%
31 March 2013	12.4%
31 March 2012	8.9%

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

Loan to Value ratio

31 March 2014	47.7%
31 March 2013	54.5%
31 March 2012	48.3%

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.

Ongoing Charges

Year ended 31 March 2014	1.7%
Year ended 31 March 2013	1.7%
15 months ended 31 March 2012	2.0%

Ongoing Charges 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 Ongoing Charges.

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INVESTMENT MANAGER'S REPORT

PROPERTY MARKET OVERVIEW

Economic backdrop

Wider market conditions have improved substantially over the last twelve months with GDP in March standing at 3.1%, its highest level since 2008. According to the Office for National Statistics, growth has been at its fastest pace since the onset of the downturn.

While economic growth has improved, the Consumer Price Index (CPI) has fallen over the course of the year. In March 2014, CPI was 1.6%, down from 2.8% a year earlier and at its lowest rate since October 2009. CPI inflation declined, reflecting in part falling household energy costs. The Retail Price Index in March was 2.5%, down from 3.3% in March 2013 and at its lowest rate since 2009.

The Markit/CIPS readings for Services and Manufacturing strengthened as the economy improved. The latest Markit/CIPS Report on Services showed that headline activity continued to rise, recording 58.7 in April 2014, compared to 52.9 in April 2013. Similarly, the Markit/CIPS Manufacturing PMI in April 2014 was 57.3, up from 49.8 in April 2013.

According to the Office for National Statistics, the number of people unemployed between January and March 2014 was 2.2 million, 309,000 lower than a year earlier. The unemployment rate, measured as those seeking and available for work, was 6.8% for January to March 2014, down from 7.8% for the same period in 2013. Pay excluding bonuses for employees between December 2013 and February 2014 was 1.3% higher than a year earlier.

Net new lending to commercial property remains negative and has now fallen for eleven consecutive quarters. In the first quarter of 2014 net new lending to commercial property was -£3.0 billion. Commercial property now accounts for 9% of all outstanding lending, well below its peak of around 12%, and broadly in line with the long run average of 8%.

As at 30 May 2014, ten year gilt yields were 2.6%, compared to 1.8% at the end of March 2013. The Bank of England base rate remains unchanged at 0.5%.

UK property market

According to the Investment Management Association, for the year to 31 March 2014, investment into UK property funds totalled £2.4 billion, a considerable improvement from £258 million in the previous year. Net sales of property funds totalled £798 million in the first quarter of 2014, significantly more than the £97 million recorded in the first quarter of 2013.

As measured by the IPD Quarterly Digest, All Property total returns for the year to March 2014 were 13.3%. Capital movements contributed 7.0% and the income return was 5.9%. In terms of capital growth, offices were the best performing sector in the year returning 11.6%, followed by industrial at 9.6% and retail at 4.0%.

After some years of falling values, the UK is now experiencing increasing investment market activity outside London where values have stabilised and, in some sectors, started to increase rapidly, with the IPD Monthly Index showing the fastest rise in capital growth since May 2010. The improving markets have led to transactions being completed by vendors who had previously been unwilling to sell assets at a loss. This has had the benefit of transaction volumes increasing significantly and additional liquidity returning to the market.

According to the IPD Monthly Digest, values are still considerably below their June 2007 peak. At the All Property level, values at the end of March 2014 were 33% below their peak. There is also a wide divergence between London and the regions, for example values in Central London Retail at the end of March were 19.3% above their previous June 2007 peak, compared to Rest of UK Shopping Centres which were 60.9% below. Similarly, West End Offices are 0.7% below their peak compared to South West Offices which have declined by 56.5% over the same period.

The latest IPD Monthly data for April shows that the rate of capital movement over a one month period was 0.8% at the All Property level, a slight slowdown from 1.0% in March but still up from -0.04% in April 2013. While London still outperforms, performance in the regions has picked up

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markedly over the last year, with the majority of regional segments now recording positive growth in the year to March 2014. For the quarter to March 2014, 35 of the 37 IPD segments recorded positive capital growth movements, compared to only four in March 2013.

The IPD Quarterly Digest recorded a 1.5% rise in rents for All Property in the year to March 2014. Rents in the office sector grew by 4.4%, industrial by 1.3% and retail rents fell by -0.2%. The strongest rise in rents was seen in Mid-town Offices at 8.9%, which compares to -1.6% for East Midlands Offices. In terms of rental growth, 19 segments recorded positive rental growth in March 2014, compared to ten in March 2013.

The IPD Quarterly Digest in March 2014 recorded an improved occupancy rate of 90.9% for All Property, higher than the 89.6% recorded in March 2013.

Office market

The office sector outperformed both retail and industrial in the year. Total returns for the sector for the 12 months to March 2014 were 17.5% of which income contributed 5.3%, while capital values grew by 11.6%. Total returns were best in West End and Mid-town Offices at 20%, Rest of South East Offices at 19.4% and weakest for Rest of UK at 9.9%.

Capital movements by geographic region ranged from 16.1% for Inner London Offices to -2.1% for North West Offices.

Overall, office rents rose by 1.5% over the year. Rental rises were best for Mid-town Offices at 8.9% and worst for East Midlands Offices at -1.6%.

Occupancy rates for offices at the end of March 2014 were 85.9%, higher than the 82.6% recorded in March 2013.

Industrial market

Total returns for the sector for the 12 months to March 2014 were 17.0%, of which income contributed 6.9%, while capital values grew by 9.6%. Returns were strongest in East Midlands at 19.6% and weakest in Wales at 11.8%.

Central London assets continued to perform well, delivering 10.6% capital growth, while capital value movements ranged from 10.8% for West Midlands to 3.4% for Northern Ireland.

Overall, industrial rents for the year grew by 1.3%. Rental growth was strongest for London, which rose by 2.2%, and weakest for Wales, which fell by -1.7%.

Occupancy rates for industrial at the end of March 2014 were 88.8%, higher than the 87.8% recorded 12 months ago.

Retail market

The retail sector was the worst performing sector in the year, delivering 10.0% total return. Total return comprised 5.8% income return and 4.0% capital growth. The strongest returns were recorded in West End retail and the weakest was Northern Ireland, the range of capital value movements being 17.4% to -1.8% respectively.

Overall retail rents fell by -0.2% in the year, while rental growth ranged from -1.9% for Northern Ireland to 6.0% for City and Mid-town.

Occupancy rates for retail at the end of March 2014 were 94.4%, higher than the 93.9% recorded 12 months ago.

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PORTFOLIO REVIEW

The Group's property portfolio comprised 57 assets at 31 March 2014, with over 380 occupiers. It was valued by CBRE Limited at £423.0 million. Based on capital values, the sector and geographical exposure was:

	Industrial (%)	Offices (%)	Retail (%)	Leisure (%)	Total (%)
Central & Greater London	4.3	18.8	7.1	0.0	30.2
South East	25.1	8.8	0.7	1.4	36.0
Rest of UK	9.4	5.4	17.1	1.9	33.8
Total	38.8	33.0	24.9	3.3	100.0

As at 31 March 2014, the portfolio generated a net initial yield of 6.9% before void costs, with an occupancy rate of 91%. In rental terms this reflects a current passing rent, net of ground rent, of £30.9 million per annum. Within the portfolio there are broadly equal components where rent is likely to rise at the next lease event (for example in London where historic rental levels are lower than current market levels), and vice versa in the regional markets, where historic rental levels are higher than the current market would support.

Further income can be generated and value created through the leasing of vacant space and, based on the rental value of the portfolio as at March, the reversionary yield would be 7.6%, representing an additional £2.6 million per annum.

We have made good progress over the last twelve months improving the occupancy rate from 88% to 91% and our primary focus remains on maintaining and increasing the current income profile and leasing vacant space. Occupancy is strongest in our industrial and retail portfolios, whilst the office sector, in particular outside central London, is where our efforts are concentrated.

The portfolio's total return for the year to 31 March 2014 was 14.0%, a 0.4% outperformance relative to the IPD Quarterly Benchmark. This outperformance was driven by our higher exposure to the office and industrial sectors, whilst at the same time benefiting from an overweight exposure to London in the retail sector.

The capital value movements for the same period grew by 6.4% across the portfolio. Office values rose by 8.5%, with London assets growing by 19.5% compared to the Rest of UK where they fell by 1.3%. Industrial values grew by 9.1% and retail and leisure by 1.7%

Sector	Rental Growth	Capital Value Growth
Industrial	2.2%	9.1%
Offices	2.4%	8.5%
Retail & Leisure	(3.5)%	1.7%
Whole Portfolio	0.7%	6.4%

Overall, like-for-like growth in the portfolio's estimated rental values was 0.7% during the year to March 2014. Rents in the office sector grew by 2.4%, driven by growth in London of 11.4%. Rents outside of London fell, with the Rest of the UK recording a fall of -1.9%. Similarly, the retail and leisure sectors fell by -3.5%. In more recent months we have started to see improving and encouraging signs in the regions and, whilst this has not yet translated into rental growth, it may not be so far away, especially in markets where supply remains constrained.

We have continued our strategy of re-shaping the portfolio. As a result of disposals there has been a reduction in the number of assets in the portfolio from 62 to 57, whilst there has been three acquisitions during the year.

Highlights of portfolio activity during the last twelve months are detailed by sector later within this report.

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Top Ten Assets

The largest assets in the portfolio as at 31 March 2014, ranked by capital value, represent just over 50% of the total portfolio valuation and are detailed below.

Asset	Acquisition Date	Property Type	Tenure	Approximate Area (sq ft)	Occupancy Rate
Parkbury Industrial Estate, Radlett	March 2014	Industrial	Freehold	336,700	93%*
Units A-G2, River Way Industrial Estate, Harlow	December 2006	Industrial	Freehold	449,500	100%
Stanford House, 12/14 Long Acre, London WC2	May 2010	Retail	Freehold	19,300	100%
Angel Gate Office Village, City Road, London EC1	October 2005	Offices	Freehold	60,800	79%**
50 Farringdon Road, London EC1	October 2005	Office	Leasehold	32,000	100%
Boundary House, Jewry Street, London EC3	May 2006	Office	Freehold	45,000	80%**
Parc Tawe, Phase II, Link Road, Swansea	October 2005	Retail Warehouse	Leasehold	116,700	100%
1-3 Chancery Lane, London WC2	October 2005	Office	Freehold	15,100	100%
Colchester Business Park, The Crescent, Colchester	October 2005	Office	Leasehold	150,700	94%
Unit 3220, Magna Park, Lutterworth	December 2006	Industrial	Leasehold	160,900	100%

* Excludes rental guarantees on units 2 and 3

** Vacant space undergoing refurbishment

Retention Rates

For the year ended 31 March 2014, based on rental value, the percentage of income that was retained on lease expiry or break options was 47%. This comprises 67% retained on lease expiry and 33% after break options and in part reflects that markets have undergone significant structural change and rental re-pricing over recent years, where passing rents are higher than market rents. Therefore, occupiers have a greater propensity to action break clauses or vacate on lease expiry.

Income Concentration

There is a wide diversity of occupiers within the portfolio, as set out below, and compared to the IPD Benchmark, by contracted rent, as at 31 March 2014.

Industry Sector	Picton (%)	Benchmark (%)
Retail Trade	21.1	35.9
Services	29.9	21.6
Manufacturing	13.9	7.3
Financial Services	9.4	16.2
Transportation, Communications	12.3	5.6
Public Administration	4.6	3.5
Undetermined	1.2	1.2
Wholesale Trade	5.8	4.9
Other	1.8	3.8
	100	100

Source: IPD IRIS Report March 2014

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Longevity of Income

As at 31 March 2014, based as a percentage of current annual rent, the average length of the leases to the first termination was 6.7 years. This is summarised as follows:

Years	%
Up to 5	61.0
5 to 10	25.3
10 to 15	4.6
15 to 25	6.4
25 and over	2.7
Total	100

Whilst the above lease expiry profile shows that most expiries are up to five years, this is not unexpected, as in our experience most occupiers still require flexibility and usually commit to either a lease of five years or, if longer, to a break after five years.

Over the first five years of the term the maximum income at risk in any one year reflects less than 17% of the expiry profile and we would expect the majority of this income to be retained through either renewals or break clauses not being actioned.

As a result of lease restructuring undertaken this year and the change in portfolio composition, we have significantly reduced the reliance on any single occupier and have smoothed the lease expiry profile over the next five years, with the maximum single income risk in the next year accounting for 1.6% of the current annual rent.

Top Ten Occupiers

The top ten occupiers, based as a percentage of annual rental income, as at 31 March 2014, is summarised as follows:

Occupier	%
DHL Supply Chain Limited ¹	4.2
Snorkel Europe Limited	3.1
Cadence Design Systems Limited	3.0
Trainline.com Limited	2.6
Edward Stanford Limited ³	2.6
Ricoh UK Limited	2.0
Viglen Limited ²	1.9
ASDA Stores Limited	1.9
Amcor Packaging UK Limited	1.7
Premier Food Group Limited	1.5
Total	24.5

¹ Two separate occupational leases

² Includes 2015 fixed rental uplift

³ 2013 rent review outstanding

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Industrial portfolio

Value	£164.4 million
Internal Area	2,116,000 sq ft
Annual Rental Income	£12.3 million
Estimated Rental Value	£12.8 million
Occupancy	96.9%
Number of Assets	17

Properties valued in excess of £30 million
Parkbury Industrial Estate, Radlett, Herts.
Units A-G2, River Way Industrial Estate, Harlow, Essex
Properties valued between £10 million and £15 million
Unit 3220, Magna Park, Lutterworth, Leics.
Properties valued between £5 million and £10 million
Lyon Business Park, Barking, Essex
Datapoint Business Centre, Cody Road, London E16
Vigo 250, Birtley Road, Washington, Tyne and Wear
Nonsuch Industrial Estate, 1-25 Kiln Lane, Epsom, Surrey
Units 1-13 Dencora Way, Sundon Park, Luton, Beds.
The Business Centre, Molly Millars Lane, Wokingham, Berks.
Lawson Mardon Buildings, Kettlestring Lane, York
Haynes Way, Swift Valley Industrial Estate, Rugby, Warwickshire
Western Industrial Estate, Downmill Road, Bracknell
Properties valued under £5 million
Easter Court, Gemini Park, Warrington
Middleton Trade Park, Oldham Road, Manchester
Abbey Business Park, Mill Road, Newtownabbey, Belfast
Magnet Trade Centre, Winnersh, Reading
Manchester Road/Drury Lane, Oldham, Lancs

	Largest occupiers	% of total portfolio
1	DHL Supply Chain Limited	4.2
2	Snorkel Europe Limited	3.1
3	Viglen Limited*	1.9
4	Amcor Packaging UK Limited	1.7
5	Premier Food Group Limited	1.5

*Including fixed rental uplift

Overall, within the industrial portfolio we let 20 units at a combined rent of £925,000 per annum, including the largest industrial void, renewed six leases with a combined rent of £1.0 million per annum and surrendered three leases to facilitate active management transactions.

Distribution assets

In a key transaction, through a property swap, we sold a distribution unit at 5320 Magna Park, Lutterworth, in exchange for the acquisition of Parkbury Industrial Estate in Radlett. The Lutterworth unit was over-rented by some 25% and let to Primark with a break option in 2016.

This transaction was undertaken specifically to de-risk the income profile of the portfolio. In addition to achieving what we believe is a strong price for our existing asset, we were also able to eliminate the cash drag effect of the reinvestment process while maintaining the high quality and nature of the

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holding. We have already identified occupiers for the vacant units and commenced a number of active management initiatives.

The Group has retained its holding at 3220 Magna Park, Lutterworth and DHL's lease was renewed for a further ten years from December 2014, subject to a break, securing a 5% uplift on the rent to £885,000 per annum. This transaction added over £2 million to the value of the asset and secured the position in respect of the largest income risk through lease expiry in 2014.

The distribution portfolio remained fully let during the year, with Tanfield Plc assigning the lease of Vigo 250 in Washington to Snorkel Europe Limited.

Multi-let assets

We have continued to see good occupational demand for our estates, with rental growth coming through in the South East. We currently have 14 units available to let, out of a total of 147.

As highlighted above, the most significant activity was the acquisition of Parkbury for £40.5 million which is a high quality modern industrial estate constructed in two phases between 2003 and 2009. The property comprises a 336,700 sq ft multi-let industrial estate of 24 units on an 18.2 acre site, with a site cover of approximately 32%. The estate was acquired with two vacant units, thereby offering the potential to grow income in the short term. At the time of purchase, the weighted average unexpired lease term was 6.9 years to lease end dates and 5.3 years to break options.

During the year we also acquired Lyon Business Park in Barking for £9.6 million. This estate is well located, directly on the A13 and close to the junction with the A406. We are currently refurbishing the three vacant units and expect to let them quickly, based on our experience at nearby Datapoint Industrial Estate, where rents are over 40% higher, as highlighted below.

Three smaller estates were sold in the year at Lancing, Portsmouth and Reading where we had completed the business plans, for a combined sale price of £5.0 million.

Highgrove Industrial Estate, Portsmouth - A ten unit multi-let estate totalling 16,000 sq ft in an established industrial area of Portsmouth. The estate at the time of sale had one vacant unit. The disposal price of £1.3 million reflected a 20% gain relative to the preceding valuation.

Heron Industrial Estate, Reading - This multi-let industrial estate comprised seven units totalling 49,300 sq ft located in Spencer's Wood, approximately one mile south of junction 11 of the M4. At the time of disposal the estate was fully let following the completion of recent lettings. The disposal price of £3.6 million was 14% ahead of the preceding valuation and reflected a net initial yield of 5%.

Examples of asset management initiatives that have taken place over the year are set out below:

Successful letting campaign and rental growth - Datapoint, Cody Road, London E16

This estate was acquired in 2010 and comprises seven industrial units built around 1990.

Three units become vacant at the same time due to the insolvency of two occupiers in 2012. Subsequently we fully refurbished one unit and carried out a 'light touch' refurbishment of the other two, which culminated in the letting of all three units and securing two national covenants, Arriva Transport Solutions and MGN Limited.

The final letting was for a term of five years at a new headline rent for the estate setting good evidence for forthcoming negotiations and showing strong occupational demand.

Relocating occupiers to accommodate anchor tenant requirement – Middleton Trade Park

The estate was acquired in 2010, and comprises 13 light industrial units built in the 1980s. Due to the small size of the units the estate has typically attracted local occupiers. The strategy was to attract an anchor trade counter occupier to improve the appeal of the estate and in due course drive rental growth.

Two occupiers were relocated elsewhere on the estate to create a single large unit of 5,800 sq ft and this facilitated a letting to Screwfix, starting our strategy of repositioning this asset.

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Letting of the largest industrial void – Unit F1, River Way Industrial Estate, Harlow

As reported on a year ago, the 50,000 sq ft Unit F1 at River Way in Harlow became vacant following a lease expiry. The dilapidations from the outgoing occupier covered over 80% of the refurbishment cost and the refurbishment project created a well presented property with an improved EPC rating.

Within two months of completing the works we let the unit to Hoddesdon Distribution on a ten year lease, subject to a break option, at a rent of £340,000 per annum, 8% ahead of the estimated rental value.

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Office portfolio

Value	£139.4 million
Internal Area	877,000 sq ft
Annual Rental Income	£10.3 million
Estimated Rental Value	£13.0 million
Occupancy	83.0%
Number of Assets	21

Properties valued between £20 million and £25 million
Angel Gate Office Village, City Road, London EC1
Properties valued between £15 million and £20 million
50 Farringdon Road, London EC1
Boundary House, Jewry Street, London EC3
Properties valued between £10 million and £15 million
Colchester Business Park, The Crescent, Colchester, Essex
1-3 Chancery Lane, London WC2
Properties valued between £5 million and £10 million
401 Grafton Gate East, Milton Keynes, Bucks.
Citylink, Addiscombe Road, Croydon
800 Pavilion Drive, Northampton Business Park, Northampton
Properties valued under £5 million
L'Avenir, Opladen Way, Westwick, Bracknell, Berks.
Queens House, 19/29 St Vincent Place, Glasgow
Longcross Court, Newport Road, Cardiff
Trident House, 42/48 Victoria Street, St Albans, Herts.
Waterside Park, Longshot Lane, Bracknell, Berks.
Westlea Campus, Chelmsford Road, Swindon, Wilts.
Atlas House, Third Avenue, Globe Park, Marlow, Bucks.
Sentinel House, Ancells Business Park, Fleet, Hants.
Waterside House, Kirkstall Road, Leeds
Merchants House, Crook Street, Chester
8-9 College Place, Southampton
Marshall Building, 122-124 Donegall Street, Belfast
The Cloisters, Orchard Street, Dartford

	Largest occupiers	% of total portfolio
1	Cadence Design Systems Limited	3.0
2	Trainline.com Limited	2.6
3	Ricoh UK Limited	2.0
4	Essex County Council	1.3
5	Tech Mahindra Limited	1.2

In the office sector, the central London market remains buoyant. During the year we started to see occupational demand increasing in the regions, culminating in 22 lettings during the year, adding £1.2 million per annum after incentives.

The long leasehold of 28 Austin Friars was sold for £4.2 million, following completion of the business plan, and Picton Capital have retained space at the property for their own occupation. The sale price was 18% ahead of the March 2013 valuation and 95% ahead of the purchase price in 2010.

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We completed lettings in London at 1 Chancery Lane, Stanford House, Angel Gate Office Village and Boundary House, ahead of estimated rental value.

The first phase of the refurbishment of Citylink, Croydon has completed. The property provides some of the best office space in this market opposite East Croydon station and in an architect-led scheme we have reconfigured the entrance, created a show suite and installed new air-conditioning. We plan to commence the second phase of the scheme in the summer to complete the building and secure a rental in excess of £600,000 per annum.

In the regions, we completed a notable letting of 900, The Crescent on Colchester Business Park to Central Essex Community Services, who have taken a ten year lease, subject to a break, at a rent of £200,000 per annum. This was the biggest letting in the Colchester market for a number of years. Although slightly below estimated rental value, minimal capital expenditure was required on the property and overall this resulted in a valuation uplift.

At Atlas House in Marlow, the last available suite was let on a ten year lease, subject to a break, at £78,000 per annum, in line with estimated rental value. The property is now fully let.

We also completed lettings in Cardiff, Chester, Glasgow and St Albans securing over £110,000 per annum.

Examples of significant initiatives that have taken place over the year are detailed below:

Refurbishment, letting and change of use – Stanford House, London WC2

Stanford House is an attractive Grade II listed building located on Long Acre in Covent Garden. We had two vacant office floors at this property a year ago and our goal was to get the property fully let and submit a planning application for a change of use.

In summary we:

- Let the two floors on leases outside the 1954 Act (giving flexibility on lease expiry) and paying a combined rent of £343,500 per annum.
- Extended the residential tenancy on the fifth floor flat and at the same time increased the rent to £40,250 per annum to coincide with the expiry of the fourth floor office lease.
- Received full planning consent for change of use from offices to residential, creating ten flats. The valuation uplift on securing consent was £2.0 million and we are also looking at submitting a second application to increase the residential floor space.
- Are currently negotiating the outstanding rent review on the retail element and expect to secure a substantial increase in rent this year.

Maintaining income and increasing the rental profile – Boundary House, London EC3

We have continued momentum at this older City office building, providing high quality useable space in the insurance district.

During the year:

- We have refurbished the common areas to create modern attractive space.
- We have let a refurbished suite, removed break options in two leases, renewed three leases, agreed to relocate an occupier from 2,700 sq ft to 6,200 sq ft and surrendered a lease where the occupier was paying £23.00 per sq ft.
- Overall the rent roll in respect of the above transactions was in excess of £500,000 per annum.
- The estimated rental value has increased by 18% during the period and current lettings are now in excess of this.
- Demand remains strong for the product we have created.

Surrendering space to allow for development – Westlea Campus, Swindon

This property comprises three detached 1980s office buildings totalling 76,000 sq ft on a 6.1 acre site. The buildings are in need of refurbishment and there is no occupier demand in this market. Our strategy for this property was very much focused on alternative use and the upside potential from residential and retail use.

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In summary we:

- Surrendered the two remaining leases at the property for a premium payment to Picton of £0.1 million. The surrender completed in December 2013.
- Agreed to sell part of the site to Aldi for £1.65 million, ahead of valuation, subject to planning.
- Worked up a joint planning application with Aldi to secure full planning permission for the store and outline permission for residential on the remainder of the site which is expected to be received in the summer.
- Commenced the demolition of the buildings to facilitate a disposal in 2014.

Consolidating ownership – Unit 5, Angel Gate, London EC1

This property was acquired during the year for £975,000 subject to the vendor taking a lease over two floors of the property at an annual rent of £45,000 (£24.00 per sq ft).

The price reflected a net initial yield of 4.41% and a reversionary yield of over 9%. On a capital value basis, it equates to £254 per sq ft and the transaction was in line with our strategy of buying in the long leasehold units at prices below valuation in order to consolidate our control over the estate and any redevelopment of the site in the longer term. There is strong interest in the vacant floors and we expect to let them quickly.

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Retail, retail warehouse and leisure portfolio

Value	£119.2 million
Internal Area	516,000 sq ft
Annual Rental Income	£8.6 million
Estimated Rental Value	£8.0 million
Occupancy	95.7%
Number of Assets	19

Properties valued between £25 million and £30 million
Stanford House, 12-14 Long Acre, London WC2
Properties valued between £15 million and £20 million
Parc Tawe, Phase II, Link Road, Swansea
Properties valued between £5 million and £10 million
Angouleme Way Retail Park, Bury, Greater Manchester
56 Castle Street, 2/12 English Street and 12-21 St Cuthberts Lane, Carlisle, Cumbria
53/55/57 Broadmead, Bristol
Strathmore Hotel, Arndale Centre, Luton, Beds.
Regency Wharf, Broad Street, Birmingham
17/19 Fishergate, Preston
Scots Corner, High Street/Institute Road, Birmingham
78-80 Briggate, Leeds
Properties valued under £5 million
72/78 Murraygate, Dundee
123 High Street, Guildford, Surrey
Units 1-3, 18/28 Victoria Lane, Huddersfield, West Yorks.
Thistle Hotel, Unit 1 & Le Pavilion, Brighton
6/12 Parliament Row, Hanley, Staffs.
2 Bath Street, Bath
7 & 9 Warren Street, Stockport
113 High Street, Sutton
6 Argyle Street, Bath

	Largest occupiers	% of total portfolio
1	Edward Stanford Limited	2.6
2	Asda Stores Limited	1.9
3	Homebase Limited	1.4
4	Barclays Bank Plc	1.3
5	Countywide Developments Limited	1.0

During the year, we sold two retail properties at 2 George Street, Richmond and 3 Lower Borough Walls in Bath. The combined sale price was £2.2 million, 8% ahead of the March 2013 valuation. The disposals were in line with our strategy to sell smaller assets in the portfolio, where business plans have been completed and we can sell at an attractive price.

We have let six units at a combined rent of £300,000 per annum including our largest retail void. We currently have nine vacant units in Birmingham, Carlisle, Hanley, Stockport and Southampton and encouragingly, at the time of reporting, have had strong interest in over 50% of the units.

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Examples of activity during the year are set out below:

Securing occupier for largest void - Parc Tawe, Swansea

Unit 3 Parc Tawe, Swansea, was our largest retail void a year ago. During the year we secured planning permission for a change of use, and the unit was let to Xercise4less, at a rent of £155,000 per annum for a term of 15 years without a break option. The park is now fully let.

Extending income – Kings Heath, Birmingham

At our property in Kings Heath, Birmingham, we extended Iceland's lease by ten years to 2028, securing £75,000 per annum subject to a review in 2018. This contributed to the positive valuation performance of the asset over the year.

Creating smaller units to attract occupiers – Longcross Court, Cardiff

In Cardiff, we sub-divided the former bank unit at Longcross Court and let it to two occupiers for £43,900 per annum, 20% ahead of estimated rental value. Following the letting, all of the retail units at this property are now fully occupied.

At this property we also settled two rent reviews for a combined annual rent of £22,000 per annum, achieving a 4% uplift on the previous passing rent.

Combining units to create the right space for the market – Crown and Mitre, Carlisle

At the Crown and Mitre complex, Carlisle, we are in the process of combining four vacant units, which have attracted interest from a national retailer with whom we have agreed terms. We expect to complete the works and letting in the summer, allowing the retailer to open before Christmas. Following this letting the property will be fully let.

Leisure

The tenant of the Strathmore Hotel in Luton, Menzies, went into liquidation during the period and the hotel is currently unoccupied. We are taking legal action against the guarantor of the occupational lease to mitigate our position and we expect this to be resolved in the coming year. There has been an adverse effect on the valuation of this property and its income, and we would expect this to unwind once the situation is resolved.

In Brighton, where we own a number of long leasehold interests, we agreed a premium of £37,500 to widen the user clause in one of the long leasehold interests. We are in discussions with the freeholder of the property to restructure our holding to facilitate an exit in due course.

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OUTLOOK

It is self evident on a number of levels that we are operating in improving market conditions. Firstly there are increasing signs of renewed investor interest following the marked re-pricing since 2007, in particular in markets outside of London that until recently have not shown signs of recovery.

Secondly, occupier markets, albeit at a slower rate, are starting to show positive signs of recovery against a backdrop of the very limited creation of new space since the onset of the financial crisis.

We are already witnessing a period of upward price movements as some of the very pessimistic assessments of occupier markets are now proving to be more positive than first thought. This is leading to further upward valuation movements but not necessarily leading to income growth at this stage.

Looking a little further ahead, we expect rental growth to become more widespread, particularly in sub-sectors where supply is constrained through a lack of development in recent years.

Finally we are seeing the easing of credit conditions and there would appear to be a much more competitive lending market for the real estate sector than has been the case for many years, which is extremely helpful for creating more normalised conditions.

Consensus forecasts for total returns are positive over the next two to three years, driven by an improvement in GDP forecasts, an improved rental market outlook and an expectation that there will be yield compression for secondary commercial property.

We firmly believe our occupier focused, opportunity led approach will continue to deliver results. Our objectives for this year include further increasing the portfolio's occupancy, improving the income profile and creating value through identified asset management initiatives. We see selective trading activity further enhancing performance, set against a backdrop of improving market conditions, in particular outside of the core London markets.

Picton Capital Limited

13 June 2014

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FINANCIAL REVIEW

The reported results for the year ended 31 March 2014 show a strong overall performance, with good investment returns and an improved covered dividend position. Net assets have increased, following the positive performance for the year, with new equity being raised and invested into the portfolio. Increases in the share price gave a shareholder return for the year of over 50%.

Net Asset Value

The final six months of the financial year saw strong valuation increases across the property portfolio, which, together with a further issue of equity towards the end of 2013, helped push the Group's net asset value up to £214.1 million, from £169.4 million a year ago.

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

	2014	2013	2012
	£m	£m	£m
Net asset value (IFRS)	214.1	169.4	196.1
Fair value of interest rate swaps	-	-	5.1
EPRA net asset value	214.1	169.4	201.2
Fair value of interest rate swaps	-	-	(5.1)
Fair value of debt	17.8	5.7	-
EPRA triple net asset value	231.8	175.1	196.1
Net asset value per share (pence)	56	49	57
EPRA net asset value per share (pence)	56	49	58
EPRA triple net asset value (pence)	61	51	57

The EPRA net asset value per share increased by 14.3% during the year to 56 pence, up from 49 pence at 31 March 2013. The factors contributing to this rise are set out below:

	2014	2013
	(pence)	(pence)
Opening EPRA net asset value per share	49.0	57.0
Revaluation surplus/(deficit)	5.0	(9.0)
Profit on disposal of properties	1.5	-
EPRA profit after tax	3.5	4.0
Dividends paid	(3.0)	(3.5)
Gains on disposal of financial derivatives	-	0.5
Closing EPRA net asset value per share	<u>56.0</u>	<u>49.0</u>

Income Statement

The total comprehensive income for the year was £37.3 million, up from a loss of £14.6 million for the year to 31 March 2013. The main component of the result for 2014 were gains on investments of £24.1 million, comprising revaluation gains of £18.4 million and a profit on asset disposals of £5.7 million.

The income profit for the year, excluding all capital gains and losses, but taking into account the income and expenditure relating to the property portfolio, management costs and financing, was £13.3 million, down from £14.7 million reported for the year to 31 March 2013. The principal factors behind this fall are set out below.

Rental income, net of bad debt provisions, at £31.0 million, is around £1.1 million lower than the previous year. There are a number of factors that have contributed to this position. Falls in rental

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values over recent years have crystallised with lease expiries and new lettings taking place during the year, at new lower market rates. Additionally there are specific provisions against the income due from a small number of tenants where full recoverability is in doubt. Additional income from asset management initiatives is also lower in the current year.

The following table sets out the Group's like-for-like rental income by sector for the two years ended 31 March 2014.

	Offices		Industrial		Retail & Leisure		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Like-for-like rental income	10,857	11,619	8,470	8,723	8,052	8,401	27,379	28,743
Properties acquired	11	-	417	-	-	-	428	-
Properties sold	107	70	3,027	3,189	95	123	3,229	3,382
	10,975	11,689	11,914	11,912	8,147	8,524	31,036	32,125

Management costs have increased to £2.1 million for the current year, from £1.7 million. This year Picton Capital has had a full staff complement, and there has also been a full year of accruals under the Long Term Incentive Plan, which came into effect in the year to 31 March 2013. Increased management costs have however been largely offset by lower operating expenses, including reduced valuation and administration costs, and benefiting from the removal of costs associated with the previous securitised financing arrangements.

Finance costs for the year were £11.0 million, a reduction of some £0.6 million compared to the previous year, as the lower cost of the new loan facilities are evident for a full year.

As stated above, the Group made revaluation gains of £18.4 million, a rise of 6.4% for the portfolio on a like-for-like basis over the year. Additionally the Group disposed of seven property assets during the year, including its largest asset, unit 5320 at Magna Park in Lutterworth. Overall there was a realised gain of £5.7 million arising on disposals.

The Group's earnings per share for the year was 10.4 pence, compared to a loss for 2013 of 4.2 pence. On an EPRA basis, the earnings per share was 3.7 pence, down from 4.3 pence for the year ended 31 March 2013, largely as a result of the decline in rental income as stated above.

Dividends

The Group has maintained its dividend level throughout the year, at 0.75 pence per share on a quarterly basis, or 3 pence for the year. Dividend cover for the year was 124%, ahead of the cover for 2013 of 122%. The surplus of income profit over dividends, of £2.6 million, also contributed to the overall increase in net asset value for the year.

Investment properties

The value of the Group's property portfolio increased to £417.6 million at 31 March 2014, up from £382.7 million at the previous year end. There were a greater level of investment transactions this year, with a number of smaller assets being disposed of, and also the investment of the proceeds from the issues of new equity that took place during the year. Additionally, the Group completed an asset swap with another listed company, disposing of its largest asset and acquiring a large multi-let industrial property. Overall acquisitions totalled £53.6 million for the year, with disposals of £44.9 million. The number of properties held fell from 62 to 57. Valuation gains also contributed to the increase in the portfolio. Capital expenditure on the portfolio totalled £2.1 million in the year.

Borrowings

The Group's debt facilities have remained in place throughout the year.

The overall loan to value ratio, based on the net debt position, at 31 March 2014, was 47.7%, down from 54.5% at the end of last year. This movement largely reflects the positive property valuation movements during the financial year.

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The key financing statistics of the Group are shown in the table below.

	March 2014	March 2013
Borrowings (£m)	234.0	233.4
Gearing (%)	47.7	54.5
Weighted average interest rate (%)	4.5	4.5
Average duration of debt (years)	13.4	14.5

The senior debt facilities are with Canada Life and Aviva Commercial Finance, for £113.7 million and £95.3 million respectively. Both facilities have fixed interest rates. Approximately one third of the Aviva loan is repaid through quarterly amortisation over the term of the loan, with £0.9 million being repaid this year. The Group has maintained compliance with all of its loan covenants throughout the year.

The Group has 22 million zero dividend preference shares in issue, which mature in October 2016. These shares accrue additional capital at 7.25% per annum, giving a final capital entitlement of 132.3 pence per share, or £29.1 million. The additional capital accrued over the current year was £1.6 million.

A small repayment of the Group's unsecured loan stock was made during the year, reducing the balance outstanding to £2.0 million.

The average interest rate on all of the Group's borrowings was 4.5% as at 31 March 2014. The fair value of the Group's debt, which is not accounted for under IFRS, was £216.2 million at 31 March 2014. The benchmark gilt rates have increased since the senior loans were taken out in 2012, while lending margins have tended to fall. The gross redemption yield on the zero dividend preference shares at the year end was 4.69%.

Cash flow and liquidity

The Group had a net cash inflow for the year of £9.4 million, resulting in a cash balance of £32.4 million at 31 March 2014. The Group's cash reserves were boosted by issues of new ordinary shares, raising £18.0 million after costs. There was a net investment of £10.8 million into the property portfolio, including expenditure on existing properties. Dividends of £10.7 million were paid during the year.

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RISK MANAGEMENT

The Board recognises that there are risks and uncertainties that could have a material impact on the Group's results. Risk management provides a structured approach to the decision making process such that the identified risks can be mitigated and the uncertainty surrounding expected outcomes can be reduced. The Board reviews its policy to risk management on a regular basis. The Risk Committee oversees investment risk management and the Audit Committee considers operational risks and mitigating controls. The Group's risk appetite will vary over time and during the course of the property cycle. The principal risks – those with potential to have a material impact on performance and results – are set out below, together with mitigating controls.

Risk and Impact	Risk Change	Mitigation
Corporate Strategy and Performance The property market is cyclical and returns can be volatile. Failure to react appropriately to changing market conditions could have a significant impact on the Group's results.	→	The Board reviews the Group's strategy on a regular basis and considers whether any change is needed, in light of current market conditions and forecast changes.
Returns can vary significantly between different geographical areas and sectors. The Group's properties could underperform as a result of a poor portfolio strategy.	→	The Group maintains a diversified portfolio in order to minimise exposure to any one geographical area or market sector.
Investment and Property Management Decisions to buy or sell assets based on incorrect assumptions, poor research or incomplete due diligence could result in lower investment returns.	→	The Investment Manager prepares business plans for each asset on an annual basis. All investment decisions are made by the Board following a formal appraisal and due diligence process.
Active management initiatives or capital expenditure decisions do not enhance values due to flawed analysis or assumptions.	→	All asset management and investment decisions are subject to a formal internal review process with clear authority limits.
Poor asset management can lead to long void periods, low occupier retention, high occupier arrears and defaults, and cash flow problems.	→	The Group's 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.
Financial The assumptions used in the valuation of property assets include many external factors, including prevailing economic conditions. In adverse conditions there can be a reduction in property values leading to a fall in the Group's net asset value and potentially failure to meet financing covenants.	↓	The Group maintains detailed forecasts of its property portfolio, which are subject to regular scenario testing. In this way the Group will be able to react to expected changes in economic conditions in a timely manner.

Picton Property Income Limited – Strategic Report

A fall in the Group's investment property values could lead to a breach of its loan covenants, and leave the Group without sufficient long-term funding.



Covenant headroom and sensitivity to forecast asset values are regularly monitored by the Board.

An increase in interest rates could lead to a fall in the Group's earnings.



The Group has entered into long-term fixed rate loan facilities and hence has certainty over interest cost for the foreseeable future.

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



The Group has a gearing strategy in place and the Board regularly reviews property market forecasts, so that it is able to amend its strategy in the light of changing market conditions.

Fluctuations in cash flows from operating activities can have a detrimental impact on debt servicing, asset management initiatives and shareholder returns.



Cash flow forecasts are regularly prepared and reviewed by the Board to ensure sufficient cash resources are available to meet the operating needs of the business. Debt covenants are continually monitored and reported to the Board.

Operational

A failure to attract and retain staff of a suitable calibre to manage the Group's affairs could lead to poor shareholder returns. The increase in risk this year reflects an increasingly competitive employment market.



The Group has a remuneration policy in place which incentivises performance and is aligned to the results of the Group. The Board commissions independent reviews of market remuneration to ensure salary levels are competitive.

The Group could fail to anticipate legal, fiscal or regulatory changes, which may lead to an adverse financial or regulatory impact.



The Group employs various professional advisers who provide regular updates in relevant laws and regulations.

Health and safety management processes could fail, leading to financial or reputational loss.



The Group's property manager is required to carry out all necessary health and safety checks, and is subject to the oversight of the Investment Manager.

Key

Decrease in risk



No change in risk



Increase in risk



Picton Property Income Limited – Strategic Report

CORPORATE RESPONSIBILITY STATEMENT

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

The Group has set 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.

Greenhouse Gas Emissions

We have measured our greenhouse gas (GHG) footprint for the first time, for this Annual Report. Data has been compiled for the year ended 31 December 2013. Our GHG emissions for the year totalled 5,030 tCO₂e. The table below shows this separated by scope, as provisioned in the GHG Protocol. As this is the first measurement of our footprint, this year will act as our baseline year for demonstrating carbon reductions going forward. Picton's GHG inventory has been compiled using an Operational Control approach.

Emission source	GHG Scope	Absolute GHG emissions (tCO ₂ e)	GHG Intensity (tCO ₂ e/m ²)
Combustion of fuel and operation of facilities	1	1,388	0.008
Electricity, heat, steam and cooling purchased for own use	2	3,630	0.020
Business travel	3	12	N/A
Total		5,030	0.028

We are committed to reducing our carbon footprint. We have completed energy audits and have sent questionnaires to our property managers to understand where energy-saving opportunities lie within the portfolio.

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 reported on all the emission sources required under UK legislation, and have additionally disclosed business travel (scope 3) emissions. These sources fall within the Group's consolidated financial statements. We have calculated and reported our emissions in line with the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2014. 9% of carbon reported was based upon estimates and as such the results are preliminary and subject to revision.

The Environment

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

The Group understands the importance of managing climate change risks and the increasingly challenging environmental legislative context. It recognises that by taking a responsible and sustainable approach to property investment, long-term performance will be protected and enhanced.

Picton is integrating energy saving and sustainability measures into its portfolio activities where possible through ensuring compliance and managing the impact of forthcoming legislation. The aim is to deliver cost-effective and pragmatic reductions in the portfolio's environmental impact and occupancy costs through the property lifecycle, as follows:

- Through property management activities, delivering cost-effective savings
- At refurbishment, through raising standards beyond building regulations
- Through informed due diligence at acquisition
- Measuring and reporting on our activities and performance in a transparent manner

Picton Property Income Limited – Strategic Report

Following the success in reducing energy consumption and saving occupancy costs at our three largest office properties, the Group has carried out further energy audits at key sites and have identified the following opportunities:

- Replacing traditional light bulbs with more efficient LEDs
- Installing passive infrared sensor lighting in common areas to save energy when buildings are not occupied
- Implementing switch controls

These measures will continue to be rolled out this year as part of the Group's drive towards sustainability, and will help to reduce occupancy costs as well as delivering significant environmental impact deductions.

Surveys were carried out at Longcross Court in Cardiff, Trident House in St. Albans and 1 Chancery Lane, London. Through simple low-cost changes the following savings were identified:

- Estimated annual savings (kWh) – 66,569
- Percentage average saving of property annual consumption – 16%
- Estimated annual savings - £15,340

In the Supplementary Disclosures section we have disclosed the absolute and intensity performance measures as set out by the EPRA Sustainability Best Practice Recommendations. These will allow the Group to identify and target key impact areas across the portfolio, contributing to better management of the overall environmental performance and to formulate indicator targets to track sustainability performance.

It is the policy of the Group, in the workplace, to:

- Constantly strive to reduce the amount of paper used
- Encourage staff 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

Fairness and equality

The Group values the contributions made by all its employees and believes that a diverse workforce is key to maximising business effectiveness. The Group aims to select, recruit, develop and promote the very best people and is 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 staff fair and competitive salaries and having reasonable and competitive family and well-being policies
- Being opposed to any form of less favourable treatment, whether through direct or indirect discrimination, harassment or victimisation, accorded to employees and applicants for employment on the grounds of sex, sexual orientation, marital or parental status, disability, race, religious beliefs, creed, colour, nationality, age, ethnic or national origin, or any other protected characteristic

Charity and local communities

Building and maintaining good relationships with local communities is fundamental to Picton. Community relations are based on mutual trust, respect and active partnership.

The Group demonstrates its commitment by making donations and sponsoring and supporting numerous charities and social activities. For the year ended 31 March 2014 the Group made charitable donations totalling £10,000.

Picton Property Income Limited – Strategic Report

Picton Capital has continued 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 £6 million for over 800 diverse local, national and international projects.

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

The Group continued with its office-wide initiative for employees to donate their time to charity. In September 2013, Picton employees created a 'mythological wonderland' themed reading corner at Harry Gosling Primary School in Tower Hamlets, to inspire and encourage pupils when reading and learning.

Performance and development

The Group aims to provide a business environment, that inspires staff 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; staff should always be actively seeking improved 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 wellbeing

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

The Group's 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 whistle blowing policy
- Providing all employees with a suitable level of training
- Having appropriate family friendly policies

Picton Property Income Limited – Directors' Report

BOARD OF DIRECTORS

Nicholas Thompson (Chairman) - Age 65, 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 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.

Trevor Ash (Chairman of the Management Engagement Committee) - Age 68, was formerly Managing Director of Rothschild Asset Management (CI) Limited (until 1999) and a non-executive director of Rothschild Asset Management Limited. He retired as a director of NM Rothschild & Sons (CI) Limited in 2007. He is a director of a number of funds managed by Merrill Lynch, JPMorgan, Rothschild Group and Insight. He is also a director of Investors in Global Real Estate Limited, and is a Fellow of the Chartered Institute for Securities & Investment.

Robert Sinclair (Chairman of the Audit Committee) - Age 64, is Managing Director of the Guernsey based Artemis Group and a director of a number of investment fund management companies and investment funds associated with clients of that Group. He has served on the Board since 2005. Robert is Chairman of Schroder Oriental Income Fund Limited, Chairman of Sirius Real Estate Limited, a director of Secure Property Development & Investment Limited and a director of Chariot Oil & Gas Limited. He is a Fellow of the Institute of Chartered Accountants in England and Wales, and a member of the Institute of Chartered Accountants of Scotland.

Roger Lewis (Chairman of the Property Valuation Committee) - Age 66, has extensive experience in the property sector, most recently as a director of Berkeley Group Holdings Plc for over 15 years, the last eight of which was as Chairman, a position from which he retired at the end of July 2007. He subsequently acted as a consultant to the Berkeley Group and is currently a non-executive director of three Jersey based subsidiaries of the Berkeley Group, as well as being a director of the States of Jersey Development Company Limited. Prior to this, he was UK Group Chief Executive Officer of Crest Nicholson Group PLC from 1983 to 1991. He is also currently a director of Grand Harbour Marina Plc (Malta), of Camper and Nicholsons Marina Investments Limited and of Cambian Global Timberland Limited. He was appointed to the Board in 2010.

Vic Holmes (Chairman of the Remuneration Committee) (Appointed 1 January 2013) - Age 57, was Chief Executive of Northern Trust's businesses in the Channel Islands until he retired from full time employment in November 2011. He joined the Board on 1 January 2013. He serves as a director for a number of companies involved in the funds sector, for groups such as Permira, Ashmore, Foreign and Colonial, DBAG and Renshaw Bay. He is also a director of Next Energy Solar Fund Limited (a London Listed Company) and was elected as Chairman of the Guernsey Investment Funds Association in April 2013. He is a Fellow of the Association of Chartered Certified Accountants.

Picton Property Income Limited – Directors' Report

INVESTMENT MANAGEMENT TEAM

The investment management team comprises 11 permanent employees, and includes five real estate professionals, two qualified accountants and four further support staff. The senior management of Picton Capital are:

Michael Morris, Chief Executive

Michael, age 42, is Chief Executive of Picton Capital Limited and is responsible for devising and overseeing the implementation of all aspects of the Company's investment strategy. Formerly, he was Director and Fund Manager at ING Real Estate Investment Management (UK) Limited, and he has worked with the Group since it launched in 2005. He has over 19 years of real estate experience and is a member of the Investment Property Forum. Michael sits on the Property Panel of the Association of Investment Companies and the CPD steering committee of the Investment Property Forum. He has obtained the Investment Management Certificate and the IPF Diploma in Property Investment.

Andrew Dewhirst, Finance Director

Andrew, age 54, joined Picton Capital Limited as Finance Director in March 2011. Previously he was Director of Client Accounting at ING Real Estate Investment Management (UK) Limited, a role he had held since January 2006. At ING he was responsible for the accounting and administration of all the UK real estate vehicles and separate client accounts. Prior to joining ING Andrew was Director of Securities and Property Accounting at Hermes Pensions Management Limited. He has over 25 years' experience in the real estate and financial services sector. Andrew is an associate member of the Institute of Chartered Accountants in England and Wales and a member of the Investment Property Forum.

Jay Cable, Director

Jay, age 36, is Head of Asset Management at Picton Capital Limited. In this role he is responsible for overseeing all asset management activities in respect of the Group's property portfolio. Formerly he was Director at ING Real Estate Investment Management (UK) Limited, and has worked with the Group since it launched in 2005. Jay plays an active role in devising and implementing the Company's strategy and is a member of Picton Capital's Investment Committee. He has over 13 years of real estate experience and is a member of the Royal Institution of Chartered Surveyors and of the Investment Property Forum.

Fraser D'Arcy, Investment Director

Fraser, age 38, joined Picton Capital Limited as Investment Director in January 2013. He is primarily responsible for transactional activity within the portfolio to manage effective recycling of capital. Previously he was an Investment Surveyor at Threadneedle Property Investments Limited from 2006, where he was responsible for acquisitions and disposals in all sectors across the UK market. Prior to this he was an Associate Director at Insight Investment, having started his career at Scottish Widows Investment Partnership as an Investment Manager. He has 14 years of investment experience in UK real estate and has obtained the Investment Management Certificate. Fraser is a member of the Royal Institution of Chartered Surveyors and of the Investment Property Forum.

The other members of the team are:

Laurence Jones, Senior Asset Manager
Tim Hamlin, Asset Manager
James Forman, Financial Controller
Sonya Kapur, Research Analyst
Adam Green, Accounts Assistant
Clare Bunning, Office Manager
Sarah Barnes, Team Secretary

Picton Property Income Limited – Directors' Report

CORPORATE GOVERNANCE REPORT

The Company is a member of the Association of Investment Companies ("AIC") and applies the principles of the AIC Code of Corporate Governance (the "AIC Code").

The Board has considered the principles and recommendations of the AIC Code by reference to the AIC Corporate Governance Guide for Investment Companies ("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 comprising of non-executive Directors, all of whom have wide experience and are considered to be independent.

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

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

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

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

Alternative Investment Fund Managers Directive

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

Picton Property Income Limited – Directors' Report

Non-Mainstream Pooled Investments

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

Committees

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

The Risk Committee was established in February 2014 and held its first meeting subsequent to the year end date. A separate Risk Committee has been established in order to address the Group's risk management given the additional responsibilities taken on by the Board in respect of its role as Alternative Investment Fund Manager.

The Board has not established a separate Nominations Committee as these duties are performed by the whole Board for practical reasons.

Attendance at Board and Committee Meetings

	Board (4 meetings)	Audit (2 meetings)	Remuneration (2 meetings)	Property Valuation (4 meetings)	Management Engagement (2 meetings)
Nicholas Thompson	4	2	2	4	2
Robert Sinclair	3	2	2	3	2
Trevor Ash	4	2	2	4	2
Roger Lewis	4	2	2	4	2
Vic Holmes	4	2	2	4	2

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

Reports from the Audit, Remuneration and Property Valuation Committees follow the Corporate Governance Report.

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, the latest being in 2010, and internally by the Directors for intervening years. An internal evaluation was performed in March 2013, using questionnaires prepared by the Company's Administrator. The questionnaires, which were completed anonymously, addressed all aspects of the running of the Company. The Board has appointed Trust Associates Limited to carry out an external evaluation during 2014.

Management Engagement Committee

The Management Engagement Committee comprises all of the Directors of the Company and is chaired by Trevor Ash.

The Committee reviewed the performance of the Administrator and the Investment Manager and considered that both were satisfactory and compliant with the terms of the respective agreements, and also found that the Board had continued to act independently of the Investment Manager and any shareholder throughout the year.

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 on-going 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

Picton Property Income Limited – Directors' Report

review procedures have been in place throughout the full financial year, and up to the date of the approval of the financial statements, and the Board is satisfied with their effectiveness.

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

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

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

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

Relations with shareholders

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

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

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

Picton Property Income Limited – Directors' Report

REMUNERATION REPORT

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

Terms of reference

The Committee will consider the following matters:

- Appointment of, and terms of reference for, any remuneration consultants
- Remuneration levels for the Directors, within the limit set by the Company's Articles of Association
- Recommend remuneration policies to the Board for Directors and senior management
- Review and note remuneration trends across the Group
- Determine the policy for expense claims by Directors

Activity

The Committee met twice during the year ended 31 March 2014 and considered the following matters:

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

Remuneration policy

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

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

Directors receive an annual fee as set out below plus additional fees on a time spent basis, if applicable. Directors will not receive share options or other performance related elements, unless approved in advance by shareholders.

The Committee has determined the remuneration policy for the management and staff of Picton Capital Limited following independent advice and recommendations from Hewitt New Bridge Street.

Terms of employment

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

Directors' fees

All of the Directors of the Company are non-executive and their fees are recommended by the Board. The level of Directors' fees were independently reviewed in August 2011 by Hewitt New Bridge Street. The recommendations from their report were adopted by the Remuneration Committee and the following annual fee rates became effective from 1 January 2012, which are reflective of the internalised management arrangements from that date, and have been set at the lower quartile level compared to the Company's benchmarked peer group of similar companies. Any additional time spent above the expected annual commitments will be compensated at the rate of £1,200 per day.

Picton Property Income Limited – Directors' Report

	Expected annual time commitment (days)	Annual rate £
Chairman	30	63,000
Chairman of the Audit Committee	22	38,000
Chairman of the Property Valuation Committee	22	35,000
Director	20	33,000

The total fees earned by each Director for the year ended 31 March 2014 were as follows:

	31 March 2014 £	31 March 2013 £
Nicholas Thompson	63,000	63,000
Robert Sinclair	38,000	38,000
Trevor Ash	33,000	33,000
Roger Lewis	35,000	35,000
Vic Holmes	33,000	8,250
Tjeerd Borstlap	-	16,500
	202,000	193,750

No additional fees were earned above the annual expected time commitment for the year ended 31 March 2014. The Company's Articles set an annual limit of £300,000 for Directors' remuneration.

Picton Capital Limited remuneration

The Group's Investment Manager employed 11 staff as at 31 March 2014.

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

Base salary	Base salaries are based on market data provided by the Company's independent advisers. Base salaries are reviewed annually on 1 April.
Pension	The Group makes contributions for eligible employees into a Group personal pension plan to a maximum of 12% of base salary. Further contributions to a maximum of 5% will be paid by the Group if matched by additional voluntary contributions by the employee.
Annual bonus	A discretionary annual bonus may be awarded to recognise individual performance. An award will take into account three factors: the underlying performance of the Group, the underlying real estate return and the individual's performance. Bonus payments are not pensionable. An element of any award will be made in units in the Long Term Incentive Plan.
Long term incentive plan	A share-based long term incentive plan has been established that aligns remuneration with that of shareholders. Any award under the plan is linked to both share price movement and dividend distributions. Awards will normally vest in either two or three years.
Other benefits	These include private medical insurance and life cover.

The Committee determined that there would be an overall increase of 2.8% in base salaries from 1 April 2014 (2013: nil).

For the year ended 31 March 2014, the Committee agreed that bonuses awarded to Picton Capital staff would total £242,000 payable on 31 March 2014 (2013: £190,000) and £353,000 in Long Term Incentive Plan awards (2013: £334,000). The Long Term Incentive Plan awards were made at the prevailing share price, and equate to 622,000 units, of which 311,000 units vest on 31 March 2016 and 311,000 units vest on 31 March 2017. The cost to the Group of awards made is spread over the

Picton Property Income Limited – Directors' Report

vesting periods in accordance with its accounting policy. The accrued cost at 31 March 2014 was £321,000 (2013: £38,000). A summary of the awards made to Picton Capital staff is set out in note 7 to the financial statements.

Share Ownership

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

The number of shares beneficially held by each Director, and senior management, (including spouses), as at 31 March 2014 were as follows:

Directors	Shares
Nicholas Thompson *	150,434
Robert Sinclair	15,000
Trevor Ash	225,000
Roger Lewis	400,000
Vic Holmes	-
Senior management	
Michael Morris **	53,596
Andrew Dewhirst	13,300
Jay Cable	7,030
Fraser D'Arcy	-

*includes 64,433 shares held by Mrs Elizabeth Thompson

**includes 28,596 shares held by Mrs Joanne Morris

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

Members of senior management also hold units in the Long Term Incentive Plan. At 31 March 2014 the number of units that had been awarded to senior management and yet to vest was 1,161,781 (2013: 729,590).

Picton Property Income Limited – Directors' Report

PROPERTY VALUATION COMMITTEE REPORT

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

Terms of Reference

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

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

Activity

The Committee met four times during the year ended 31 March 2014. Members of the Property Valuation Committee, together with the Investment Manager, met with the independent valuer each quarter to review the valuations and considered the following matters:

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

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

Appointment of Valuer

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

Picton Property Income Limited – Directors' Report

DIRECTORS' REPORT

The Directors of Picton Property Income Limited present the Annual Report and audited financial statements for the year ended 31 March 2014.

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

Principal activity

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

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

Results and dividends

The results for the year are set out in the Consolidated Statement of Comprehensive Income. As set out in note 11 to the consolidated financial statements, the Company has paid four interim dividends of 0.75 pence per share, making a total dividend for the year ended 31 March 2014 of 3.0 pence per share (2013: 3.5 pence).

Directors and Directors' interests

The Directors of the Company who served throughout the year are set out following this report.

The Directors' interests in the shares of the Company as at 31 March 2014 are set out in the Remuneration Report below.

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 2014 was 379,869,729 (31 March 2013: 345,336,118) ordinary shares of no par value.

On 5 September 2013 the Company issued 12,305,185 new ordinary shares of no par value at 51.5 pence per share for cash and on 27 November 2013 issued a further 22,228,426 new ordinary shares of no par value at 53.5 pence per share for cash.

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 Review. 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.

Picton Property Income Limited – Directors’ Report

Substantial shareholdings

Based on notifications received and on information provided by the Company’s brokers, the Company understands the following shareholders held a beneficial interest of 3% or more of the Company’s issued share capital as at 4 June 2014.

	% of issued share capital
Investec Wealth & Investment Limited	18.20
J O Hambro Capital Management	6.92
Premier Fund Managers Limited	4.92
Rathbone Investment Management	4.57
Threadneedle Asset Management Limited	4.49
Blackrock Investment Management Limited	3.87
Alliance Trust Savings Limited	3.84
Thames River Capital	3.81
Brewin Dolphin Limited	3.08

Disclosure of information to auditors

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 auditors are 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 auditors are aware of that information.

Auditors

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.

Picton Property Income Limited – Directors' Report

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:

- (a) the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- (b) 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
13 June 2014

Picton Property Income Limited

AUDIT COMMITTEE REPORT

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

Meetings of the Audit Committee are attended by the Finance Director of Picton Capital Limited and other members of the finance team, and the external auditors. The external auditors are 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 judgments and accounting policies
- Internal controls and risk management systems
- The Group's relationship with the external auditor, including effectiveness and independence
- Internal audit and the programme of controls testing
- Reporting responsibilities

Activity

The Committee met twice during the year ended 31 March 2014 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 auditors
- The effectiveness of the audit process and the independence of KPMG Channel Islands Limited
- Review of business risks and internal controls and risk review
- Stock Exchange announcements

Financial Reporting and Significant Reporting Matters

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

The Directors are responsible for preparing the Annual Report. At the request of the Board, the Committee considered whether the 2014 Annual Report was fair, balanced and understandable and whether it provided the necessary information for shareholders to assess the Group's performance, business model and strategy.

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

The valuation is conducted on a quarterly basis by independent valuers, and is subject to oversight by the Property Valuation Committee. It is a key component of the annual and half year financial statements and is inherently subjective, requiring significant judgement. Members of the Property Valuation Committee, together with the Investment Manager, meet with the independent valuer on a quarterly basis to review the valuations and underlying assumptions, including the year end valuation process. The Chairman of the Property Valuation Committee reported to the Audit Committee at its meeting in May 2014 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.

Picton Property Income Limited

The Audit Committee reviewed the report from the Chairman of the Property Valuation Committee including the assumptions applied to the valuation and considered their appropriateness, as well as considering current market trends and conditions, and valuation movements compared to previous quarters. The Audit Committee considered the valuation and agreed that this was appropriate for the financial statements.

The Committee was satisfied that the 2014 Annual Report is fair, balanced and understandable and included the necessary information as set out above, and it has confirmed this to the Board.

Internal controls

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

As part of this process, a risk matrix has been prepared that identifies the Company's key functions and the individual activities undertaken within those functions. From this, the Board has identified the Company's principal risks and the controls employed to manage those risks. These are reviewed at each Audit Committee meeting. Also the Audit Committee has agreed a programme of additional controls testing which is carried out by the external auditor, in order to provide the Board with comfort that the controls are operating as intended and have been in place throughout the year. The Board also monitors the investment performance of the Company against its objectives and receives reports from the Investment Manager and Administrator each quarter on their activities. The Audit Committee has received and reviewed a copy of CBRE Limited's Real Estate Accounting Services – Service Organisation Control Report as at 30 September 2013, 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 Auditors

It is the policy of the Audit Committee that non-audit work will not be awarded to the external auditors if there is a risk their independence may be conflicted. The Committee must approve in advance all non-audit assignments to be carried out by the external auditors.

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

	Year ended 31 March 2014	Year ended 31 March 2013
	£000	£000
Audit fees	119	116
Interim review fees	20	14
Non-audit fees	17	40
	156	170

The non-audit fees include £12,000 for additional controls testing, carried out by KPMG Channel Islands Limited, and £5,000 in respect of the Picton Capital FCA CASS audit, 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.

Picton Property Income Limited

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 auditors to the Group since the year ended 31 December 2009 following a tender process in July 2009. The Senior Statutory Auditor, Neale Jehan, has served two years in this position.

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

Robert Sinclair

Chairman of the Audit Committee

13 June 2014

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PICTON PROPERTY INCOME LIMITED

Opinions and conclusions arising from our audit

Opinion on financial statements

We have audited the consolidated financial statements (the "financial statements") of Picton Property Income Limited (the "Company") and together with its subsidiaries (together, the "Group") for the year ended 31 March 2014 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as issued by the IASB. In our opinion, the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 March 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as issued by the IASB; and
- comply with the Companies (Guernsey) Law, 2008.

Our assessment of risks of material misstatement

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

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

Valuation of Investment Properties (£417.2 million)

Refer to page 44 of the Audit Committee Report, Note 2 significant accounting policies and Note 14 Investment Properties disclosures.

- **The risk** – The Group's property portfolio accounted for 89.9% of the Group's total assets as at 31 March 2014. The fair value of the investment properties at 31 March 2014 was assessed by the Board of Directors based on an independent valuation prepared by the Group's external property valuer. As highlighted in the Audit Committee Report, the valuation of the Group's property portfolio, given it represents the majority of the total assets of the Group and requires the use of significant judgment and subjective assumptions, is a significant area of our audit.
- **Our response** – Our audit procedures with respect to the Group's investment properties included, but were not limited to, testing the design, implementation and operating effectiveness of the relevant controls, use of our own UK Real Estate specialist group to review the valuation prepared by the external property valuer and to evaluate the appropriateness of the valuation methodologies and assumptions used, including undertaking discussions on key findings with the external valuer and challenging the assumptions used. We compared key inputs to the valuation such as current and estimated rental income, initial and equivalent yields, estimated capital value, occupancy and tenancy contracts for consistency with other audit findings. 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 as issued by the IASB in addition to the adequacy of disclosures in Notes 2 and 14 in relation to the fair value of the investment properties.

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

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

to do so the auditor identifies a monetary amount as “materiality for the financial statements as a whole”.

The materiality for the financial statements as a whole was set at £4.3 million. This has been calculated using a benchmark of the Group’s total assets (of which it represents approximately 0.9%) which we believe is the most appropriate benchmark as investment property values are considered as the prime driver of returns to shareholders and main focus of users of the financial statements.

We agreed with the Audit Committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £215,000, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

For the purposes of the Group audit, the audit of the Company’s subsidiaries were all performed by the Group audit team based on the materiality levels set out above.

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

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

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

Matters on which we are required to report by exception

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

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

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

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

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

Under the Listing Rules we are required to review the part of the Corporate Governance Statement on pages 34 to 36 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

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

Scope of report and responsibilities

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

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 42, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and ISAs (UK and Ireland). Those standards require us to comply with the UK Ethical Standards for Auditors.

Neale D Jehan

For and on behalf of KPMG Channel Islands Limited

Chartered Accountants and Recognised Auditors

20 New Street

St Peter Port

Guernsey

GY1 4AN

13 June 2014

Picton Property Income Limited – Financial Statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2014

	Note	Income £000	Capital £000	31 March 2014 Total £000	31 March 2013 Total £000
Income					
Revenue from properties	3	36,749	-	36,749	38,812
Property expenses	4	(8,992)	-	(8,992)	(8,989)
Net property income		27,757	-	27,757	29,823
Expenses					
Management expenses	6	(2,127)	-	(2,127)	(1,682)
Other operating expenses	8	(1,139)	-	(1,139)	(1,592)
Total operating expenses		(3,266)	-	(3,266)	(3,274)
Operating profit before movement on investments		24,491	-	24,491	26,549
Investments					
Profit/(loss) on disposal of investment properties	14	-	5,660	5,660	(4)
Investment property valuation movements	14	-	18,422	18,422	(30,937)
Total profit/(loss) on investments		-	24,082	24,082	(30,941)
Operating profit/(loss)		24,491	24,082	48,573	(4,392)
Financing					
Interest receivable		164	-	164	114
Interest payable	9	(11,032)	-	(11,032)	(11,674)
Realised gains on disposal of derivative financial instruments		-	-	-	1,617
Total finance costs		(10,868)	-	(10,868)	(9,943)
Profit/(loss) before tax		13,623	24,082	37,705	(14,335)
Tax	10	(357)	-	(357)	(272)
Total comprehensive income		13,266	24,082	37,348	(14,607)
Earnings/(loss) per share					
Basic and diluted	12	3.7p	6.7p	10.4p	(4.2)p

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.

Picton Property Income Limited – Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2014

	Note	Share Capital £000	Retained Earnings £000	Total £000
Balance as at 31 March 2012		39,149	156,961	196,110
Loss for the year		-	(14,607)	(14,607)
Dividends paid	11	-	(12,087)	(12,087)
Balance as at 31 March 2013		39,149	130,267	169,416
Issue of ordinary shares	20	18,229	-	18,229
Issue costs of shares	20	(186)	-	(186)
Profit for the year		-	37,348	37,348
Dividends paid	11	-	(10,711)	(10,711)
Balance as at 31 March 2014		57,192	156,904	214,096

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

Picton Property Income Limited – Financial Statements

CONSOLIDATED BALANCE SHEET

As at 31 March 2014

	Note	31 March 2014 £000	31 March 2013 £000
Non-current assets			
Investment properties	14	417,207	382,729
Tangible assets		140	170
Accounts receivable	15	4,046	4,518
Total non-current assets		421,393	387,417
Current assets			
Investment properties held for sale	14	425	-
Accounts receivable	15	10,102	7,945
Cash and cash equivalents	16	32,352	22,906
Total current assets		42,879	30,851
Total assets		464,272	418,268
Current liabilities			
Accounts payable and accruals	17	(14,330)	(13,620)
Loans and borrowings	18	(2,935)	(2,999)
Obligations under finance leases	22	(104)	(108)
Total current liabilities		(17,369)	(16,727)
Non-current liabilities			
Loans and borrowings	18	(231,081)	(230,401)
Obligations under finance leases	22	(1,726)	(1,724)
Total non-current liabilities		(232,807)	(232,125)
Total liabilities		(250,176)	(248,852)
Net assets		214,096	169,416
Equity			
Share capital	20	57,192	39,149
Retained earnings		156,904	130,267
Total equity		214,096	169,416
Net asset value per share	23	56p	49p

These consolidated financial statements were approved by the Board of Directors on 13 June 2014 and signed on its behalf by:

Robert Sinclair
Director

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

Picton Property Income Limited – Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2014

	Note	31 March 2014 £000	31 March 2013 £000
Operating activities			
Operating profit/(loss)		48,573	(4,392)
Adjustments for non-cash items	21	(25,428)	27,662
Interest received		164	114
Interest paid		(8,932)	(8,887)
Tax paid		(394)	(7)
Cash inflows from operating activities		13,983	14,490
Investing activities			
Capital expenditure on investment properties	14	(2,060)	(1,998)
Acquisition of investment properties	14	(19,611)	-
Disposal of investment properties	14	10,850	72
Purchase of tangible assets		(17)	(83)
Cash outflows from investing activities		(10,838)	(2,009)
Financing activities			
Issue of ordinary shares		18,229	-
Issue costs of ordinary shares		(186)	-
Borrowings repaid		(1,031)	(230,888)
Borrowings drawn		-	231,047
Termination of derivatives		-	(3,487)
Financing costs		-	(5,275)
Dividends paid	11	(10,711)	(12,087)
Cash inflows/(outflows) from financing activities		6,301	(20,690)
Net increase/(decrease) in cash and cash equivalents		9,446	(8,209)
Cash and cash equivalents at beginning of year		22,906	31,115
Cash and cash equivalents at end of year	16	32,352	22,906

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

Picton Property Income Limited - Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2014

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 2014 with comparatives for the year ended 31 March 2013.

2. Significant accounting policies

Basis of accounting

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

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

Changes in accounting policies

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

- IFRS 13 Fair Value Measurement. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. A number of additional disclosures have been made in notes 14 and 18.
- Amendment to IAS 1 Presentation of Financial Statements. The amendments to IAS 1 change the grouping of items presented in Other Comprehensive Income. Items that could be reclassified to profit or loss at a future point in time would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance.
- IFRS 10 Consolidated Financial Statements, effective for accounting periods beginning on or after 1 January 2013. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced require management to focus on whether power exists over an entity, the exposure or right to variable returns from its involvement with that entity and its ability to use its power to affect those returns. In particular, IFRS 10 requires the consolidation of entities it controls on the basis of de facto circumstances. In accordance with IFRS 10, management have reassessed the relationship between entities. Notwithstanding the above, the adoption of IFRS 10 had no impact on the Group.
- IFRS 12 Disclosure of Interests in Other Entities requires disclosure of the significant judgements and assumptions that an entity has made in determining the nature of its interest in another entity or arrangement. It also contains extensive disclosure requirements for subsidiaries, associates, joint ventures, unconsolidated structured entities and unconsolidated subsidiaries. The objective of IFRS 12 is to require disclosure that helps users of financial statements to evaluate:
 - The nature of, and risks associated with, an entity's interests in other entities; and
 - The effect of those interests on the entity's financial position, financial performance and cash flows.

Picton Property Income Limited - Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2014

2. Significant accounting policies (continued)

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

- IFRS 9 Financial Instruments, introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additional changes relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting. IFRS 9 (2010) and (2009) are effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The adoption of these standards is expected to have an impact on the Group's financial assets, but no impact on the Group's financial liabilities.
- IAS 32 Offsetting Financial Assets and Financial Liabilities, effective for periods beginning on or after 1 January 2014. The amendments to IAS 32 clarify the offsetting criteria by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is considered to be equivalent to net settlement.

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

Use of estimates and judgements

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

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

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

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

Level 3: unobservable inputs for the asset or liability.

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

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

Picton Property Income Limited - Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2014

2. Significant accounting policies (continued)

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

Basis of consolidation

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

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

Business combinations

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

- The number of items of land and buildings owned by the subsidiary
- The extent to which significant processes are acquired and in particular the extent of ancillary services provided by the subsidiary
- Whether the subsidiary has allocated its own staff to manage the property and/or to deploy any processes, including provision of all relevant administration and information to the entity's owners
- When the acquisition of subsidiaries does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities

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

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

Presentation of the 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 Statement of Comprehensive Income between items of a revenue and capital nature has been presented alongside the Statement of Comprehensive Income.

Investment properties

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2014**

2. Significant accounting policies (continued)

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

The fair value of investment property generally involves consideration of:

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

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

An item of investment property is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the 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 Statement of Comprehensive Income.

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

Leases

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

Picton Property Income Limited - Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2014

2. Significant accounting policies (continued)

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

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

Lease incentive payments are amortised on a straight-line basis over the period from the date of lease commencement to the lease end. Upon receipt of a surrender premium for the early determination 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 Statement of Comprehensive Income in the periods during which services are rendered by employees.

Short-term benefits

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

Share-based payments

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

Dividends

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

Picton Property Income Limited - Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2014

2. Significant accounting policies (continued)

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 rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognised in the Statement of Comprehensive Income when the liabilities are derecognised, as well as through the amortisation process.

Assets classified as held for sale

A property is classified as held for sale when their carrying amount is to be recovered principally through a sales transaction and a sale is highly probable. Investment properties included in the held for sale category continue to be measured in accordance with the accounting policy for investment properties.

Other assets and liabilities

Other assets and liabilities are not interest bearing and are stated at their nominal value.

Share capital

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

Taxation

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

The Group is subject to United Kingdom taxation on income arising on the investment properties after deduction of allowable debt financing costs and allowable expenses. The Group is tax exempt in Guernsey for the year ended 31 March 2014.

Principles for the Statement of Cash Flows

The 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 Statement of Comprehensive Income and movements in the Balance Sheet which have not resulted in cash income or expenditure in the relating period.

The cash amounts in the 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.

Picton Property Income Limited - Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2014

3. Revenue from properties

	31 March 2014	31 March 2013
	£000	£000
Rents receivable (adjusted for lease incentives)	31,036	32,125
Surrender premiums	157	702
Dilapidation receipts	677	1,039
Other income	97	59
Service charge income	4,782	4,887
	36,749	38,812

Rents receivable includes lease incentives recognised of £1.0 million (31 March 2013: £1.0 million).

4. Property expenses

	31 March 2014	31 March 2013
	£000	£000
Property operating expenses	2,527	2,426
Property void costs	1,683	1,676
Recoverable service charge costs	4,782	4,887
	8,992	8,989

5. Operating segments

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

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

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

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

Picton Property Income Limited - Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2014

6. Management expenses

	31 March 2014	31 March 2013
	£000	£000
Staff costs	1,610	1,194
Other management costs	517	488
	2,127	1,682

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

	31 March 2014	31 March 2013
	£000	£000
Wages and salaries	1,072	925
Social security costs	130	118
Other pension costs	125	113
Share-based payments	283	38
	1,610	1,194

Staff costs are those of the employees of Picton Capital Limited. Employees in the Group participate in a share-based Long Term Incentive Plan ('LTIP'). Awards made under the LTIP are linked to the Company's share price and dividends paid, and normally vest after periods of two or three years. Employees must still be in the Group's employment to receive payment on the vesting date. During the year the Group made awards of 621,586 units (year ended 31 March 2013: 852,790 units), of which 310,793 units vest on 31 March 2016 and 310,793 units vest on 31 March 2017.

The table below summarises the awards made under the Long Term Incentive Plan to Picton Capital staff. Employees have the option to defer the vesting date of their awards for a maximum of seven years. The units redeemed in the year were paid out subsequent to the year end at a cost of £68,000.

Vesting Date	Units at start of year	Units granted in the year	Units cancelled in the year	Units redeemed in the year	Units at end of year
31 March 2014	223,595	-	-	(109,525)	114,070
31 March 2015	356,695	-	-	-	356,695
31 March 2016	272,500	310,793	-	-	583,293
31 March 2017	-	310,793	-	-	310,793
	852,790	621,586	-	(109,525)	1,364,851

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

The Group employed 11 members of staff at 31 March 2014 (31 March 2013: 12). The average number of people employed by the Group for the year ended 31 March 2014 was 12 (31 March 2013: 10).

Picton Property Income Limited - Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2014

8. Other operating expenses

	31 March 2014	31 March 2013
	£000	£000
Recurring costs		
Valuation expenses	71	157
Administrator fees	193	221
Auditor's remuneration	156	170
Directors' fees	202	194
Other expenses	517	625
	1,139	1,367
Exceptional costs		
Debt servicing costs	-	163
Other exceptional costs	-	62
	-	225
	1,139	1,592

Auditor's remuneration comprises:

	31 March 2014	31 March 2013
	£000	£000
Audit fees:		
Audit of Group financial statements	56	52
Audit of subsidiaries' financial statements	63	64
Audit related fees:		
Review of half year financial statements	20	14
	139	130
Non-audit fees:		
Liquidation fees	-	21
Additional controls testing	12	14
FCA CASS audit	5	5
	17	40
	156	170

9. Interest payable

	31 March 2014	31 March 2013
	£000	£000
Interest payable on loans at amortised cost	8,797	8,863
Capital additions on zero dividend preference shares	1,647	1,881
Interest on obligations under finance leases	115	115
Amortisation of finance costs	473	815
	11,032	11,674

The loan arrangement costs incurred to 31 March 2014 are £5,275,000 (31 March 2013: £5,275,000), these are amortised over the duration of the loans with £473,000 written off in the year ended 31 March 2014. For the year ended 31 March 2013 £815,000 was written off to the Statement of Comprehensive Income; of which £531,000 related to the previous loan facilities.

Picton Property Income Limited - Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2014

10. Tax

The charge for the year is:

	31 March 2014	31 March 2013
	£000	£000
UK income tax at 20%	357	272
	357	272

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:

	31 March 2014	31 March 2013
	£000	£000
Profit/(loss) before taxation	37,705	(14,335)
Expected tax charge on ordinary activities at the standard rate of taxation of 20%	7,541	(2,867)
Less:		
Revaluation (gains)/losses not taxable	(4,816)	5,174
Income not taxable, including interest receivable	(64)	(163)
Expenditure not allowed for income tax purposes	542	986
Losses utilised	(10)	(23)
Capital allowances and other allowable deductions	(2,836)	(2,835)
Total tax charge	357	272

For the year ended 31 March 2014 there was an income tax liability of £357,000 in respect of the Group (31 March 2013: £272,000).

The Group is exempt from Guernsey taxation under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989. A fixed fee of £600 per company is payable to the State 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 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.

No deferred tax asset has been recognised from unused tax losses which total £3.0 million as the Group is only able to utilise the losses to offset taxable profits in certain discrete business streams, and the Group considers the probability of realising the benefit in future periods in these business streams as remote (31 March 2013: £2.7 million).

Picton Property Income Limited - Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2014

11. Dividends

	31 March 2014	31 March 2013
	£000	£000
Declared and paid:		
Interim dividend for the period ended 31 March 2012: 1 pence	-	3,453
Interim dividend for the period ended 30 June 2012: 1 pence	-	3,454
Interim dividend for the period ended 30 September 2012: 0.75 pence	-	2,590
Interim dividend for the period ended 31 December 2012: 0.75 pence	-	2,590
Interim dividend for the period ended 31 March 2013: 0.75 pence	2,590	-
Interim dividend for the period ended 30 June 2013: 0.75 pence	2,590	-
Interim dividend for the period ended 30 September 2013: 0.75 pence	2,682	-
Interim dividend for the period ended 31 December 2013: 0.75 pence	2,849	-
	10,711	12,087

The interim dividend of 0.75 pence per ordinary share in respect of the period ended 31 March 2014 has not been recognised as a liability as it was declared after the year end. A dividend of £2,849,000 was paid on 30 May 2014.

12. Earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing the net profit/(loss) 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/(loss) and share data used in the basic and diluted profit/(loss) per share calculation:

	31 March 2014	31 March 2013
Net profit/(loss) attributable to ordinary shareholders of the Company from continuing operations (£000)	37,348	(14,607)
Weighted average number of ordinary shares for basic and diluted profit/(loss) per share	359,866,250	345,336,118

Picton Property Income Limited - Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2014

13. Investments in subsidiaries

The Company had the following principal subsidiaries as at 31 March 2014:

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

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

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

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

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.

	31 March 2014	31 March 2013
	£000	£000
Fair value at start of year	382,729	411,744
Acquisitions	53,611	-
Capital expenditure on investment properties	2,060	1,998
Disposals	(44,850)	(72)
Realised gains/(losses) on disposal	5,660	(4)
Change in fair value	18,422	(30,937)
Transfer to assets classified as held for sale	(425)	-
Fair value at the end of the year	417,207	382,729
Historic cost at the end of the year	566,494	549,167

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2014

14. Investment properties (continued)

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

	31 March 2014 £000	31 March 2013 £000
Appraised value	423,020	386,391
Valuation of assets held under finance leases	1,166	1,483
Lease incentives held as debtors	(6,554)	(5,145)
Assets classified as held for sale	(425)	-
Fair value at the end of the year	417,207	382,729

The investment properties were valued by CBRE Limited, Chartered Surveyors, as at 31 March 2014 and 31 March 2013 on the basis of fair value in accordance with the RICS Valuation – Professional Standards (2012). The total fees earned by CBRE Limited from the Group is less than 5% of their total UK revenue.

As at 31 March 2014 The Cloisters, Dartford had an unconditional sales offer so has been reclassified as an asset held for sale. The sale completed on 16 April 2014. As at 31 March 2013 there were no assets classified as held for sale.

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

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

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

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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2014

14. Investment properties (continued)

As at 31 March 2014 all of the Group's properties are level 3 in the fair value hierarchy as it involves use of significant inputs and 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 are disclosed as follows:

	Offices	Industrial	Retail and Leisure
Appraised value (£000)	139,395	164,395	119,230
Area (sq ft, 000s)	877	2,116	516

Range of unobservable inputs:

Gross ERV (sq ft per annum)			
-range	£7.57- £46.00	£3.55- £14.86	£7.32- £81.04
-weighted average	£24.02	£7.12	£32.90
Net initial yield			
-range	0%-19.5%	5.19%- 11.71%	3.49%- 14.61%
-weighted average	6.31%	6.82%	6.31%
Reversionary yield			
-range	5.44%- 17.37%	6.08%- 12.57%	4.08%- 18.63%
-weighted average	8.60%	7.32%	5.87%
True equivalent yield			
-range	5.56%- 13.6%	6.23%- 12.62%	4.46%- 19.47%
-weighted average	8.43%	7.49%	6.43%

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	Impact on Valuation
Industrial	Increase of 50 basis points	Decrease of £11.3m
	Decrease of 50 basis points	Increase of £13.0m
Office	Increase of 50 basis points	Decrease of £9.0m
	Decrease of 50 basis points	Increase of £10.2m
Retail & Leisure	Increase of 50 basis points	Decrease of £x.xm
	Decrease of 50 basis points	Increase of £x.xm

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2014

15. Accounts receivable

	31 March 2014 £000	31 March 2013 £000
Current		
Tenant debtors (net of provisions for bad debts)	2,327	1,435
Lease incentives	6,554	5,145
Other debtors	749	892
Capitalised finance costs	472	473
	10,102	7,945
Non-current		
Capitalised finance costs	4,046	4,518
	4,046	4,518
	14,148	12,463

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

16. Cash and cash equivalents

	31 March 2014 £000	31 March 2013 £000
Cash at bank and in hand	16,006	14,311
Short term deposits	16,346	8,595
	32,352	22,906

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

	31 March 2014 £000	31 March 2013 £000
Accruals	3,180	2,544
Deferred rental income	6,702	6,784
VAT liability	1,530	1,035
Income tax liability	228	265
Trade creditors	499	580
Other creditors	2,191	2,412
	14,330	13,620

Picton Property Income Limited - Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2014

18. Loans and borrowings

	Maturity	31 March 2014 £000	31 March 2013 £000
Current			
Secured loan facility	-	968	927
Unsecured loan stock	-	1,967	2,072
		2,935	2,999
Non-current			
Secured loan facility	20 July 2022	33,718	33,718
Secured loan facility	24 July 2027	80,000	80,000
Secured loan facility	24 July 2032	92,995	93,963
Zero dividend preference shares	15 October 2016	24,368	22,720
		231,081	230,401
		234,016	233,400

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

Additionally the Group has a term loan facility agreement with Aviva Commercial Finance Limited for £95.3 million, which was fully drawn on 24 July 2012. The loan is for a term of 20 years, with approximately one third repayable over the life of the loan in accordance with a scheduled amortisation profile. The Group has repaid £0.9 million in the year (2013: £0.4 million). Interest on the loan is fixed at 4.38% over the life of the loan. The facility has a loan to value covenant of 65% and a debt service cover ratio of 1.4. The facility is secured over the Group's properties held by Picton No 3 Limited Partnership, Picton Property No 3 Limited and the JPUTs.

The fair value of the secured loan facilities at 31 March 2014, estimated as the present value of future cash flows discounted at the market rate of interest at that date, was £188.3 million (2013: £202.0 million). The fair value of the secured loan facilities is classified as Level 2 under the hierarchy of fair value measurements.

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

The fair value of the zero dividend preference shares at 31 March 2014, based on the quoted market price at that date, was £25.9 million (2013: £23.7 million). The fair value of the zero dividend preference shares is classified as Level 1 under the hierarchy of fair value measurements.

The Group's unsecured loan stock pays interest at 0.5% above six month LIBOR. The loan stock is repayable at the request of the holders on 31 March and 30 September each year. The Group has the option to repay the loan stock at any time by giving four months notice.

The weighted average interest rate on the Group's borrowings as at 31 March 2014 was 4.51% (31 March 2013: 4.49%).

Picton Property Income Limited - Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2014

19. Contingencies and capital commitments

The Group has entered into contracts for the refurbishment of 17 properties with commitments outstanding at 31 March 2014 of approximately £1.9 million, (2013: £1.0 million). There was also a contractual obligation in place at year end to purchase an investment property for £11.5 million. No further obligations to construct or develop investment property or for repairs, maintenance or enhancements were in place as at 31 March 2014.

20. Share capital

	31 March 2014 £000	31 March 2013 £000
Authorised:		
Unlimited number of ordinary shares of no par value	-	-
Issued and fully paid:		
379,869,729 ordinary shares of no par value (31 March 2013: 345,336,118)	-	-
Share premium	57,192	39,149

On 5 September 2013 the Company issued 12,305,185 new ordinary shares of no par value at 51.5 pence per share for cash of £6,337,000 and on 27 November 2013 issued a further 22,228,426 new ordinary shares of no par value at 53.5 pence per share for cash of £11,892,000. The consideration received net of expenses has been credited to the share premium account.

Subject to the solvency test contained in the Companies (Guernsey) Law, 2008 being satisfied, ordinary shareholders are entitled to all dividends declared by the Company and to all of the Company's assets after repayment of its borrowings and ordinary creditors. Ordinary shareholders have the right to vote at meetings of the Company. All Ordinary Shares carry equal voting rights.

The Directors have authority to buy back up to 14.99% of the Company's ordinary shares in issue, subject to the annual renewal of the authority from shareholders and provided that the ZDP Share Cover for the ZDPs is not less than 3.5 times, after the proposed repurchase. Any buy back of ordinary shares will be made subject to Guernsey law, and the making and timing of any buy backs will be at the absolute discretion of the Board.

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

	31 March 2014 £000	31 March 2013 £000
(Profit)/loss on disposal of investment properties	(5,660)	4
(Increase)/decrease in investment property valuation	(18,422)	30,937
Depreciation of tangible assets	47	32
Increase in receivables	(2,158)	(1,379)
Increase/(decrease) in payables	765	(1,932)
	(25,428)	27,662

Picton Property Income Limited - Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2014

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:

	31 March 2014 £000	31 March 2013 £000
Future minimum payments due:		
Within one year	116	116
In the second to fifth years inclusive	466	466
After five years	7,965	8,082
	8,547	8,664
Less: finance charges allocated to future periods	(6,717)	(6,832)
Present value of minimum lease payments	1,830	1,832

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

	31 March 2014 £000	31 March 2013 £000
Current		
Within one year	104	108
	104	108
Non-current		
In the second to fifth years inclusive	352	385
After five years	1,374	1,339
	1,726	1,724
	1,830	1,832

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):

	31 March 2014 £000	31 March 2013 £000
Within one year	29,495	30,539
In the second to fifth years inclusive	94,845	93,144
After five years	122,343	144,494
	246,683	268,177

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 5 years.

Picton Property Income Limited - Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2014

23. Net asset value

The net asset value per ordinary share is based on net assets at the year end and 379,869,729 (31 March 2013: 345,336,118) ordinary shares, being the number of ordinary shares in issue at the year end.

At 31 March 2014, the Company had a net asset value per ordinary share of £0.56 (31 March 2013: £0.49).

24. Financial instruments

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

Categories of financial instruments

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

31 March 2013	Note	Held at fair value through profit or loss £000	Financial assets and liabilities at amortised cost £000	Total £000
Financial assets				
Cash and cash equivalents	16	-	22,906	22,906
Accounts receivable	15	-	12,463	12,463
		-	35,369	35,369
Financial liabilities				
Loans	18	-	233,400	233,400
Obligations under finance leases	22	-	1,832	1,832
Accounts payable and accruals	17	-	13,620	13,620
		-	248,852	248,852

Picton Property Income Limited - Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2014

25. Risk management

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

Capital risk management

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

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

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

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

	31 March 2014 £000	31 March 2013 £000
Total liabilities	250,176	248,852
Less: cash and cash equivalents	32,352	22,906
Net debt	217,824	225,946
 Total equity	 214,096	 169,416
 Net debt to equity ratio at end of year	 1.02	 1.33

Interest rate risk management

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

Picton Property Income Limited - Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2014

25. Risk management (continued)

Interest rate risk

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

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

31 March 2013	Less than one year £000	1 to 5 Years £000	More than 5 years £000	Total £000
<u>Floating</u>				
Cash and cash equivalents	22,906	-	-	22,906
Unsecured loan stock	(2,072)	-	-	(2,072)
<u>Fixed</u>				
Secured loan facilities	(927)	(4,140)	(203,541)	(208,608)
Zero dividend preference shares	-	(22,720)	-	(22,720)
	19,907	(26,860)	(203,541)	(210,494)

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 2014				
Financial assets				
Cash and cash equivalents	16	-	32,352	32,352
Tenant debtors	15	-	2,327	2,327
		-	34,679	34,679
31 March 2013				
Financial assets				
Cash and cash equivalents	16	-	22,906	22,906
Tenant debtors	15	-	1,435	1,435
		-	24,341	24,341

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2014**

25. Risk management (continued)

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

Trade debtors consist of a large number of occupiers, spread across diverse industries and geographical areas. On-going 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 £1,400,000 (2013: £540,000) 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.

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 on-going 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 2014 Standard & Poor's credit rating for Nationwide 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 manages liquidity risk by maintaining adequate reserves and loan facilities by continuously monitoring forecasts and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Picton Property Income Limited - Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2014

25. Risk management (continued)

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 1 year £000	1 to 5 years £000	More than 5 years £000	Total £000
31 March 2014				
Cash	32,392	-	-	32,392
Accounts receivable	10,102	4,046	-	14,148
Finance lease liability	(116)	(466)	(1,248)	(1,830)
Fixed interest rate loans	(9,708)	(67,945)	(281,786)	(359,439)
Floating interest rate facility	(1,978)	-	-	(1,978)
Accounts payable and accruals	(14,330)	-	-	(14,330)
	16,362	(64,365)	(283,034)	(331,037)
31 March 2013				
Cash	22,935	-	-	22,935
Accounts receivable	7,945	4,518	-	12,463
Finance lease liability	(116)	(466)	(1,250)	(1,832)
Fixed interest rate loans	(9,708)	(67,945)	(291,494)	(369,147)
Floating interest rate facility	(2,086)	-	-	(2,086)
Accounts payable and accruals	(13,620)	-	-	(13,620)
	5,350	(63,893)	(292,744)	(351,287)

Market risk

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

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

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

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

The valuation of the Group's property assets is subject to changes in market conditions. Such changes are taken to the 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 £21.2 million (31 March 2013: £19.3 million).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2014**

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 4.2% of the Group's annual contracted rental income.

Currency risk

The Group has no exposure to foreign currency risk.

26. Related party transactions

The total fees earned during the year by the five Directors of the Company was £202,000 (31 March 2013: £194,000). As at 31 March 2014 the Group owed £nil to the Directors (31 March 2013: £nil). The emoluments of each Director are set out in the Remuneration Report section of the Directors' Report.

Picton Property Income Limited has no controlling parties.

27. Events after the balance sheet date

A dividend of £2,849,000 (0.75 pence per share) was approved by the Board on 22 April 2014 and paid on 30 May 2014.

The Group has disposed of one property since 31 March 2014 for proceeds of £425,000 and made one acquisition for £11,475,000, before costs of disposal and acquisition respectively.

The Company announced its intention to undertake an initial offer, offer for subscription and placing programme on 1 May 2014. On 19 May an extraordinary general meeting was held at which shareholders approved these proposals and on 23 May the Company issued 59,322,034 shares at 59 pence per share, raising £33.8 million after costs, bringing the total number of shares in issue to 439,191,763.

Picton Property Income Limited - Other Information

SUPPLEMENTARY DISCLOSURES (UNAUDITED)

Ongoing Charges

The Ongoing charges figure 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 Ongoing Charges uses the annual recurring operational expenses as a percentage of the average net asset value over the period.

	31 March 2014 £000	31 March 2013 £000
Property expenses	4,210	4,102
Management expenses	2,127	1,682
Other operating expenses	1,139	1,592
Exclude:		
Exceptional costs (see note 8)	-	(225)
Recurring operational expenses	7,476	7,151
Average Net Asset Value over the year	192,073	177,279
Ongoing charges	3.9%	4.0%
Ongoing charges (excluding property expenses)	1.7%	1.7%

Loan to Value

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

	31 March 2014 £000	31 March 2013 £000
Total borrowings	234,016	233,400
Less:		
Cash and cash equivalents	(32,352)	(22,906)
Total net borrowings	201,664	210,494
Investment property valuation	423,020	386,391
Loan to value	47.7%	54.5%

Gearing

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

	31 March 2014 £000	31 March 2013 £000
Total assets	464,272	418,268
Less:		
Cash and cash equivalents	(32,352)	(22,906)
	431,920	395,362
Total equity	214,096	169,416
Gearing	101.7%	133.4%

Picton Property Income Limited - Other Information

EPRA Disclosures

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.

	31 March 2014 £000	31 March 2013 £000
Profit/(loss) for the year after taxation	37,348	(14,607)
Exclude:		
Investment property valuation movement	(18,422)	30,937
(Gain)/loss on disposal of investment properties	(5,660)	4
Change in fair value of derivative financial instruments	-	(1,617)
EPRA earnings	13,266	14,717
Weighted average number of shares in issue (000s)	359,866	345,336
EPRA earnings per share	3.7p	4.3p

EPRA NAV per share

The EPRA Net Asset Value highlights the fair value of net assets on an on-going, 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.

	31 March 2014 £000	31 March 2013 £000
Balance Sheet net assets	214,096	169,416
Fair value of financial instruments	-	-
Deferred tax	-	-
EPRA NAV	214,096	169,416
Shares in issue (000s)	379,870	345,336
EPRA NAV per share	56p	49p

Picton Property Income Limited - Other Information

EPRA NNNAV per share

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

	31 March 2014 £000	31 March 2013 £000
EPRA NAV	214,096	169,416
Fair value of debt	17,817	5,747
Deferred tax	-	-
EPRA NNNAV	231,913	175,163
Shares in issue (000s)	379,870	345,336
EPRA NNNAV per share	61p	51p

EPRA Net Initial Yield (NIY)

EPRA NIY is calculated as the annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the gross market valuation of the properties.

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

EPRA "topped-up" Net Initial Yield

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

	31 March 2014 £000	31 March 2013 £000
EPRA NIY annualised net rents	28,942	28,786
Annualised cash rent that will apply at expiry of lease incentives	880	1,691
Topped-up annualised net rents	29,822	30,477
EPRA "topped-up" NIY	6.7%	7.4%

Picton Property Income Limited - Other Information

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.

	31 March 2014 £000	31 March 2013 £000
Annualised potential rental value of vacant premises	2,956	4,170
Annualised potential rental value for the complete property portfolio	33,810	33,559
EPRA Vacancy Rate	8.7%	12.4%

EPRA Cost Ratio

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

	31 March 2014 £000	31 March 2013 £000
Property operating expenses	2,527	2,426
Property void costs	1,683	1,676
Management expenses	2,127	1,682
Other operating expenses	1,139	1,592
Less:		
Ground rent costs	(249)	(207)
EPRA Costs (including direct vacancy costs)	7,227	7,169
Property void costs	(1,683)	(1,676)
EPRA Costs (excluding direct vacancy costs)	5,544	5,493
Gross rental income	31,036	32,125
Less ground rent costs	(249)	(207)
Gross rental income	30,787	31,918
EPRA Cost Ratio (including direct vacancy costs)	23.5%	22.5%
EPRA Cost Ratio (excluding direct vacancy costs)	18.0%	17.2%

EPRA Sustainability Reporting

The table below sets out 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	32,913	10,423	6.8
Office	7,705,700	5,002,849	3,474.3
Retail and Leisure	410,685	2,528,888	1,011.1
Total	8,149,298	7,542,160	4,492.2

Where data was unavailable, consumption has been estimated using intensity ratios. Estimated data accounts for less than 1% of electricity data and 29% of gas data.

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

Picton Property Income Limited - Other Information

Sector	Total direct emissions (tCO ₂ e)	Total indirect emissions (tCO ₂ e)	GHG emissions intensity (kgCO ₂ e/m ² /year)
Industrial	1.9	14.7	2.7
Office	920.7	3,432.7	1,266.5
Retail and Leisure	465.4	183.0	254.3
Total	1,388.0	3,630.4	1,523.5

Note: Scope 1 and 2. Where data was unavailable, emissions were estimated using intensity ratios. Estimated data accounts for less than 9% of emissions.

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	5,356.4	0.9
Office	33,164.2	7.9
Retail and Leisure	7,936.1	2.7
Total	46,456.7	11.5

Where data was unavailable, consumption has been estimated using intensity ratios. Estimated data accounts for 26% of water consumption.

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

Sector	Recycling (tonnes)	Composting (tonnes)	Recovery (tonnes)	Incineration (tonnes)	Landfill (tonnes)	Other (tonnes)	Total (tonnes)
Industrial	21.2	-	7.3	-	4.2	-	32.7
Office	138.9	17.5	0.1	2.4	91.6	0.3	250.8
Total	160.1	17.5	7.4	2.4	95.8	0.3	283.5
Proportion of waste by disposal route (%)	56	6	3	1	34	0	100

Where data was unavailable, waste weights have been estimated. Estimated data accounts for 37% of waste data. Proportion of waste by disposal route was estimated using proportions of actual data available.

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	3,427.9	17,303
Air	7,846.4	45,419
Train	1,122.0	22,879
All transport	12,396.3	85,601

Picton Property Income Limited - Other Information

FIVE YEAR FINANCIAL SUMMARY

Income Statements	2014	2013	2012	2010	2009
Net property income	27.7	29.8	36.2	30.8	28.3
Management expenses	(2.1)	(1.7)	(3.8)	(2.9)	(3.2)
Other operating expenses	(1.1)	(1.6)	(2.1)	(2.4)	(1.5)
Exceptional costs	-	-	(1.8)	(0.9)	(1.5)
Income profit	24.5	26.5	28.5	24.6	22.1
Net finance costs	(10.9)	(11.5)	(14.6)	(10.1)	(10.1)
Income profit before tax	13.6	15.0	13.9	14.5	12.0
Tax	(0.4)	(0.3)	0.3	(0.3)	-
Income profit after tax	13.2	14.7	14.2	14.2	12.0
Property gains and losses	24.1	(30.9)	(13.9)	18.0	(31.9)
Financing gains and losses	-	1.6	6.2	(0.6)	0.6
Profit/loss after tax	37.3	(14.6)	6.5	31.6	(19.3)
Dividends paid	10.7	12.1	17.3	13.5	9.9
Balance Sheets	2014	2013	2012	2010	2009
Investment properties	417.6	382.7	411.7	424.3	352.6
Borrowings	(234.0)	(233.4)	(233.0)	(245.9)	(217.3)
Other assets and liabilities	30.5	20.1	17.4	28.5	45.8
Net assets	214.1	169.4	196.1	206.9	181.1
Net asset value per share (pence)	56	49	57	60	55
EPRA net asset value per share (pence)	56	49	58	63	58
Earnings per share (pence)	10.4	(4.2)	1.9	9.3	(5.9)
Dividends per share (pence)	3.0	3.5	5.0	4.0	3.0
Dividend cover (%)	124	122	82	105	121
Share price (pence)	56.8	40.0	41.3	53.5	53.8

All figures are in £million unless otherwise stated.

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

Picton Property Income Limited - Other Information

SHAREHOLDER INFORMATION

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.

Directors

Nicholas Thompson (Chairman)
Trevor Ash
Vic Holmes
Roger Lewis
Robert Sinclair

Registered Office

PO Box 255
Trafalgar Court
Les Banques
St Peter Port
Guernsey
GY1 3QL

Administrator and Secretary

Northern Trust International Fund Administration Services (Guernsey) Limited
PO Box 255, Trafalgar Court
Les Banques
St Peter Port
Guernsey
GY1 3QL

Registered Number: 43673

T: 01481 745 001

E: team_picton@ntrs.com

Investment Manager

Picton Capital Limited
28 Austin Friars
London
EC2N 2QQ

T: 0207 628 4800

E: enquiries@pictoncapital.co.uk

Registrar

Computershare Investor Services (Guernsey) Limited
NatWest House
Le Truchot
St Peter Port
Guernsey
GY1 1WD

Website

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

The site can be found at:

www.pictonproperty.co.uk

Corporate Brokers

JP Morgan Securities Limited
25 Bank Street
London
E14 5JP

Oriel Securities Limited

150 Cheapside
London
EC2V 6ET

Auditor

KPMG Channel Islands Limited
20 New Street
St Peter Port
Guernsey
GY1 4AN

Media

Tavistock Communications
131 Finsbury Pavement
London
EC2A 1NT

T: 020 7920 3150

E: jverstringhe@tavistock.co.uk

Solicitors

As to English Law

Norton Rose Fulbright LLP
3 More London Riverside
London
SE1 2AQ

As to English Property Law

DLA Piper UK LLP
India Buildings
Water Street
Liverpool
L2 0NH

Picton Property Income Limited - Other Information

Property Valuers

CBRE Limited
Henrietta House
Henrietta Place
London
W1G 0NB

Tax Adviser

Deloitte LLP
Hill House
1 Little New Street
London
EC4A 3TR

Solicitors

As to Guernsey Law

Carey Olsen
PO Box 98
Carey House
Les Banques
St Peter Port
Guernsey
GY1 4BZ

Financial Calendar	
Annual Results announced	16 June 2014
Annual Results posted to shareholders	18 July 2014 (provisional)
Annual General Meeting	12 November 2014
Interim Management Statement (first half)	July 2014 (provisional)
2014 Half Year Results to be announced	November 2014 (provisional)
Interim Management Statement (second half)	January 2015 (provisional)
Dividend Payment Dates	August/November/February/May

Picton Property Income Limited - Other Information

GLOSSARY OF TERMS

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

Picton Property Income Limited - Other Information

Lease incentives	Incentives offered to occupiers to enter into a lease. Typically this will be an initial rent-free period, or a cash contribution to fit-out. Under accounting rules the value of the lease incentives is amortised through the Income Statement on a straight-line basis until the lease expiry.
NAV	Net Asset Value is the equity attributable to shareholders calculated under IFRS.
Ongoing charges	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.
Reversionary yield	The estimated rental value as a percentage of the gross property value.
Weighted average debt maturity	Each tranche of Group debt is multiplied by the remaining period to its maturity and the result is divided by total Group debt in issue at the period end.
Weighted average interest rate	The Group loan interest per annum at the period end, divided by total Group debt in issue at the period end.
Weighted average lease term	The average lease term remaining to first break, or expiry, across the portfolio weighted by contracted rental income (including rent-frees).
ZDP	Zero dividend preference share.
ZDP share cover	The Group's net asset value, including any accrued ZDP capital additions, divided by the final ZDP liability on their maturity.