



PICTON / Occupier focused,
Opportunity led.

Picton Property Income Limited Annual Report 2023



Adapting & Outperforming

04 Purpose and Strategy

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



08



Responding to uncertainty: adapting and outperforming

We have continued to increase rental income, outperforming the MSCI UK Quarterly Property Index for ten consecutive years.

28

Portfolio Review

This year has seen significant asset management activity, increasing passing rent and estimated rental value (ERV).



18



Chief Executive's Review

Against a challenging economic backdrop, we continue to explore opportunities to maximise the earnings potential from our portfolio. We have continued to make good progress against our strategic objectives and our key sustainability priorities.

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Governance

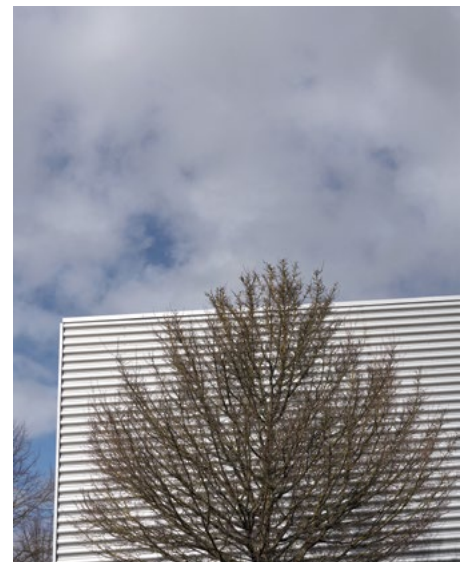
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Business Overview

Performance summary



Despite the challenges of inflation and higher interest rates, we have maintained both our EPRA earnings and our long-term track record of outperformance.

We are continuing to upgrade and adapt our assets, ensuring they remain relevant and attractive to our occupiers, providing income sustainability.

As a business, we are in a resilient position. We have a strong capital structure with attractive long-term fixed rate debt. Our portfolio offers significant income upside, and we are already starting to see stability in asset values.

Lena Wilson CBE
Chair

EPRA earnings
per share

3.9p

Dividend cover

112%

Dividends paid
per share

3.5p

NAV per share

100p



Read more in our Chair's Introduction to the Governance Report on pages **80-81**



Highlights 2022/23

Financial performance

£21m

Stable EPRA earnings

£766m

Portfolio valuation

£548m

Net asset value

£19m

Dividends paid

4% higher than preceding year

112%

Dividend cover

Defensive capital structure

27%

Loan to value

95%

Of borrowings fixed,
with 2031/2032 maturities

3.8%

Weighted average interest rate

£571m

EPRA Net Disposal Value
£23m higher than net assets
reflecting fair value of debt

£38m

Undrawn debt facilities



Resilient operational performance

Outperforming
property portfolio
relative to MSCI
UK Quarterly
Property Index

99%

Rent collection

91%

Occupancy

Capturing rental growth through:

39

Lettings

25% ahead of March 2022 ERV

37

Lease extensions/regears

6% ahead of March 2022 ERV

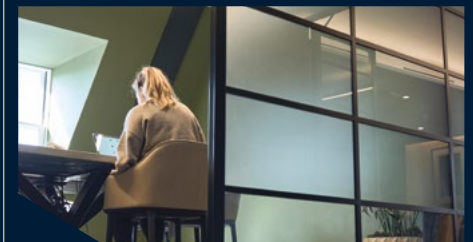
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Rent reviews

7% ahead of March 2022 ERV

Like-for-like
increase in
passing rent
of 10% and
contracted rent
of 3%

9% like-for-like
increase in
estimated
rental value



Increased investment with sustainability focus

£6m

Invested into upgrading
over 15 assets

£21m

Invested in new acquisitions

100%

Compliance

with 2023 EPC minimum standards

76%

EPC ratings A-C

Improved from 71%

Net zero
carbon pathway
progress

including installation of solar arrays

24%

Reduction in Scope 1 & 2 emissions

compared to 2019 baseline

85%

Energy data coverage

Improved from 75%

The Financial Statements are prepared under IFRS. We use a number of alternative performance measures (APMs) when reporting on the performance of the business and its financial position. In common with many other listed property companies we report the EPRA performance measures. In the Additional Information section of this report on pages 155-158 we provide more detailed information and reconciliations to IFRS where appropriate.

Our purpose

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

Our values

Principled

We are professional, diligent and strategic.

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

Perceptive

We are insightful, thoughtful and intuitive.

Demonstrated through our long-term track record, our gearing strategy, our dynamic positioning of the portfolio, and engagement with our occupiers.

Progressive

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

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

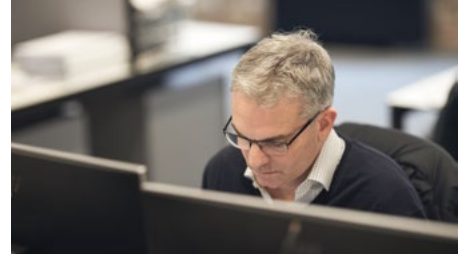
 For more detailed information on our stakeholders, see our Section 172 statement on pages **90-91**

Creating stakeholder value

Shareholders

£19m

Dividends paid



Occupiers

£6m

Invested into upgrading properties



Communities

23

Charities supported



Our people

82%

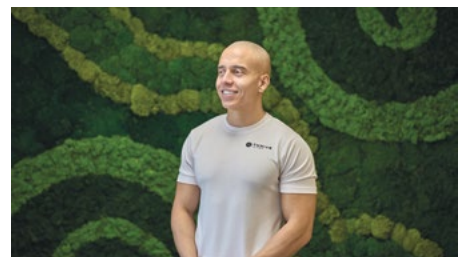
Employee satisfaction score



The environment

76%

EPC ratings A-C



Strategy

Our strategic priorities

Through our occupier focused, opportunity led approach, we aim to be one of the consistently best performing diversified UK REITS. Our strategic priorities guide the direction of our business and are reviewed annually.

Portfolio Performance



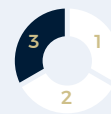
- 1 Creating and owning a portfolio which provides income and capital growth
- 2 Growing occupancy and income profile
- 3 Enhancing asset quality, providing space that exceeds occupier expectations
- 4 Outperforming the MSCI UK Quarterly Property Index

Operational Excellence



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

Acting Responsibly



- 1 Progressing our environmental focus and reducing our emissions to become carbon net zero by 2040
- 2 Working closely and engaging with our occupiers, shareholders, communities and other stakeholders
- 3 Ensuring we maintain our company values, positive working culture and alignment of the team
- 4 Having strong governance and transparent reporting to ensure the long-term success of the business



For details on the associated risks see pages **42-46**



For details on connected KPIs see pages **22-25**



For details on our strategic progress see the Chief Executive's Review on pages **18-21**

Our business model

How we create value

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



This is underpinned by:

Risk management

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

Responsible stewardship

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

01/

Knowledge, expertise and research led decision making

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

02/

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

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

03/

Creating value through proactive asset management

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

04/

Selling assets to recycle into better opportunities

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

What makes us different

Long-term outperformance through a diversified approach

We have a long-term performance track record, outperforming the MSCI UK Quarterly Property Index for ten consecutive years. We own a diverse range of assets which enables us to position the portfolio as market conditions dictate and have delivered upper quartile performance over three, five and ten years, and since launch in 2005.



Read more on pages **10-11**

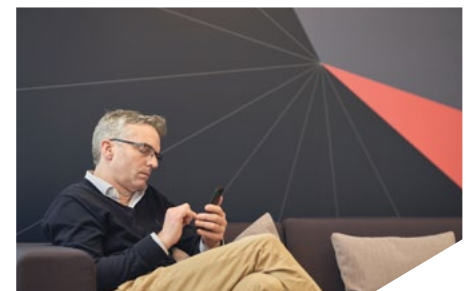


Aligned and high performing management team

Our experienced, knowledgeable and long-standing team has a proven track record of success since internalisation in 2012. Our internally managed and agile business model enables cost efficiencies and flexibility to adapt to changing property cycles.



Read more on pages **10-17**



Occupier focused, opportunity led

Our collaborative approach ensures we engage with our occupiers to create spaces to help them succeed. Our proactive asset management helps to maintain high occupancy across the portfolio.



Read more on pages **32-37**



Sustainable thinking, responsible business

Our responsible approach to business with an increasing environmental focus is essential for the benefit of all our stakeholders and understanding the long-term impact of our decisions helps us to manage risk and continue to generate value.



Read more on pages **56-77**



Adapting & outperforming

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





Creating spaces for our occupiers to succeed

Responding to market uncertainty: adapting and outperforming



Portfolio at a glance

Industrial weighting	57%
Office weighting	32%
Retail and Leisure weighting	11%
Occupiers	400
Assets	49
Portfolio valuation	£766m

OUR CONSISTENT TRACK RECORD OF OUTPERFORMANCE

We have outperformed against the MSCI UK Quarterly Property Index again this year. We have a track record that includes ten consecutive years of outperformance and long-term upper quartile performance over three, five and ten years, and since launch in 2005.

Our asset allocation, stock selection and asset management have delivered outperformance and a consistently higher income return than the Index over the long-term.

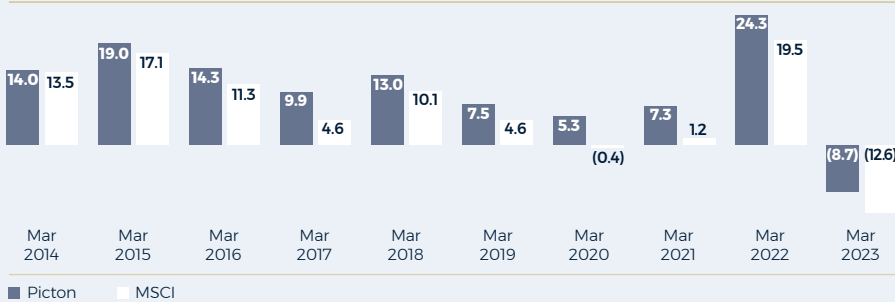
We are ranked fifth out of 141 portfolios over the last ten years and we have won 23 awards since 2015.



Our diversified portfolio exposure has been key to our sustained outperformance against the MSCI Index.

Michael Morris
Chief Executive

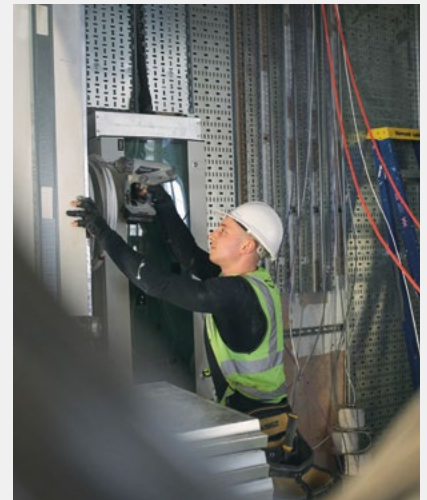
Annual total property return %



PROACTIVE ASSET MANAGEMENT

Occupational demand remains resilient and over the year we have successfully increased income through proactive asset management and investing in sustainable refurbishment upgrades across our portfolio.

Read more on pages **12-13**



CREATING SPACES FOR A NET ZERO FUTURE

We have committed to achieving net zero carbon by 2040 and this target covers the whole life carbon of our assets, including the energy use of our occupiers.

To meet our commitment, we have set targets for whole building energy efficiency for each asset type and embodied carbon related to major refurbishments, as well as reducing operational emissions as much as possible through energy efficiency measures and renewable energy.



ADAPTING TO CHANGING MARKET CONDITIONS

Recognising the changes in the office sector and a greater desire for flexible, short-term leases, our SwiftSpace offering provides small to medium-sized businesses with bespoke flexible leasing solutions. We are able to create fully fitted workspaces, to enable businesses to move straight in and be up and running in no time.

Read more on pages **14-15**

Read more on pages **16-17**

Proactive management: increasing income from our recent Gloucester acquisitions



We have successfully increased income through proactive asset management and refurbishment.

Jay Cable
Head of Asset Management



Our combined ownership in Gloucester totals over 29 acres, having acquired two adjoining city centre industrial estates in 2021/2022: Madleaze Trading Estate, and Mill Place Trading Estate.

Since our acquisition of the estates, we have been focused on improving their appeal for our existing occupiers as well as to attract new businesses.

The two estates provide 670,000 sq ft of warehouse and ancillary accommodation, with a site coverage of 52%. The average contracted rent across leased property on purchase was £2.76 per sq ft and there was 100,000 sq ft of vacant accommodation in need of redevelopment and refurbishment. The combined consideration was £23.5 million or £35 per sq ft.

Over the year we have increased the average contracted rent across leased property by 23% to £3.43 per sq ft and reduced the amount of vacant space by 35%.

Increased contracted rent by 23%

In 2022/23



UPGRADING THE ESTATES

In line with our net zero carbon commitment to reduce operational emissions, we have recently completed the installation of solar on one unit. Across the estates we are aiming to improve the energy efficiency of units and we directly control the electricity supply at Mill Place Trading Estate, meaning we can ensure it is renewably sourced.

We have started our programme of refurbishment upgrades across the estates and have installed new signage, LED lighting, repaired roads and enhanced security through mobile patrols, security barriers and CCTV.

We have met in person with all of our occupiers and delivered welcome packs, ensuring everyone has a direct point of contact with us.

Key activity

- Letting of eight units and compounds for a combined £0.3 million per annum, 79% ahead of the March 2022 ERV
- Secured a 29% rental uplift at a review with our largest occupier (by income), to £0.3 million per annum, 23% ahead of ERV
- Refurbished a 21,000 sq ft unit, installing solar panels and improving its EPC from a D rating to an A rating
- Acquired an adjoining unit for £0.4 million to consolidate our ownership
- Successfully relocated an existing occupier to the newly acquired unit, enabling us to secure a new letting at a record rent

£1.4m

Invested into upgrading the estates

11

Businesses attracted or retained

Summary of management and leasing activities over the year

Activity	Number	Rent per annum (£m)	Ahead of March 2022 ERV (%)	Ahead of previous passing rent (%)
Letting	8	0.3	79%	-
Lease renewal	6	0.4	18%	64%
Rent review	4	0.4	23%	33%

Sustainable refurbishments: investing in our buildings

Occupiers are increasingly prioritising energy efficient and sustainable workspaces. We are committed to enhancing the environmental performance of our buildings to ensure their operational efficiency and that they meet occupier requirements.

In line with our sustainable refurbishment guidelines, when space becomes vacant, we seek to improve its sustainability credentials in terms of certification, services, structure and building resilience.

We aim to remove fossil fuels where possible and we are also further developing our plans for on-site solar array installation across the portfolio as we continue to identify energy efficiency measures.

Improved

EPC ratings

Removed

On-site fossil fuel burning systems



PARKBURY INDUSTRIAL ESTATE, RADLETT

As part of the full refurbishment works at Unit 16, we removed a gas fired heating system from the warehouse and added new rooflights for improved natural daylight. The office area, common areas and warehouse area have all been fitted with new LED lighting. We also installed solar on the roof to provide on-site generated energy and excess electricity will be fed back into the grid which will help to greatly reduce the operational emissions of the unit. These refurbishments have improved the EPC rating of the building to an A rating.



COLCHESTER BUSINESS PARK

At Colchester Business Park we have carried out an extensive refurbishment of an industrial unit including the installation of new LED lighting and removing the gas fired heating system from the warehouse, as well as installing EV charging points and new rooflights for improved natural daylight. These works improved the EPC from a C to a B rating. We also refurbished two office suites in the business park, installing LED lighting to reduce energy consumption. These works improved the EPCs, both a D rating, to a B and an A rating respectively.



UNITS 1 & 2, WESTERN INDUSTRIAL ESTATE, BRACKNELL

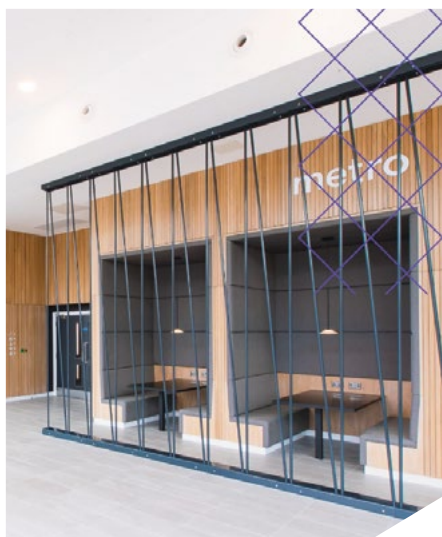
We commenced a full refurbishment of Unit 2 at Bracknell, including the addition of new LED lighting and the removal of the gas fired heating system from the warehouse. We also added new rooflights for improved natural daylight. We installed solar on the roof to improve the operational efficiency of the unit, with excess electricity to be fed back into the grid. Additionally, we installed EV charging points externally and refurbished the office area, adding new LED lighting and a new energy efficient heating and cooling system. These works are expected to improve the EPC rating of the unit to an A rating.

Installed

on-site solar energy generation

METRO, MANCHESTER

At our Metro office building, we recently carried out a full internal refurbishment and redecoration of the fifth floor office space, including installation of new LED lighting and occupier amenities, including new and improved kitchen facilities. These works improved the EPC rating from a D to a B rating.



We are committed to improving the environmental credentials of our buildings, to future-proof these in terms of certification, structure and services.

Andy Lynch
Head of Building Surveying

Our new leasing solution: Flexible, Fitted, Inclusive



We moved in with a small team in the early days of our business. We've almost quadrupled in size over the past 18 months.

Picton have always been helpful and easy to work with so we decided to stay with them by upsizing our space. They kept it simple for us, managing the entire fit-out and moving process.

Daniel Ball

The Early Careers Group, Angel Gate, London



SWIFTSPACE

FLEXIBLE LEASING PROGRESS

Last year we launched SwiftSpace, our flexible leasing offering in response to both increased competition from serviced office providers and changes in occupier demand. This flexible lease structure enables occupiers to scale their businesses as their needs evolve and is particularly suited to smaller businesses looking to return to the office or move out of serviced accommodation, yet still wanting to retain flexibility of occupation.

Rental agreements include Flexible (short-lease terms), Fitted (ready to move in space, fitted out to occupier requirements) and Inclusive (ready to move in space with no service charges or insurance costs). All three options are intended to speed up the moving in process with quick and easy documentation and reduced upfront costs.

This new flexible proposition has succeeded in attracting new occupiers looking for a more bespoke solution and has helped to grow occupancy on our smaller units. Over the year, we have to date signed nine SwiftSpace lettings, nearly a quarter of our total lettings.

SwiftSpace is available at selected multi-let offices across our portfolio, including Angel Gate, London, Longcross, Cardiff, Queen's House, Glasgow, Charlotte Terrace, London, Colchester Business Park and Trident House, St Albans.



Our suite has been finished to a high specification and is modern, bright and airy – perfect for our brand and will give a great impression to visitors and our team as we expand our new business.

Andy Tait

Sallyport, Queen's House, Glasgow

Resilient business performance



Growing occupancy is a priority as there is significant upside income potential from our current position.

Michael Morris
Chief Executive



Against a challenging economic backdrop, we have been able to grow income through our proactive approach to asset management and have successfully continued our long-term track record of outperformance.

100p

Net asset value per share

3.9p

EPRA earnings per share

Following our record profit delivered a year ago, this period has been defined by a significant change in macroeconomic conditions evidenced by rising interest rates, inflationary pressures and lower economic growth.

Driven in part by rising food and energy costs, a consequence of the disruption caused by the war in Ukraine, UK inflation has been over 10% and in response base rates have quadrupled since this time last year. Asset pricing has been adversely impacted and commercial real estate has been no exception.

In October 2022, the MSCI Monthly Index recorded the worst month of capital decline on record and a 21% decline in values between July 2022 and February 2023. After eight months and a much sharper pricing correction than during the global financial crisis in 2008, markets finally appear to have stabilised, and positive overall monthly movements were recorded in the Index in March and April 2023.

In these conditions we have continued to focus on what we can control, undertaking nearly 40% more asset management activity than last year. This has enabled us to grow rental income and the overall rental value of the portfolio.

With the majority of our debt being fixed, we are insulated from rising financing costs and have been able to report EPRA earnings of £21.3 million, marginally ahead of last year. During the year, we paid dividends of £19.1 million, 4% higher than the preceding year with strong dividend cover of 112%.

Performance

Our net assets are £548 million or 100 pence per share, a 16.6% reduction from a year ago, principally driven by the revaluation of our property portfolio. Our accounting total return was -13.9% in the year to 31 March 2023.

Our total shareholder return, reflecting share price movement and dividends paid, was -26.4%. As markets have adjusted to a higher interest rate environment so too have share prices of UK REITs and discounts have widened in the sector. However, it is encouraging to see that these discounts have narrowed more recently as reported asset values have stabilised.

Outperforming property portfolio

For the tenth consecutive year we have outperformed the MSCI UK Quarterly Property Index. We have now delivered upper quartile returns over three, five, ten years and since inception in 2005 and we are ranked fifth out of 141 portfolios over the last ten years.

At a portfolio level, we delivered a total property return of -8.7% which reflects this marked change in the macroeconomic outlook. Asset management activity drove rental growth and helped offset some of the impact of rising yields.

Growing occupancy and income

We have seen a resilient occupational market, particularly in the industrial sector, and we have been able to increase income and rental growth through asset management and acquisition activity, leading to a 3% increase in contracted rent, a 10% increase in passing rent and a 9% increase in estimated rental value, all on a like-for-like basis. Although we have been able to grow net income there has also been a rise in property costs, primarily driven by void costs, including service charges, business rates and security.

Growing occupancy is a priority as the portfolio has significant upside income potential with more than £5.3 million of additional rent available from current vacancies. With the majority of our vacancy in the office sector, we are pursuing change of use strategies at a number of office assets to include residential, student and other uses to help to reduce this void.

Concerns over the health of the UK economy and political uncertainty have led to a more cautious approach from businesses taking new space during the year. Occupancy at 31 March 2023 was 91%, lower than the previous year but up from a low of 90% at September 2022.



One of the key advantages of having a diversified approach and a team with a proven track record of managing assets across sectors through the investment cycle, is that we can draw on this experience during more challenging markets.

Michael Morris
Chief Executive

£21m

Total acquisitions

27%

Loan to value

Enhancing asset quality

We have invested £6 million into the portfolio this year, across over 15 separate projects. This is partly a reflection of the current occupancy position but also reflects further upgrading of our assets from a sustainability perspective.

We are now reviewing on a project-by-project basis whether it is appropriate to install renewable energy, primarily in the form of solar panels on refurbishments. Three projects on industrial assets have already recently completed and whilst these incur additional costs, in due course they will generate a modest supplementary revenue stream, alongside rental income.

Operational excellence

There is significant work required to upgrade our assets as we seek to reduce emissions from the portfolio and progress on our net zero pathway. This year we have expanded the team and brought in a dedicated Head of Building Surveying to oversee the increasing number of refurbishment projects that we are undertaking. They are now training to become an in-house EPC assessor, which will enable us to better understand and improve our assets.

We have decided during the year to bring our company secretarial arrangements in house and have recently appointed a dedicated resource here in London. We will be transitioning these arrangements in the coming months, following this year's Annual General Meeting.

We have received positive feedback from recent occupier engagement surveys across our office and industrial assets and have started to roll out occupier apps at a number of our multi-let office assets to improve engagement.

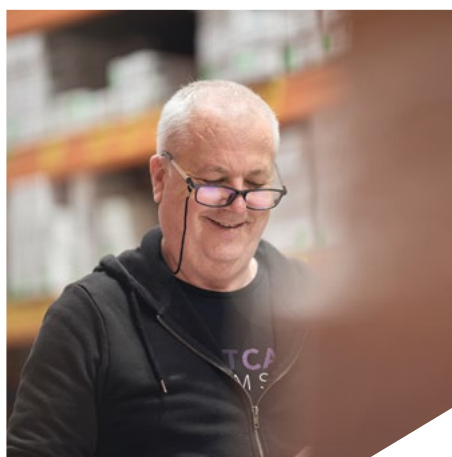
Rent collection for the year stood at over 99%.

Capital structure

We are well placed in terms of our debt structure, with over 95% of borrowing fixed until 2031/32.

Our weighted average interest rate is 3.8% per annum, well below current market rates and as our longer-term facilities are fixed directly with our lenders, there is no mark-to-market pricing of our debt in our reported net asset value. This is reflected in our EPRA NDV being £23 million higher than our net asset value.





This year, we have made significant progress, delivering rental growth and exploring and securing more valuable alternative uses at selected office assets. We have remained focused on sustainability, with further progress on our net zero carbon pathway.

Michael Morris
Chief Executive

Our loan to value ratio at the year-end was 27% and we have significant headroom against lending covenants on all our facilities.

In the current environment, in common with the wider real estate market, and with the share price trading at a discount to net asset value, it has not been possible to raise new equity.

Growth

Our internalised management model means that our costs are not linked to net asset value, so there is significant potential for earnings accretion that can be delivered through growth.

As discounts across the sector persist, the case for consolidation and the creation of larger diversified REITs remains compelling. We continue to believe that the combination of cost savings and earnings growth through economies of scale alongside greater relevance to an investor audience would be well received and there is already evidence of this being the case.

We have proactively considered opportunities during the year and we will continue to be an advocate for consolidation where it is beneficial to our shareholders.

At a portfolio level we made three acquisitions totalling £21 million during the year. The two principal acquisitions were both mixed-use assets with retail/leisure at the ground floor and offices above. One is fully leased and at the other we have applied for planning consent for residential conversion in respect of some of the vacant space.

Acting responsibly

As part of our further commitment to integrate sustainability into the business this year, we have included our sustainability reporting within our annual report rather than producing a separate report.

The team is increasing its efforts to ensure our assets are relevant and in demand in a net zero future. This year we have set up a Climate Action Working Group covering all areas of the business, ensuring that there is a cohesive approach to our net zero commitments, mitigating the risks of climate change and adapting our portfolio to reduce emissions.

Specifically, we have been able to reduce our Scope 1 and 2 emissions by 24% compared to our 2019 baseline year.

We have improved the overall EPC ratings of our assets, with 100% of the units within the portfolio being compliant with 2023 EPC minimum standards and 76% by rental value have an EPC rating A-C.

We have started to incorporate on-site renewable energy across larger refurbishments and provide greater engagement with occupiers on this issue, further embedding sustainability into our day-to-day activities.

Although progress is encouraging, we recognise that we must continue to maintain our focus to meet our 2040 net zero commitment.

Outlook

Despite macroeconomic conditions, the economy and indeed occupier markets have remained resilient. Equally, the interest rate environment, both in terms of short-term rates and longer-term gilt yields, needs to stabilise and be more supportive, which may be possible when inflationary pressures start to subside.

As we have seen this year, whilst occupational demand and tight supply have increased rents in some markets, rising costs have also impacted construction. This, combined with rising yields in the last few months, has started to impact development viability and is likely to be a constraint on supply and support rental levels.

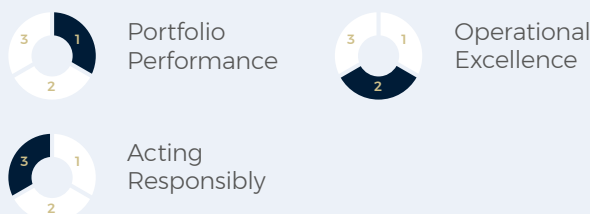
Our predominately fixed rate debt with a long maturity profile will provide earnings stability during this more challenging period. Our key focus remains on growing net income further and gaining efficiencies through growth.

Michael Morris
Chief Executive
24 May 2023

Measuring the success of the business

We have a range of key performance indicators that we use to measure the performance and success of the business.

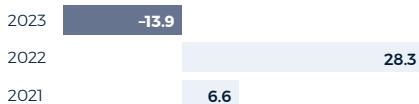
Strategic pillars



Financial KPIs

Total return (%)

A



Why we use this indicator

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

The Group's total return is used to assess whether our aim to be one of the consistently best performing diversified UK REITs is being achieved, and is a measure used to determine the annual bonus.



Our performance in 2023

Although the EPRA earnings component of total return was stable this year, the adverse valuation movements in the year resulted in a negative total return.

Total shareholder return (%)

B



Why we use this indicator

The total shareholder return measures the change in our share price over the year plus dividends paid. We use this indicator because it is the return seen by investors on their shareholdings.

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

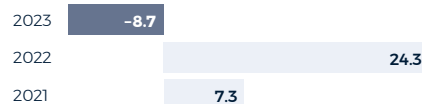


Our performance in 2023

In line with the property sector generally our share price has declined over the year, reflecting the rising interest rate environment.

Total property return (%)

C



Why we use this indicator

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

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



Our performance in 2023

We have outperformed the MSCI UK Quarterly Property Index for the tenth consecutive year, delivering a return of -8.7% compared to the Index return of -12.6% for the year. We have also delivered upper quartile outperformance against MSCI over three, five and ten years, and since inception.

We consider that industry standard measures, such as those calculated by MSCI, are appropriate to use alongside certain EPRA measures and others that are relevant to us. In this regard, we consider that the EPRA net tangible asset per share (EPRA NTA), earnings per share and vacancy rate are the most appropriate measures to use in assessing our performance.

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



For more information on **EPRA Best Practices Recommendations** see pages **155-158**



Remuneration Link

Property income return (%)

D

2023	4.4
2022	4.5
2021	4.7

Why we use this indicator

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



Our performance in 2023

The income return for the year of 4.4% was ahead of the MSCI UK Quarterly Property Index of 4.1%, and we have also outperformed over three, five and ten years, and since inception.

Loan to value ratio (%)

E

2023	26.7
2022	21.2
2021	20.9

Why we use this indicator

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



Our performance in 2023

Although there was only a marginal increase in borrowings this year, the loan to value ratio has increased, reflecting adverse movements in property valuations.

Cost ratio (%)

F

2023	1.0
2022	1.0
2021	1.0

Why we use this indicator

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



Our performance in 2023

The cost ratio has been maintained at 1.0%, despite the inflationary impact on costs and the lower valuations over the year.

EPRA KPIs

EPRA NTA per share (pence) G

2023	100
2022	120
2021	97

Why we use this indicator

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



Our performance in 2023

The EPRA NTA per share has declined this year as a result of the adverse valuation movements.

EPRA earnings per share (pence) H

2023	3.9
2022	3.9
2021	3.7

Why we use this indicator

The earnings per share, calculated in accordance with EPRA, represents the earnings from core operational activities and excludes investment property revaluations, gains/losses on asset disposals and any exceptional items. We use this because it measures the operating profit generated by the business from the core property rental business.

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



Our performance in 2023

EPRA earnings per share has remained stable at 3.9 pence this year. Higher rental income has been largely offset by increased property costs.

EPRA vacancy rate (%) I

2023	9.5
2022	7.2
2021	8.8

Why we use this indicator

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



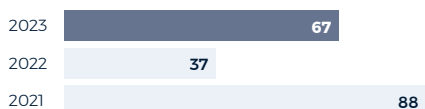
Our performance in 2023

Most of our vacancy is in the office sector which is currently a difficult market. We are holding some assets vacant as we progress alternative use strategies.

Non-financial KPIs

Retention rate (%)

J



Why we use this indicator

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



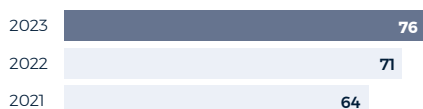
Our performance in 2023

Our higher retention rate principally reflects our active asset management approach to the portfolio.

Total ERV at risk due to lease expiries or break options totalled £5.5 million, in line with last year.

EPC rating A-C (%)

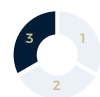
K



Why we use this indicator

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

From 1 April 2023 Minimum Energy Efficiency Standards (MEES) regulations prohibit leasing space that is F or G rated, unless an exemption certificate applies. The minimum EPC rating is likely to be raised further, with the UK Government consulting in 2021 on proposals to require a minimum of C by 1 April 2027, and B by 1 April 2030. The outcome of this consultation is awaited.

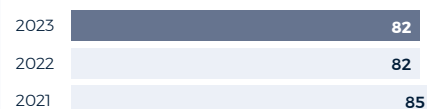


Our performance in 2023

The proportion of EPC ratings between A to C has increased against the prior year and makes up 76% of the portfolio. The remaining 24% is rated D or E.

Employee satisfaction (%)

L



Why we use this indicator

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



Our performance in 2023

Our employee satisfaction score remains at a consistently high level.

Signs of economic stability

0.1%

Increase in UK GDP in the three months to March 2023

Economic backdrop

After a tumultuous year, there are signs that the economic backdrop is beginning to stabilise.

Geopolitical tension, the war in Ukraine, rising inflation, the cost of living crisis and the fall-out from the political events and Autumn mini-budget caused unprecedented volatility, high levels of market stress and economic headwinds.

Following the end of the pandemic and the war in Ukraine's impact on energy and commodity prices and supply chains, CPI inflation rose to a peak of 11.1% in October 2022.

As a shock reaction to the Autumn mini-budget, ten-year Government bond yields increased by approximately 200 basis points in a month to reach 4.5% in late September and the value of sterling fell to historic lows. The Bank of England's response was a series of interest rate hikes, with the base rate rising from 1.75% in August 2022 to 4.5% in May 2023.

The ramifications of the increased cost of debt and rise in the risk-free rate have been multifaceted, from the impact on pensions, investment markets and property yields, to house prices, retail sales and consumer and business confidence.



Households have been impacted by the cost of living crisis, soaring fuel and energy bills, lower real incomes and rising debt and mortgage costs. Retail sales volumes did rise by 0.6% in the three months to March 2023, however this is the first rolling three-month increase since August 2021. It is hoped that increased post-pandemic tourism will go some way to compensate for weak domestic consumer demand in 2023.

The Consumer Price Index (CPI) rose by 8.7% in the 12 months to April 2023. This is the first month that consumer price inflation has been below 10% since August 2022. As inflationary pressures start to reduce, households are expected to increase spending power, helping to drive the economic recovery.

In terms of business confidence, the S&P Global/CIPS UK Composite PMI saw the longest period of decline since the Global Financial Crisis of 2007/08, experiencing six consecutive months of contraction to January 2023. This is due largely to the elevated cost of materials and labour putting pressure on profit margins, and higher financing costs hampering expansion plans. A sharp rebound began in February, and the latest data for April shows the Composite PMI was 54.9.

Although job vacancies have declined from their recent peak, at 1.08 million, they remain elevated. The strong labour market has driven up average pay; however, in real terms, wages are not keeping up with inflation.

At 3.9%, unemployment is very low by historic standards, having risen only slightly from a 50-year low of 3.5% in August 2022.

The economic backdrop is now showing positive signs of stabilisation and even recovery. GDP growth has surprised on the upside, with the UK narrowly avoiding a recession in 2022. UK GDP is estimated to have increased 0.1% in the three months to March 2023.

Inflation has been more stubborn than expected, owing largely to persistent growth in food prices. There have been improvements in supply driven inflation, as some of the production difficulties and supply chain issues faced by businesses have started to ease, leading to a fall in the price of imported goods. In addition, higher interest rates and the fall in households' disposable incomes have dampened demand driven inflation and fuel prices have fallen significantly.

Interest rate expectations have moderated compared to what was predicted in late 2022. Reduced uncertainty and falling inflation have allowed bond yields to stabilise, with ten-year Government bonds now at around 4%.

UK property market

Due to the sharp rise in the risk-free rate and cost of debt, the MSCI UK Quarterly Property Index All Property equivalent yield moved out by 85 basis points in the three months to December 2022. MSCI reported capital growth of -12.6% for this period, the fastest quarterly correction since December 2008 at the height of the Global Financial Crisis. The situation appears to now be stabilising and the three months to March 2023 saw capital growth of -1.0%.

Looking at the year to March 2023, the MSCI UK Quarterly Property Index reported an All Property total return of -12.6%, comprising -16.1% capital growth and 4.1% income return. This is in sharp contrast to the previous year; the total return for the 12 months to March 2022 was 19.5%.

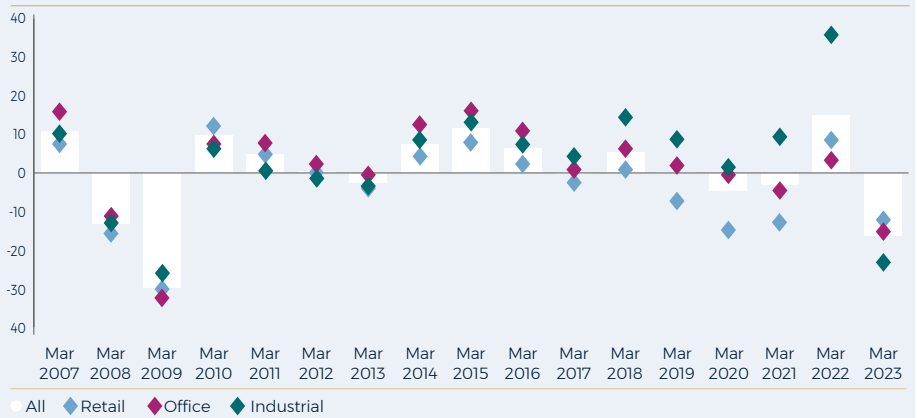
Despite the tribulations of the investment market, the occupier market saw a more encouraging performance, and All Property ERV growth for the year to March 2023 was 3.5%. This compares to 3.1% ERV growth for the year to March 2022.

Following an extraordinarily strong year of capital growth to March 2022, the low yielding industrial sector was disproportionately affected by the recent market correction. The MSCI All Industrial total return for the year to March 2023 was -20.4%, comprising capital growth of -23.2% and income return of 3.6%. Capital growth ranged from -18.7% to -27.1% between sub-sectors.

On a more positive note, due to ongoing supply constraints and healthy occupier demand, the industrial sector achieved strong rental growth for the year to March 2023 of 8.6%, ranging from 10.0% to 7.2% between sub-sectors.

In addition to the recent rise in yields experienced by all sectors, the office sector is still undergoing a structural change reflecting post-pandemic working patterns and sustainability-related costs. There is a growing trend of polarisation between prime, energy efficient space and secondary office stock and locations. MSCI reported an All Office total return of -12.3% for the year to March 2023, comprising -15.3% capital growth and 3.6% income return. Capital growth ranged from -10.3% to -22.7% between sub-sectors. ERV growth was 1.6%, ranging from 2.8% to 0.6% between sub-sectors.

MSCI UK Quarterly Property Index – Annual Capital Growth (%)



Following a prolonged phase of repricing, the retail sector suffered less of an impact from the recent correction than others. The MSCI All Retail total return for the year to March 2023 was -7.9%, comprising capital growth of -12.7% and income return of 5.4%. Capital growth ranged from -5.6% to -17.8% between sub-sectors. The wave of retailer liquidations and CVAs seems to have abated, and arguably retailers that survived the pandemic years should be better placed to weather the storm of weaker consumer demand owing to the cost of living crisis. Following four years of decline, All Retail ERV growth turned positive at 0.4%, ranging from 4.4% to -2.1% between sub-sectors.

According to analysis from Property Data, the total investment volume for the year to March 2023 was £50.6 billion, a 31% decrease on the year to March 2022. The slowdown in investment activity is only evident during the six months to March 2023, which is 58% down on the same period for the previous year.

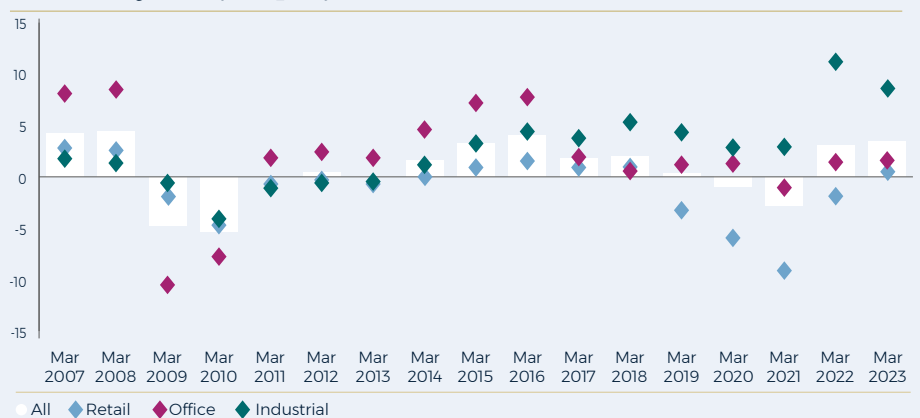
Investors have been waiting for greater stability in the macroenvironment, which has more recently been affected by concerns within the banking sector. The five-year swap rate currently stands at around 4%, placing the cost of debt just below the MSCI All Property equivalent yield.

The chart above shows the annual capital growth for All Property and the three main sectors. It illustrates the increased polarisation of sectors in more recent years, until the year to March 2023 which saw a return to a narrower range of capital growth.

The chart below shows the strength of industrial rental growth in comparison to other sectors, particularly in the last two years, and the significant rental value declines endured by the retail sector, particularly during the pandemic.

More recent data from the MSCI UK Monthly Property Index shows that property values have begun to stabilise with continued positive capital growth in the industrial and retail sectors in April.

MSCI UK Quarterly Property Index – Annual Estimated Rental Value Growth (%)



Our property portfolio consists of 49 assets. Our diverse exposure provides flexibility to adapt as market conditions dictate.

Industrial
57%

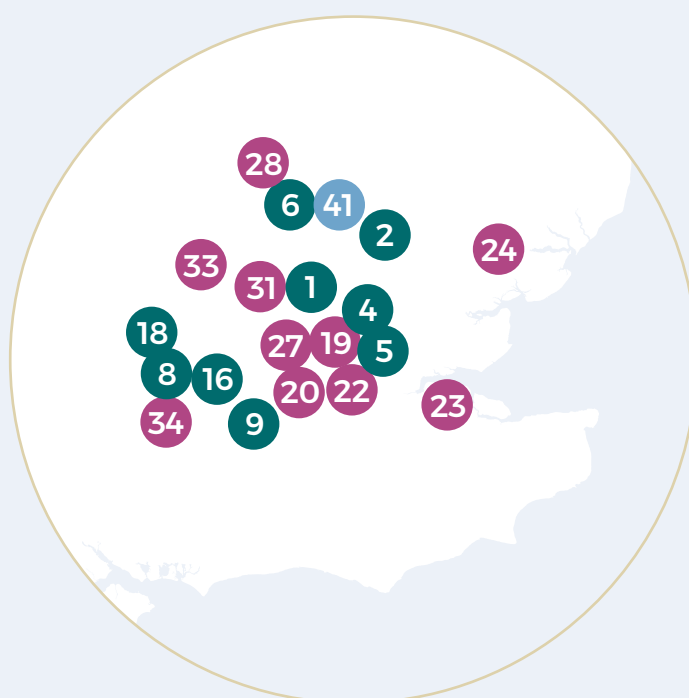
- 1 **Parkbury Industrial Estate**
Radlett
343,700 sq ft - Freehold
- 2 **River Way Industrial Estate**
Harlow
454,800 sq ft - Freehold
- 3 **Shipton Way**
Rushden
312,900 sq ft - Freehold
- 4 **Datapoint**
London E16
55,100 sq ft - Leasehold
- 5 **Lyon Business Park**
Barking
99,400 sq ft - Freehold
- 6 **Sundon Business Park**
Luton
127,800 sq ft - Freehold
- 7 **Trent Road**
Grantham
336,100 sq ft - Leasehold
- 8 **The Business Centre**
Wokingham
96,400 sq ft - Freehold
- 9 **Nonsuch Industrial Estate**
Epsom
41,400 sq ft - Leasehold
- 10 **Madleaze Trading Estate**
Gloucester
294,500 sq ft - Freehold
- 11 **Vigo 250**
Washington
246,800 sq ft - Freehold
- 12 **Mill Place Trading Estate**
Gloucester
376,800 sq ft - Leasehold
- 13 **Swiftbox**
Rugby
99,500 sq ft - Freehold
- 14 **Easter Court**
Warrington
81,800 sq ft - Freehold
- 15 **1 & 2 Kettlestring Lane**
York
157,800 sq ft - Freehold
- 16 **Downmill Road**
Bracknell
41,200 sq ft - Freehold
- 17 **Abbey Business Park**
Belfast
61,500 sq ft - Freehold
- 18 **Magnet Trade Centre**
Reading
13,700 sq ft - Freehold

Office
32%

- 19 **Angel Gate**
London EC1
64,600 sq ft - Freehold
- 20 **Stanford Building**
London WC2
20,100 sq ft - Freehold
- 21 **Tower Wharf**
Bristol
70,600 sq ft - Freehold
- 22 **50 Farringdon Road**
London EC1
31,300 sq ft - Leasehold
- 23 **30 & 50 Pembroke Court**
Chatham
86,000 sq ft - Leasehold
- 24 **Colchester Business Park**
Colchester
150,500 sq ft - Leasehold
- 25 **Metro**
Manchester
71,000 sq ft - Freehold
- 26 **180 West George Street**
Glasgow
52,200 sq ft - Freehold
- 27 **Charlotte Terrace**
London W14
32,900 sq ft - Freehold
- 28 **401 Grafton Gate**
Milton Keynes
57,500 sq ft - Freehold
- 29 **Queen's House**
Glasgow
49,400 sq ft - Freehold
- 30 **Longcross**
Cardiff
69,700 sq ft - Freehold
- 31 **Trident House**
St Albans
19,000 sq ft - Freehold
- 32 **109-117 High Street**
Cheltenham
16,800 sq ft - Freehold
- 33 **Atlas House**
Marlow
24,800 sq ft - Freehold
- 34 **Sentinel House**
Fleet
33,500 sq ft - Freehold
- 35 **Waterside House**
Leeds
25,200 sq ft - Freehold

Retail and Leisure
11%

- 36 **Queens Road**
Sheffield
105,600 sq ft - Freehold
- 37 **Parc Tawe North Retail Park**
Swansea
116,700 sq ft - Leasehold
- 38 **Gloucester Retail Park**
Gloucester
113,900 sq ft - Freehold
- 39 **Angouleme Retail Park**
Bury
76,200 sq ft - Freehold
- 40 **Regency Wharf**
Birmingham
41,000 sq ft - Leasehold
- 41 **Thistle Express**
Luton
81,600 sq ft - Leasehold
- 42 **Scots Corner**
Birmingham
25,500 sq ft - Freehold
- 43 **Crown & Mitre Building**
Carlisle
25,200 sq ft - Freehold
- 44 **53-57 Broadmead**
Bristol
13,200 sq ft - Leasehold
- 45 **78-80 Briggate**
Leeds
7,700 sq ft - Freehold
- 46 **17-19 Fishergate**
Preston
50,100 sq ft - Freehold
- 47 **72-78 Murraygate**
Dundee
9,700 sq ft - Freehold
- 48 **7-9 Warren Street**
Stockport
8,700 sq ft - Freehold
- 49 **6-12 Parliament Row**
Hanley
17,300 sq ft - Freehold



49

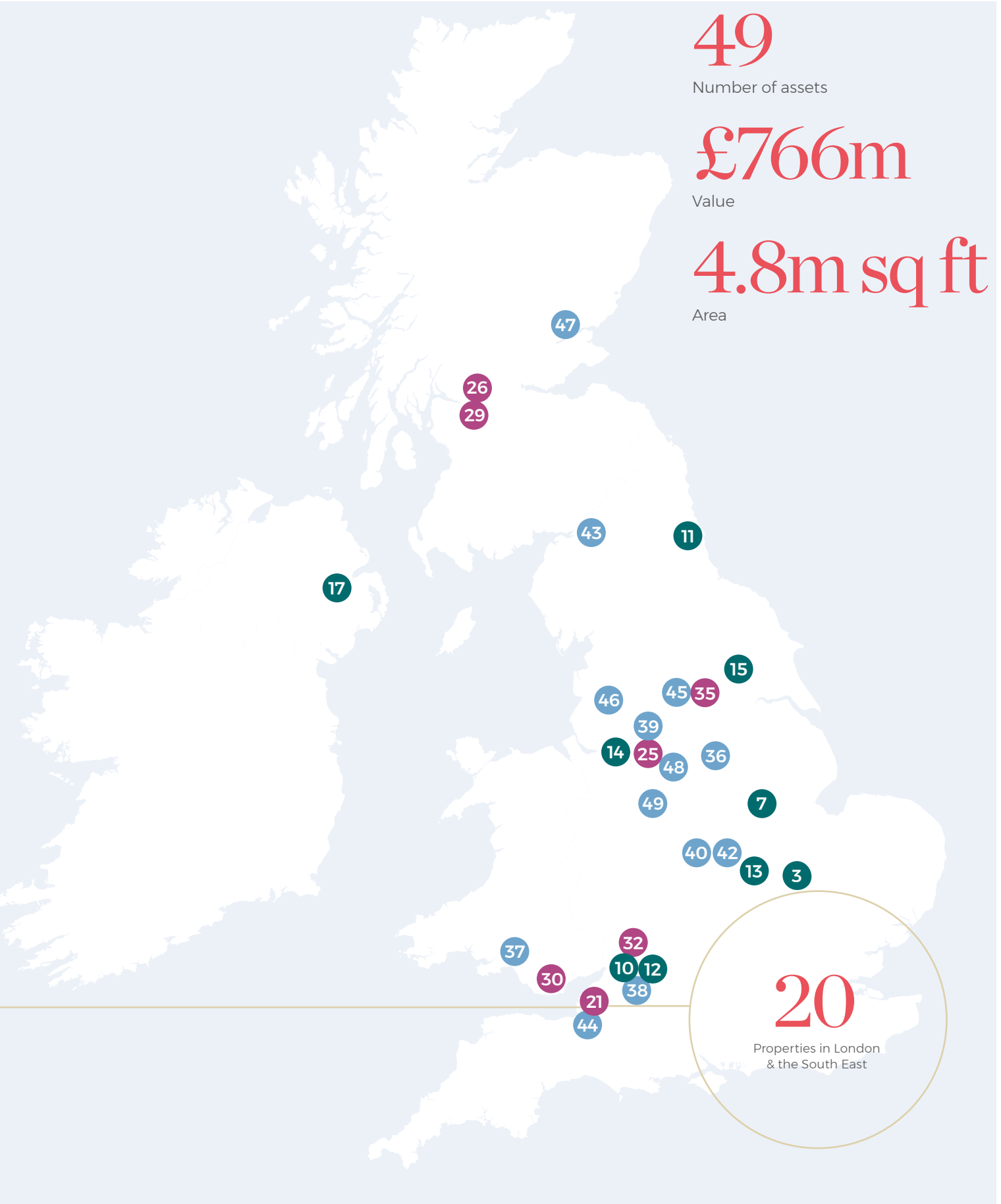
Number of assets

£766m

Value

4.8m sq ft

Area



20

Properties in London & the South East

Top ten assets

1/



River Way Industrial Estate, Harlow

Property type
Industrial

Approximate area (sq ft)
454,800

Capital value (£m)
50-75

No. of occupiers
10

Occupancy rate (%)
100

EPC rating
A-D

2/



Stanford Building, London WC2

Property type
Office

Approximate area (sq ft)
20,100

Capital value (£m)
30-50

No. of occupiers
5

Occupancy rate (%)
100

EPC rating
B-D

4/



Parkbury Industrial Estate, Radlett

Property type
Industrial

Approximate area (sq ft)
343,700

Capital value (£m)
>100

No. of occupiers
21

Occupancy rate (%)
98

EPC rating
A-D

3/



Angel Gate, City Road, London EC1

Property type
Office

Approximate area (sq ft)
64,600

Capital value (£m)
30-50

No. of occupiers
16

Occupancy rate (%)
56

EPC rating
B-E

5/



Shipton Way, Rushden

Property type
Industrial

Approximate area (sq ft)
312,900

Capital value (£m)
30-50

No. of occupiers
1

Occupancy rate (%)
100

EPC rating
C

6/



**Datapoint, Cody Road,
London E16**

Property type
Industrial

Approximate area (sq ft)
55,100

Capital value (£m)
20-30

No. of occupiers
6

Occupancy rate (%)
100

EPC rating
B-C

8/



**Tower Wharf,
Cheese Lane,
Bristol**

Property type
Office

Approximate area (sq ft)
70,600

Capital value (£m)
20-30

No. of occupiers
6

Occupancy rate (%)
90

EPC rating
B-D

10/



**Sundon Business
Park, Dencora Way,
Luton**

Property type
Industrial

Approximate area (sq ft)
127,800

Capital value (£m)
20-30

No. of occupiers
11

Occupancy rate (%)
93

EPC rating
B-D

7/



**Lyon Business Park,
Barking**

Property type
Industrial

Approximate area (sq ft)
99,400

Capital value (£m)
20-30

No. of occupiers
7

Occupancy rate (%)
76

EPC rating
B-E

9/



**50 Farringdon Road,
London EC1**

Property type
Office

Approximate area (sq ft)
31,300

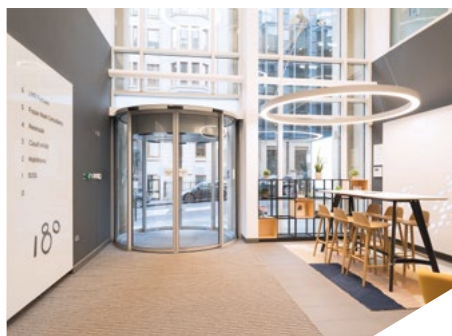
Capital value (£m)
20-30

No. of occupiers
4

Occupancy rate (%)
100

EPC rating
B

Continued proactive management of our portfolio



Our occupier focused approach and philosophy of working in collaboration with our occupiers are significant contributors to our long-term track record of outperformance.

Jay Cable
Head of Asset Management



The year has been characterised by significant active management activity, set against headwinds of repricing and occupier caution driven by a rising interest rate environment.



Industrial weighting

57%

South East	41%
Rest of UK	16%



Office weighting

32%

Central London	13%
Rest of UK	10%
South East	9%



Retail and Leisure

11%

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

Top ten occupiers

The largest occupiers, based as a percentage of contracted rent, as at 31 March 2023, are as follows:

Occupier	Contracted rent (£m)	%
Public sector	2.3	4.8
Whistl UK Limited	1.6	3.5
B&Q Plc	1.2	2.6
The Random House Group Limited	1.2	2.5
Snorkel Europe Limited	1.2	2.5
XMA Limited	1.0	2.1
Portal Chatham LLP	1.0	2.0
DHL Supply Chain Limited	0.8	1.7
4 Aces Limited	0.7	1.5
Hi-Speed Services Limited	0.7	1.5
Total	11.7	24.7

We have continued to actively manage the portfolio, increasing passing rent and estimated rental value (ERV) by working with our occupiers, investing into our assets, and advancing our sustainability priorities.

The overall portfolio passing rent is £43.3 million, an increase from the prior year of £4.7 million. On a like-for-like basis this increased by 10% and the contracted rent, which is the gross rent receivable after lease incentives, increased by £1.1 million or 3%.

The March 2023 ERV of the portfolio is £55.8 million, a 9% increase on the prior year on a like-for-like basis. We had ERV growth of 18% in the industrial sector proven by new lettings and active management, whilst the office sector was up 2% and the retail and leisure sector reduced by 1%.

We have been able to offset some of the valuation re-rating through the completion of over 100 asset management transactions.

Inflationary pressures and rising energy costs have impacted all sectors but particularly the office sector, where service charges are highest.

Occupational demand remains resilient in the industrial sector and in the retail sector it has stabilised for good quality real estate, with the business rates' revaluation acting to

reduce occupational costs. The office sector is still going through a period of transition following the pandemic, with a flight to quality and many occupiers still uncertain about working patterns and operating on a more flexible basis. We are adapting our portfolio and exploring alternative uses as we position our portfolio for the medium-term.

Our investment into assets has helped us to retain and secure new occupiers while improving our EPC ratings, with our refurbishment guidelines specifying a minimum B rating for most projects.

We continue to be occupier focused and this approach remains key to our active management of the portfolio. This philosophy of working in collaboration with our occupiers is a significant contributor to our long-term track record of outperformance.

10%

Like-for-like increase in passing rent

9%

Like-for-like increase in ERV

Portfolio overview

Performance

Our portfolio comprises 49 assets, with around 400 occupiers, and is valued at £766 million with a net initial yield of 5.0% and a reversionary yield of 6.7%. The average lot size of the portfolio is £15.6 million as at 31 March 2023.

Our asset allocation, with 57% in industrial, 32% in office and 11% in retail and leisure, combined with transactional activity, has enabled us to materially outperform the MSCI UK Quarterly Property Index over the year.

Overall, the like-for-like valuation decreased by 12%, after a 21% increase in the prior year. This compares with the MSCI UK Quarterly Property Index recording a capital value decrease of 16% over the period.

We believe that the portfolio remains well placed in respect of our overall sector allocations. Where demand is weaker, we are exploring higher value alternative use strategies.

Industrial

The recent economic turmoil has had a direct impact on property yields. Industrial property is the lowest yielding sector, and these yields have risen to maintain the margin above the risk-free rate.

Conversely, occupational demand in the sector remains resilient and we are capturing rental growth. A lack of supply, especially of multi-let estates, coupled with increasing build costs, means that occupiers have restricted choice when looking for a unit, which has driven strong rental growth across the country.

On a like-for-like basis, capital values decreased by 14%, or £70.7 million, and some of the significant gains over the past two years have been eroded. The passing rent increased by 13% and the ERV grew by 18%, or £4.1 million, on a like-for-like basis.

We remain committed to the sector over the medium-term, primarily due to the strength of occupational demand, lack of supply and low capital expenditure requirements.

Our UK-wide distribution warehouse assets total 1.2 million sq ft in five units, which are fully leased with a weighted average unexpired lease term of 4.4 years. Two of the units have rent reviews outstanding and we expect to secure significant uplifts.

The multi-let estates, of which 89% by value are in the South East, total 2.1 million sq ft and we only have eight vacant units out of 161, with one under offer and four currently undergoing refurbishment.

The industrial portfolio currently has £7.6 million of reversionary income potential, with £1.3 million relating to the void units.

Office

In respect of the office sector, it remains a story of Grade A versus everything else with the latter proving harder to lease. There is now a noticeably widening yield gap aligned to quality and increasing capital expenditure required for ongoing upgrades, including sustainability improvements.

The investment into our portfolio over the past few years means most of our buildings are good quality, future-proofed and increasingly sustainable with a focus on health and wellbeing – all of which are attractive attributes to occupiers.

Several of our properties have alternative use potential, and we have progressed this on three buildings with existing vacancies, further detailed within the portfolio activity section.

On a like-for-like basis, capital values decreased by 10%, or £24.4 million. The passing rent increased by 6% and the ERV grew by 2%, or £0.3 million.

The office portfolio currently has £5.6 million of reversionary income potential, with £3.6 million relating to the void units.

Retail and Leisure

The retail and leisure sector was already high yielding and has therefore been less affected by outward yield movement. The cost of living crisis is predicted to further affect the sector; however, our fully leased retail warehouse parks are underpinned by value led retailers.

The retail warehouse assets, which make up 7% of the total portfolio, total 0.4 million sq ft in 19 units across four parks and are fully leased, with a weighted average unexpired lease term of 5.2 years.

Our high yielding high street portfolio, which makes up 2% of the total portfolio, is fully leased with the exception of one unit in Carlisle which is under offer. We see opportunities in the sector for prime high street locations off rebased rents.

On a like-for-like basis, capital values decreased by 8%, or £7.1 million. The passing rent increased by 9% and the ERV declined by 1%, or £0.1 million.

The retail and leisure portfolio has negative reversion of £0.7 million per annum, primarily relating to the over renting of the high street retail assets.

91%

Occupancy

£766m

Portfolio valuation



We believe the portfolio remains well placed in respect of our sector allocations.

Jay Cable

Head of Asset Management

Portfolio activity

Proactive management

It has been a very active year in respect of asset management transactions.

We completed:

- 39 lettings or agreements to lease, 25% ahead of ERV and securing a new contracted rent of £2.3 million
- 37 lease renewals or regears, 6% ahead of ERV, securing an uplift in contracted rent of £0.7 million
- 20 rent reviews, 7% ahead of ERV, securing an uplift in passing rent of £0.7 million
- Three lease variations to remove occupier break options, securing £0.4 million of income
- 11 lease surrenders to facilitate active management

Leasing and occupancy

Occupancy has decreased during the year from 93% to 91% with a total void ERV of £5.3 million, which compares to the MSCI UK Quarterly Property Index of 92% as at 31 March 2023.

Our industrial portfolio is 95% leased with demand remaining high across the country. We have only eight vacant industrial units, four of which are being refurbished.

The office portfolio occupancy is 83%. Our occupancy has reduced primarily due to three office properties where we are working through potential changes of use to residential and student accommodation. Excluding these three properties, the office occupancy rate would increase to 91%.

During the year our SwiftSpace offering has helped to grow occupancy in smaller units, with nearly a quarter of lettings by number being SwiftSpace lettings across four properties.

In terms of retail and leisure, occupancy is 94%. The retail warehouse portfolio is fully leased, and we have one vacant high street shop, which is under offer. At Regency Wharf, Birmingham, we have a small office element to lease.

Our largest voids are at:

- Angel Gate, London – accounting for 18% of the total portfolio void. We are in the process of securing change of use at the property to residential in respect of vacant units.

- Charlotte Terrace, London – accounting for 12% of the total void. We recently acquired this property and have submitted a planning application for change of use of part of the space to residential.
- Longcross, Cardiff – accounting for 9% of the total void. We are working through options for alternative uses.

Retention

Over the year, total ERV at risk due to lease expiries or break options totalled £5.5 million, in line with the year to March 2022.

We retained 67% of total ERV at risk in the year to March 2023. Of the ERV that was not retained, a further 8% or £0.5 million was re-let to new occupiers during the year.

In addition, a further £3.4 million of ERV was retained by either removing future breaks or extending future lease expiries ahead of the lease event.

Longevity of income

As at 31 March 2023, expressed as a percentage of contracted rent, the average length of leases to first termination was 4.6 years (2022: 4.8 years). This is summarised as follows:

	%
0 to 1 year	12.9
1 to 2 years	14.2
2 to 3 years	21.7
3 to 4 years	12.5
4 to 5 years	11.5
5 to 10 years	18.4
10 to 15 years	7.6
15 years or more	1.2
Total	100



Portfolio investment



We have invested into our portfolio to enhance space for our occupiers and improve the sustainability credentials of our buildings.

Jay Cable

Head of Asset Management

Refurbishment upgrades

Over the year we have invested £6.1 million into the portfolio across over 15 projects, with the top five projects accounting for 65% of the spend.

These have all been aimed at enhancing space to attract occupiers, improve sustainability credentials and grow income. All works undertaken are in line with our refurbishment guidelines, outlining best industry practice, which includes where appropriate, the removal of natural gas from buildings, installation of solar panels and insulation upgrades in line with our net zero carbon pathway.

We are continually focused on future-proofing assets from a sustainability perspective, which has resulted in an improvement in our EPC ratings with 76% of our properties (by rental value) now rated C and above.



Read more on pages **14-15**

£6.1m

Invested into the portfolio

76%

EPC ratings A-C

Investment activity

We acquired two new properties during the year, as well as the acquisition of a further unit at an existing holding.

109-117 High Street, Cheltenham – £5.3 million

This mixed-use property comprises 7,700 sq ft of ground floor retail space with 11,450 sq ft of office space over two upper floors, and is located in Cheltenham's pedestrianised town centre, adjacent to John Lewis.

Comprehensively refurbished in 2020, the property has good environmental credentials including EPC ratings of B on both the office and retail elements and no natural gas.

On purchase it was leased to four occupiers, with an average lease length of 12 years to expiry and eight years to break. We have since surrendered one of the retail leases and re-let the unit to a national retailer, securing a ten-year lease, subject to break.

The current contracted rent is £0.4 million, equating to £21 per sq ft, with most leases containing fixed rental uplifts that will increase income to £0.5 million per annum by 2026.

The purchase price reflected a net initial yield of 7.2%, rising to 9.0% by 2026. The low capital value of £277 per sq ft is below its estimated replacement cost.

Charlotte Terrace, Hammersmith Road, W14 – £13.7 million

This mixed-use asset comprises four adjoining buildings, which total 28,500 sq ft of office space and 4,400 sq ft of retail space, arranged over five floors. The property was redeveloped behind the façade in 1990 and is Grade II listed, meaning there are no business rates payable on void units.

The property is located close to Olympia, which is currently undergoing a £1 billion redevelopment to deliver a new creative district, with a new theatre, entertainment venue, hotel, office, retail and leisure space, which will enhance the surrounding area.

Since purchase we have leased a retail unit and an office suite. We are in the process of relocating an office occupier, to secure vacant possession of one of the office buildings so we can seek a change of use to residential and the planning application for this has been submitted.

The purchase price reflects a net initial yield of 3.3%, rising to over 8% once fully let and reflecting a low capital value of £417 per sq ft, which is below its estimated replacement cost. Residential values in the area are approximately £1,000 per sq ft.

Unit 7V Madleaze Trading Estate, Gloucester – £0.4 million

We acquired another unit on this industrial estate with vacant possession, and leased the space to an existing occupier. The acquisition helps to consolidate our ownership.



Read more on pages **12-13**

In addition, we acquired the freehold of our Rushden distribution asset for nil consideration, having previously owned a long leasehold interest.

Looking ahead

Outlook

The sharp yield correction in 2022 has caused a repricing of commercial property, but we are now seeing values stabilise, creating potential opportunities in some sectors.

The quality of our portfolio, which has benefited from significant investment in respect of refurbishments and sustainability upgrades in recent years, means that we have started to future-proof properties to ensure that they are attractive to occupiers. Our net zero carbon pathway is in place, and we will continue to invest in the improvement of our buildings.

Our occupiers remain our key focus and we have long-standing relationships with many of them, which enable us to work with and assist businesses as they grow and contract.

As at 31 March 2023 the portfolio had £12.5 million of reversionary income potential; £5.3 million from letting the vacant space, £4.2 million from expiring rent-free periods or stepped

rents and £3.0 million where the rent is below market level. This is significant and is our focus for the coming year.

Demand for our industrial properties continues to be resilient as proven by our high occupancy and growing ERVs. With this sector accounting for 57% of the total portfolio by value, we believe it will contribute to our performance off rebased values that are now stable, with supply constraints and high building costs likely to lead to further rental growth.

Many of our office buildings have had investment into them in recent years, to upgrade space, create occupier amenities and improve their sustainability credentials. Our best-in-class offices are attracting and retaining occupiers; however, where we do have higher vacancy rates, we are exploring higher value alternative uses, including residential conversion at two central London properties. The sector is going through an adjustment, and we will look to reduce exposure through change of use and selective sales.

The retail and leisure sector has recovered following the pandemic, but there are still headwinds in respect of an oversupply of floor space and a cost of living crisis impacting disposable income. By virtue of the marked repricing in this sector in prior years we believe there are opportunities in the sector for selective acquisitions.

The portfolio is well placed and of a high quality, enabling us to maintain and enhance income through our proven occupier focused approach. Looking forward, our focus is on growing occupancy and improving the overall portfolio quality through selective disposals, reinvestment and refurbishments to improve the sustainability credentials of our assets.

Jay Cable

Head of Asset Management



A year marked by resilient income, despite valuation movements



Rental income has increased by 7% compared to 2022.

Andrew Dewhirst
Finance Director

£570m

EPRA NDV
2022: £650m
2021: £507m

£548m

EPRA NTA
2022: £657m
2021: £528m

100p

Net assets per share
2022: 120p
2021: 97p

3.5p

Dividends per share
2022: 3.4p
2021: 2.8p

112%

Dividend cover
2022: 115%
2021: 134%

3.9p

EPRA earnings per share
2022: 3.9p
2021: 3.7p

27%

Loan to value
2022: 21%
2021: 21%

£21m

EPRA earnings
2022: £21m
2021: £20m



The early part of this financial year saw the UK economy continue to grow, and at 30 June 2022 our net asset value reached £670 million. However, the September mini-budget caused a significant shock to UK markets, with rising interest rates and bond yields impacting commercial property pricing. The negative capital growth between September and December was the largest ever quarterly movement recorded by MSCI.

Our overall loss for the year was £90.0 million, comprising a negative valuation movement of £111.3 million and EPRA earnings of £21.3 million. This year, we have seen the reversal of some of the record valuation gains recorded in 2021/22.

Our EPRA earnings, comprising the operating results and net interest expense were £21.3 million for the year, a small increase over the equivalent figure last year. As discussed below, rental income rose by 7.1% compared to 2022; however, this increase was largely offset by higher property operating and void costs.

Commercial property values fell in the latter half of 2022 as interest rates and bond yields rose rapidly. Although we have seen valuation movements moderating in the first quarter of 2023, further interest rate rises may still have an adverse impact this year.

Based on these results our total return for the year was -13.9%, compared to 28.3% for the year to 31 March 2022.

Net asset value

The net assets of the Group at 31 March 2023 were £547.6 million, or 100 pence per share, which was a fall of 16.7% over the year. The chart below shows the components of this decrease.

	£m
March 2022 net asset value	657.1
EPRA earnings	21.3
Valuation movement	(111.3)
Share-based awards	0.7
Purchase of shares	(1.1)
Dividends paid	(19.1)
March 2023 net asset value	547.6

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).

	2023 £m	2022 £m	2021 £m
Net assets – IFRS and EPRA net tangible asset value	547.6	657.1	528.2
Fair value of debt	22.8	(6.7)	(21.0)
EPRA net disposal value	570.4	650.4	507.2
Net asset value per share (pence)	100	120	97
EPRA net tangible asset value per share (pence)	100	120	97
EPRA net disposal value per share (pence)	105	119	93

Income statement

The result for the year is dominated by the adverse valuation movement at the end of 2022 as property yields moved out. However, EPRA earnings were stable, with increased rental income largely offset by increased property costs.

Total revenue from the property portfolio for the year was £51.8 million, up from £46.5 million last year. Rental income has increased by 7.1% compared to 2022, as a result of the impact of new acquisitions over the full year, as well as rental growth.

Property operating and void costs have shown a marked increase this year, from £4.9 million to £7.1 million. This is partly the result of the higher vacancy rate, but also demonstrates the impact of inflation and higher costs over the past year. Administrative expenses, however, only increased by a small amount, £0.2 million, or 3.5%, to a little under £6.0 million. Staff costs were broadly in line with the previous year, while some one-off costs incurred this year increased other corporate expenses.

Interest and other finance costs have increased from £8.5 million to £9.0 million. This is partly due to the additional interest on the increased Canada Life facility, which completed in March 2022. This transaction also extended the facility to 2031, reduced the interest rate to 3.25% and enabled us to repay most of the revolving credit facility.

95% of our borrowings are at fixed rates and do not mature until 2031/32. This year we have drawn down further under our revolving credit facility to finance acquisitions. Although only a relatively small element of our total borrowings, the interest rate on our revolving credit facility has increased from 2.3% in March 2022 to its current rate of 5.8%.

The negative capital movement on the portfolio was £111.3 million for the year, including the movement on owner-occupied property. The industrial sector saw the largest movement, especially where yields were lowest.

Dividends

This year we have maintained our quarterly dividend rate of 0.875 pence per share, equating to an annual rate of 3.5 pence per share. Total dividends paid out were £19.1 million, an increase of 3.6% compared to 2022. Dividend cover for the year remained healthy at 112%.

Investment properties

The appraised value of our investment property portfolio was £766.2 million at 31 March 2023, lower than the £849.3 million reported a year ago. We have made acquisitions this year, for a total consideration of £20.6 million, including costs. These acquisitions are discussed in more detail in the Portfolio Review section. Also this year, we have invested £6.1 million of capital expenditure in the portfolio upgrading a number of assets, including Madleaze Trading Estate, Gloucester, Colchester Business Park, Lyon Business Park, Essex and Metro, Manchester.

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

At 31 March 2023 the portfolio comprised 49 assets, with an average lot size of £15.6 million.

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

	2023	2022	2021
Fixed rate loans (£m)	212.6	213.9	166.2
Drawn revolving facility (£m)	11.9	4.9	-
Total borrowings (£m)	224.5	218.8	166.2
Borrowings net of cash (£m)	204.4	180.3	142.8
Undrawn facilities (£m)	38.1	45.1	50.0
Loan to value ratio (%)	26.7	21.2	20.9
Weighted average interest rate (%)	3.8	3.7	4.2
Average duration (years)	8.4	9.6	8.9

Borrowings

Total borrowings are now £224.5 million at 31 March 2023, with the loan to value ratio at 26.7%. The weighted average interest rate on our borrowings is 3.8%, while the average loan duration is now 8.4 years.

Our loan facility with Aviva reduced by the regular amortisation, £1.4 million in the year.

The Group remained fully compliant with its loan covenants throughout the year. At 31 March 2023, we had £11.9 million drawn under the revolving credit facility, which matures in 2025. This year we drew down £7.0 million under this facility, largely to fund the acquisition of the new Cheltenham asset, as well as for ongoing capital expenditure projects.

The fair value of our drawn borrowings at 31 March 2023 was £201.7 million, lower than the book value by some £22.8 million. As a result, our EPRA NDV asset value was £570.4 million at 31 March 2023, higher than the reported net assets under IFRS. Both lending margins and gilt yields are currently higher relative to the rates set on our facilities.

A summary of our borrowings is set out in the table above.

Cash flow and liquidity

Our cash outflow for the year was £18.5 million. The cash flow from operating activities this year is £23.0 million, some 15% higher than the previous year. We invested £26.8 million during the year; £20.6 million being the consideration paid for two principal acquisitions, as well as £6.1 million of capital expenditure. Overall borrowings increased by £5.6 million. Dividends paid increased to £19.1 million. Our cash balance at the year-end stood at £20.1 million.

Share capital

No new ordinary shares were issued during the year.

The Company's Employee Benefit Trust acquired a further 1,250,000 shares, at a cost of £1.1 million, or 90 pence per share, during the year. This was to satisfy the future vesting of awards made under the Long-term Incentive Plan and Deferred Bonus Plan, and now holds a total of 2,388,694 shares. As the Trust is consolidated into the Group's results, these shares are effectively held in treasury and therefore have been excluded from the net asset value and earnings per share calculations, from the date of purchase.

Andrew Dewhirst

Finance Director
24 May 2023

EPRA Best Practices Recommendations (BPR)

The EPRA key performance measures for the year are set out here, with more detail provided in the EPRA BPR and Supplementary Disclosures section which starts on page 155. This year we have also included the EPRA loan to value measure (EPRA LTV).

Alternative performance measures (APMs)

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

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

Our key performance indicators include three of the key EPRA measures but also total return, total property return, property income return, total shareholder return, loan to value ratio, cost ratio, occupier retention rate, employee satisfaction and EPC ratings. The definition of these measures, and the rationale for their use, is set out in the Key Performance Indicators section.

EPRA's mission

The European Public Real Estate Association's (EPRA) mission is to promote, develop and represent the European public real estate sector. As an EPRA member, we fully support the EPRA Best Practices Recommendations which recognise the key performance indicator measures, as detailed here.

Specific EPRA metrics can also be found within the Key Performance Indicators section of this report with further disclosures and supporting calculations on pages 155 to 158.

EPRA measures

100p

EPRA NTA per share
2022: 120p
2021: 97p

105p

EPRA NDV per share
2022: 119p
2021: 93p

110p

EPRA NRV per share
2022: 131p
2021: 105p

£21.3m

EPRA earnings
2022: £21.2m
2021: £20.1m

3.9p

EPRA earnings per share
2022: 3.9p
2021: 3.7p

9.5%

EPRA vacancy rate
2022: 7.2%
2021: 8.8%

5.5%

EPRA 'topped-up' net initial yield
2022: 4.8%
2021: 5.5%

5.0%

EPRA net initial yield
2022: 4.1%
2021: 4.8%

29.9%

EPRA cost ratio¹
2022: 26.0%
2021: 26.9%

21.3%

EPRA cost ratio²
2022: 19.9%
2021: 20.8%

27.0%

EPRA LTV
2022: 21.3%
2021: 21.0%

¹ Including direct vacancy costs

² Excluding direct vacancy costs




Managing risks


The Board recognises that there are risks and uncertainties that could have a material impact on the Group's results.

Risk management provides a structured approach to the decision-making process such that the identified risks can be mitigated and the uncertainty surrounding expected outcomes can be reduced. The Board has developed a Risk Management Policy which it reviews on a regular basis. The Audit and Risk Committee carries out a detailed assessment of all risks, whether investment or operational, and considers the effectiveness of the risk management and internal control processes. The Executive Committee is responsible for implementing strategy within the agreed Risk Management Policy, as well as identifying and assessing risk in day-to-day operational matters. The Management Committees support the Executive Committee in these matters. The small number of employees and relatively flat management structure allow risks to be quickly identified and assessed. The Group's risk appetite will vary over time and during the course of the property cycle. The principal risks – those with potential to have a material impact on performance and results – are set out here, together with mitigating controls.

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

Principal risks and trends

-  Increasing
-  No change/stable
-  Decreasing

- 1 Political and economic 
- 2 Market cycle 
- 3 Regulatory and tax 
- 4 Climate change resilience 
- 5 Portfolio strategy 
- 6 Investment 
- 7 Asset management 
- 8 Valuation 
- 9 People 
- 10 Finance strategy 
- 11 Capital structure 

Climate-related risks

Last year the Board carried out an assessment of the physical and transition risks most relevant to the business, and undertook a review of its procedures for identifying and managing those risks. The recommendations arising from the review have been implemented this year. The mitigating actions that have been carried out in respect of climate-related risks are described in the Task Force on Climate-related Financial Disclosures section of the report, together with more detail on the risk assessment and modelling undertaken.



Read more on pages **47-55**

Emerging risks

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

The principal emerging risks have been identified to be:

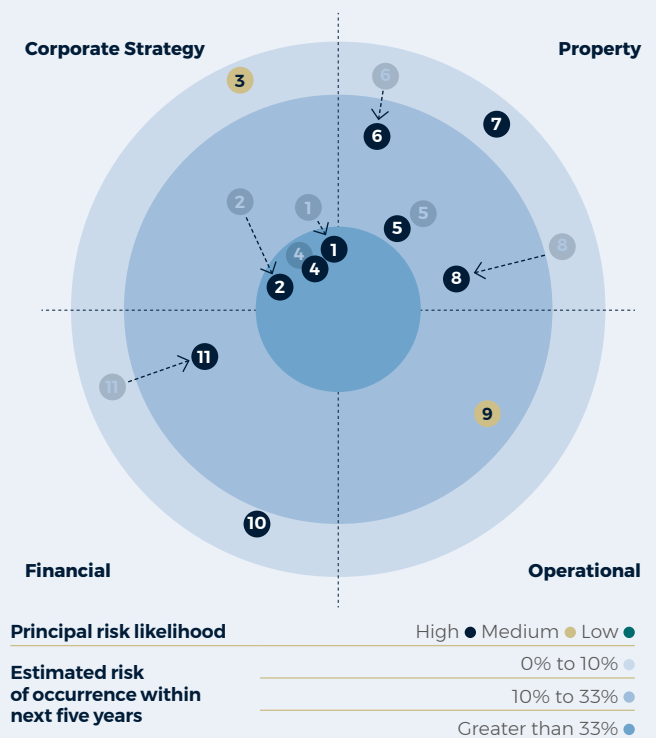
- high inflation remaining in the UK economy, causing further interest rate rises and an adverse impact on asset values;
- further political uncertainty in the lead-up to a general election in the UK;

- the increasing importance of sustainability issues to all stakeholders;
- changing demand for commercial space, as businesses reassess their requirements in the light of more flexible working, advances in AI technology and employee wellbeing;
- changes in regulations are increasing environmental standards and property owners must keep pace to avoid the risk of stranded assets; and
- cyber security, with an increased prevalence of ransomware attacks and greater vulnerability of systems with home working.

Risk management framework



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



Read more on pages **44-46**

Corporate Strategy

1

Political and economic

Risk

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

Mitigation

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

Commentary

Economic uncertainty has risen over the year, although is less than in the immediate aftermath of the September mini-budget. Interest rates have risen significantly and inflation remains at a high level. The cost of living crisis is still evident and industrial disputes, particularly in the public sector, are causing further disruption. The UK economy is not forecast to grow by any meaningful amount over the next year. The war in Ukraine continues to impact global politics and economics.

Risk trend



2

Market cycle

Risk

The property market is cyclical and returns can be volatile. There is an ongoing risk that the Company fails to react appropriately to changing market conditions, resulting in an adverse impact on shareholder returns.

Mitigation

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

Commentary

Economic factors have caused more volatility in the property market this year. Interest rates and bond yields have risen, with a consequent adverse impact on property yields and valuations, particularly towards the end of 2022.

Risk trend



3

Regulatory and tax

Risk

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

Mitigation

The Board and senior management receive regular updates on relevant laws and regulations from the Group's professional advisers.

The Group has a Health and Safety Committee which monitors all health and safety issues including oversight of the Property Manager.

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

Commentary

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

Risk trend



4

Climate change resilience

Risk

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

Mitigation

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

We have published our pathway to net zero carbon and have reported on our progress this year.

We have addressed the identification and assessment of climate-related risks as identified through the TCFD process.

Commentary

Climate change resilience remains a key issue for property owners. The increasing cost of energy has raised the importance of building efficiency for occupiers. On-site renewables, such as solar panels, are increasingly being included in refurbishment projects.

Risk trend



Property

5

Portfolio strategy

Risk

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

Mitigation

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

Commentary

The industrial sector, having benefitted from strong investment demand leading to lower yields, saw a greater valuation movement in 2022. Demand for the office sector remains muted as businesses continue to reassess their requirements. The retail sector is showing some improvement, but from a low base.

Risk trend



6

Investment

Risk

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

Mitigation

The Executive Committee must approve all investment transactions over a threshold level, and significant transactions require Board approval.

A formal appraisal and due diligence process is carried out for all potential purchases including environmental assessments.

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

Commentary

Volatility in the investment market has increased over the year. There is more uncertainty in making investment decisions due to increasing costs, climate-related risks and recessionary pressures.

Risk trend



7

Asset management

Risk

Failure to properly execute asset business plans or poor asset management could lead to longer void periods, higher occupier defaults, higher arrears and low occupier retention, all having an adverse impact on earnings and cash flow.

Mitigation

Management prepare business plans for each asset which are reviewed regularly.

The Executive Committee must approve all investment transactions over a threshold level, and significant transactions require Board approval.

Management maintain close contact with occupiers to have early indication of intentions.

Management regularly assess the performance of the Group's Property Manager.

Commentary

Rent collection has remained high throughout the year, with limited occupier defaults.

Risk trend



8

Valuation

Risk

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

Mitigation

The Group's property assets are valued quarterly by an independent valuer with oversight by the Property Valuation Committee. Market commentary is provided regularly by the independent valuer.

The Board reviews financial forecasts for the Group on a regular basis, including sensitivity and adequate headroom against financial covenants.

Commentary

Following the mini-budget in September 2022, there were significant increases in interest rates and bond yields, causing commercial property valuations to decline. After a marked fall in December, valuations have subsequently stabilised to some extent. However, further interest rate rises may cause some further pressure on valuations.

There remains good headroom against the Group's lending covenants.

Risk trend



Operational

9

People

Risk

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

Mitigation

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

All employees receive an annual performance appraisal including training and development needs.

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

Commentary

The team has remained stable throughout the year with no leavers. Positive feedback was received from the employee engagement survey. Flexible working arrangements for the team have been maintained.

Risk trend



Financial

10

Finance strategy

Risk

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

Mitigation

The Board reviews financial forecasts for the Group on a regular basis, including sensitivity against financial covenants.

The Group's property assets are valued quarterly by an independent valuer with oversight by the Property Valuation Committee. Market commentary is provided regularly by the independent valuer.

The Audit and Risk Committee considers the going concern status of the Group biannually.

Commentary

The Group has mainly fixed rate long-term borrowings in place. Covenants are monitored regularly and there is good headroom against these. The revolving credit facility has been extended for a further year until 2025.

Risk trend



11

Capital structure

Risk

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

Mitigation

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

The Group has a revolving credit facility in place which can be repaid if required to reduce the level of gearing.

Commentary

The use of gearing has amplified the valuation movements this year, resulting in lower returns. However, the Group's loan to value ratio remains low.

Risk trend



TCFD Statement

Managing and reporting climate-related risks

We are committed to proactively managing our climate-related risks and reporting climate-related financial information publicly and transparently for our stakeholders. Here we disclose the climate-related risks and opportunities we have identified to the business and outline our overarching risk management approach in accordance with the Task Force on Climate-related Financial Disclosures' (TCFD) recommendations. Complying with the LSE Listing Rules published by the Financial Conduct Authority in 2022, all disclosures in this report comply with all 11 TCFD recommendations and recommended disclosures.

Recommendation

Commentary

Governance

The Board's oversight of climate-related risks and opportunities

The Board has ultimate responsibility for climate-related risk oversight and management, including setting the Group's risk appetite that defines the limits of the Group's activities and reviewing the Group's risk matrix and risk radar. As climate-related risks have been identified as a principal risk to the business, they are directly overseen by the Board and actively monitored across all levels of the business.

Our governance structure (see page 94) facilitates continuous oversight by the Board as its members also chair our Board and Management Committees, which have formalised climate-related responsibilities. The Audit and Risk Committee is responsible for updating the Board on the current and planned actions being taken to mitigate material climate-related risks to the Group.

In adopting the Risk Management Policy, the Audit and Risk Committee is also formally responsible for identifying, managing and overseeing climate-related risks and wider sustainability issues facing the Group, using qualitative and quantitative metrics as appropriate, and for reviewing the Risk Management Policy at least annually, revising it as necessary to support our agile risk management approach. The Committee normally meets three times each year and the Chair, Mark Batten, is responsible for reporting the Committee's findings and recommendations to the Board after each meeting, including updates on the Group's overall risk appetite, risk profile and risk strategy, accounting for the current and prospective macroeconomic and financial environment, and appropriate climate-related scenarios.

Management's role in assessing and managing climate-related risks and opportunities

The Responsibility Committee, chaired by Andrew Dewhirst, meets regularly to consider all aspects of sustainability and is formally responsible for identifying and reporting any emerging climate-related risks and opportunities. The Committee ensures compliance with all relevant ESG standards and legislation and provides regular updates to the Executive Committee. The Committee is also responsible for overseeing the Climate Action Working Group and our progress against the net zero carbon pathway.

The Executive Committee, chaired by Michael Morris, is formally responsible for the day-to-day operational application of the Risk Management Policy, including identifying, managing and monitoring all climate-related risks. The Committee ensures that physical and transition climate-related risks are evaluated and recorded in the risk matrix and risk radar on a regular basis, and as appropriate, it escalates risks to the Audit and Risk Committee and Board.

The Executive Committee maintains day-to-day management and oversight of all risks identified and their mitigating activities, and reports recommendations to the Audit and Risk Committee or the Board for the Risk Management Policy.

In response to recommendations provided through a detailed climate risk governance gap analysis assessment, conducted in collaboration with third-party sustainability consultants, we updated and formalised climate-related issues into our governance structures and risk management procedures at all levels of the business. This will ensure that our governance, oversight and management of climate-related issues is robust, enhancing our ability to respond and adapt to climate change challenges.

We have also established a Climate Action Working Group in response to the increasing environmental focus within our business. The two key areas of focus for the Climate Action Working Group are mitigating the impact of climate change on our portfolio and delivering against our commitment to net zero carbon.

All members of the Responsibility Committee sit on the Climate Action Working Group, alongside other members of the team from across the business. The Responsibility Committee maintains oversight of the Climate Action Working Group and is responsible for progressing all of our sustainability priorities. The Climate Action Working Group meets at least bimonthly to discuss and agree actions and associated progress.



A detailed overview of our Governance structure can be found on page 94

Recommendation

Commentary

Strategy

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

Many climate-related risks will materialise over the medium to long-term and the assets we acquire and hold will still be here far into the future. Therefore, without appropriate risk management, these risks could have severe financial and reputational implications as well as physical risks to those occupying them. We believe it is vitally important to consider climate risk from multiple angles and timeframes. Therefore, we conducted a rigorous climate risk assessment across the two climate scenarios RCP 4.5 (Representative Concentration Pathways) and RCP 8.5 by the Intergovernmental Panel on Climate Change (IPCC) to identify the top climate-related risks and opportunities to our business in the short term (2020–2029), medium-term (2030–2039) and long term (>2040) as well as to assess their implications and the necessary actions to manage them. Our in-depth understanding of our material climate risks has enabled informed decision making, allowing us to employ robust risk management processes to address our material climate risks.

Scenario analysis

The comprehensive climate risk assessment process covered all relevant climate-related risks, selected as appropriate to the geography of our assets and the asset types in scope, across the decades 2020–2029, 2030–2039 and 2040–2049 under scenarios RCP 4.5 and RCP 8.5. By conducting both qualitative and quantitative climate risk assessments at the business and portfolio level, respectively, we were able to identify the risk profiles of our assets and most at-risk assets, strengthening our ability to make sound strategic decisions on where to focus mitigation actions and harness opportunities.

The portfolio modelling, in collaboration with a leading modelling provider, assessed our assets' susceptibility to climate-related risks, including physical risks, for example, flooding, heat stress and extreme weather events and transition risks, such as market risks and technology, in quantitative terms, exposing the potential financial losses and savings associated.

The business level assessment qualitatively determined the likelihood and impact of a range of physical and transition climate-related risks on a scale of one to five, with consideration of the portfolio modelling results, by rigorously analysing the most up-to-date, peer-reviewed scientific literature. The impact assessment factored in the level of disruption, financial impact and ease/cost of mitigation of the risk, ranging from minimal or no impact (1) to catastrophic impact that threatens the business' future (5). Likelihood was based on the probability, frequency, duration of impact and speed at which the risks materialise, ranging from risks with a short duration that materialise gradually to risks that materialise rapidly and endure over a significant period. High impact opportunities were also identified in relation to our business strategy.

We identified our top risks, which are included in the table below.

Time horizons

We have selected time horizons aligning with climate policy and available data. We have assessed our time horizons and current business strategy against climate risks over the short, medium and long-term.



Short-term 2020–2029

To mitigate the largest impacts in the current decade, plans and resilience measures must be implemented in the immediate term. We are investing in our resilience now and setting short-term targets.



Medium-term 2030–2039

We aim to achieve net zero carbon by 2040, ahead of the UK Government's 2050 target. Aligning this time horizon to our decarbonisation target supports clear stakeholder communications and asset planning, as net zero carbon and climate resilience measures can be executed in parallel.



Long-term 2040–2049




We recognise that long-term climate risks present near-term challenges, such as reputational damage or reduced asset values. Identifying these risks has guided our investment decision to embed climate resilience across our business and portfolio.

Recommendation

Commentary

Strategy continued

Physical and transition climate-related risks

Time horizon	Risk	Risk description	Risk impacts	Risk mitigations
 Short-term: 2020–2029	Changes in market and occupier expectations and demand	As markets shift to meet growing demand for low or zero carbon alternatives, climate resilient assets could achieve 'green premiums' by outperforming unsustainable assets. Failure to adapt could create competitive risk and occupier default risk, while demand also may shift away from certain geographies or sectors.	<ul style="list-style-type: none"> – Lower demand for inefficient assets, creating lower rental and asset values – Stranded asset risk in high-risk geographies – Occupier default risk for occupiers with carbon intensive operations 	<ul style="list-style-type: none"> – Regularly review market and occupier demand – Regularly review regulation and building standards legislation
	Increased building standards requirements	Policy mandates buildings and developments to adhere to higher standards, to improve efficiencies and operational practice, and to embed climate resilience on-site. Non-compliant assets could experience reputational risk and reduced occupier demand.	<ul style="list-style-type: none"> – Capital expenditure cost to meet new standards – Stranded asset risk and increased void period for non-compliance 	<ul style="list-style-type: none"> – Monitor the macroeconomic and financial environment on an ongoing basis – Implement a policy of continual improvement
	Financial market impacts	Macroeconomic instability could transpire as market preferences shifts towards low carbon solutions and climate resilience, or due to sustained damage from climate-related physical impacts, potentially affecting our ability to secure financial capital, acquisition activities and asset values.	<ul style="list-style-type: none"> – Rise in interest rates and a decrease in economic growth leading to higher financial capital costs – Economic downturn reducing rental income and asset value and increasing occupancy risk 	<ul style="list-style-type: none"> – Implement our net zero carbon pathway – Implement refurbishment guidelines that incorporate transition risk mitigation measures
 Medium-term: 2030–2039	Decarbonisation and increased energy demand/cost	Increasing the share of renewable energy sources and decarbonising energy-intensive industries could intensify other transition risks associated with reputation damage, financial impacts and litigation risk.	<ul style="list-style-type: none"> – Rise in energy prices due to support for low carbon generation and taxation – Increased operational costs, fuelled by price increases and rising demand for cooling – Increase in material and procurement costs due to supply chain disruptions and carbon tax on embodied carbon 	<ul style="list-style-type: none"> – Conduct renewable energy feasibility studies across our portfolio
	Flooding	Increased duration and intensity of precipitation, snow melt and rising sea levels will exacerbate all types of flooding. Our current portfolio is exposed to fluvial and pluvial flooding risk, with limited exposure to coastal flooding.	<ul style="list-style-type: none"> – Repair costs and loss of access to asset – Capital expenditure to install mitigation measures – Reduced regional investment and footfall – Decline in asset value or stranded asset risk 	<ul style="list-style-type: none"> – Annual asset business plans consider all material physical climate risks – Assess asset resilience to material climate risks
	Heat stress	Rising mean temperature and extreme temperature highs put pressure on both our assets and people. Our concentration of assets in Southern England increases our susceptibility to this risk and to associated costs.	<ul style="list-style-type: none"> – Degradation of plant and equipment leading to capex associated with replacement – Increased operational costs – Reduced occupier demand for spaces lacking sufficient cooling and/or ventilation 	<ul style="list-style-type: none"> – Implement resilience measures, prioritising our most at-risk assets – Implement our net zero carbon pathway, including installing on-site renewables and introducing software to track embodied carbon from 'in use' standing assets
	Extreme weather events	Extreme weather events, including storms, heavy winds, heavy precipitation, drought and snow could become more frequent and severe, exacerbated by shifting sea temperatures and seasonal patterns.	<ul style="list-style-type: none"> – Repair costs and loss of access to asset – Capital expenditure to install mitigation measures – Decline in asset value or stranded asset risk 	<ul style="list-style-type: none"> – Implement our refurbishment guidelines that incorporate physical risk mitigation measures
 Long-term: (>2040)	Drought and water stress	Water becomes increasingly scarce, with supply unable to meet demand. As temperatures rise, average drought lengths could increase, with implications on water costs, supply chains and public health.	<ul style="list-style-type: none"> – Increased operational costs – Decline in asset value for water inefficient asset – Capital expenditure to improve efficiency 	

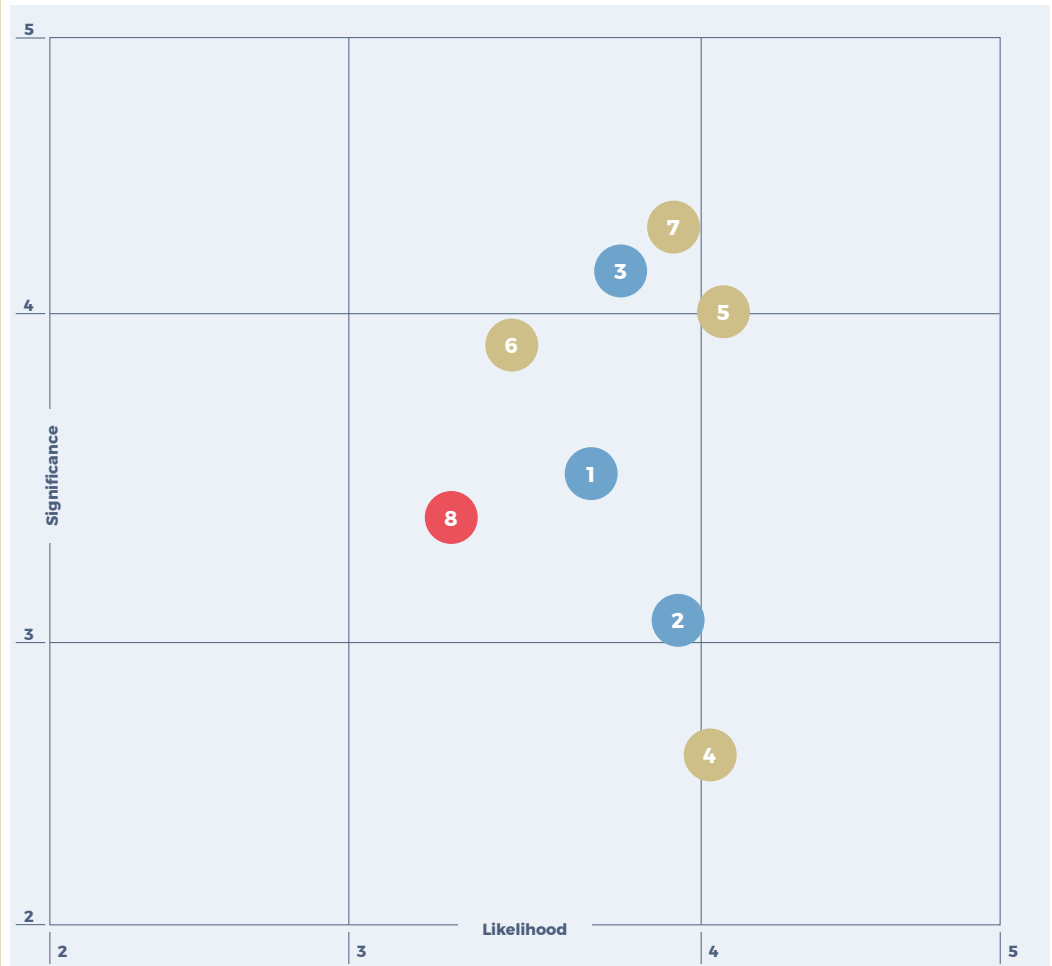
● Transition risk

● Physical risk

Recommendation **Commentary**

Strategy continued

Climate-related risk matrix:



 Short-term 2020-2029	 Medium-term 2030-2039	 Long-term 2040-2049
<ul style="list-style-type: none"> 1. Changes in market and occupier expectations and demand 2. Increased building standards/requirements 3. Financial market impacts 	<ul style="list-style-type: none"> 4. Decarbonisation and increased energy demand/cost 5. Flooding (fluvial and pluvial) 6. Heat stress 7. Extreme weather events 	<ul style="list-style-type: none"> 8. Drought and water stress

Additionally, we have identified opportunities that we can leverage to deliver outstanding climate-related performance to our occupiers. These include investment into low-carbon technologies and climate adaptation measures to achieve our net zero carbon ambitions, secure premium occupiers, enhance asset values, enhance our reputation and future-proof our business.

Recommendation**Commentary****Strategy continued****Impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning**

We recognise that climate change will impact our business and that we must play our part in tackling this global challenge. Therefore, we integrate sustainable thinking in all our activities and accordingly, climate-related issues inform our business, strategy and financial planning decisions and processes.

Our pathway to achieve net zero carbon by 2040 aligns with the Better Buildings Partnership (BBP) Net Zero Carbon Pathway Framework and the UK Green Building Council's (UKGBC) net zero carbon hierarchy. To achieve our ambitious sustainability targets, including net zero, and enhance our resilience to climate change impacts, climate-related risks have been embedded into our business strategy and planning processes at all stages of the property life cycle.

During the acquisition process, we undertake environmental assessments to identify climate- and environmental-related risks associated with the property and ground conditions, including flooding. This year, we enhanced our acquisition due diligence by formally defining our risk appetite in respect to ESG and climate risk. For example, all acquisitions must consider our net zero carbon pathway, and how the acquisition could impact its aims and timeline, including financial implications. Additionally, we set minimum criteria addressing physical and transition climate risks such as flooding (fluvial and pluvial), building fabric and EPCs. This helps us identify and implement opportunities to strengthen our net zero readiness and make conscientious investment decisions. If an acquisition does not meet our minimum criteria, there has to be a clear financial rationale to proceed, which considers the size of the asset relative to the risk and portfolio.

Refurbishments provide an opportunity to undertake climate resilience and net zero carbon upgrades therefore, we have created net zero carbon guides for all asset types (industrial, office, retail and leisure) in our portfolio, which outline best practice measures that should be assessed for installation to improve energy efficiency and enhance the asset's climate resilience. Measures include, for example, on-site renewable energy generation and low-carbon heating and lighting alternatives. As we recognise that industry knowledge, technology and mitigation interventions are constantly improving, these guides will evolve to reflect market innovations, as well as our changing net zero carbon goals. These guides support our existing sustainable refurbishment guidelines, which integrate a range of climate-related minimum criteria. For example, medium refurbishments must meet minimum EPC B standards or BREEAM Excellent (or equivalent), supporting our overall sustainability performance and resilience to climate-related risks. Additionally, we have appointed an in-house building surveyor to support our asset managers on all capital works projects to ensure they have access to sustainability expertise.

Effective collaboration with our occupiers is essential if we are to achieve our net zero commitment. Therefore, we created occupier fit-out principles that outline a series of measures and criteria our occupiers should engage with during fit-out works to improve the asset's sustainability performance and climate resilience. Principles are established relating to, but not limited to, occupier engagement, low energy use, EPCs, minimising and omitting fossil fuels, embodied carbon and waste, aligning with our strategic sustainability goals.

Our actions this year have further developed how we address climate-related issues and our commitment to future-proof our business and portfolio continues. Our sustainability action plan roadmap sets out key actions we intend to undertake in future to ensure we can continue to operate in a world with increasing climate change impacts. As a BBP member, underpinning our strategy are climate mitigation and climate adaptation, which we consider as equally necessary to achieve holistic climate resilience.

Recommendation	Commentary
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Strategy continued

Resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

Our net zero carbon pathway is aligned with targets for a 1.5°C scenario. In achieving these targets, we will simultaneously be managing several transition and physical climate risks material to the business.

Having conducted comprehensive business and portfolio climate risk assessments across the IPCC's RCP 4.5 and RCP 8.5 scenarios, we have a clear understanding of our material climate-related risks and opportunities. This knowledge has enabled us to proactively implement management, mitigation and adaptation measures to improve our resilience and act early to harness opportunities.

Our chosen scenarios align with industry best practice and cover the most likely range of average global temperature rise in the coming decades. The RCP 4.5 climate scenario is characterised by significant policy action and market forces to decarbonise and meet the Paris Agreement. Our resilience to risks presented by the low-carbon transition is being secured by implementing our net zero carbon pathway and related activities described in this TCFD disclosure. The RCP 8.5 scenario is characterised by significant changes in weather patterns and severe physical hazards. Our resilience against risks associated with this high emissions scenario is being secured by embedding stringent mitigation measures to support climate adaptation and resilience across each stage of the property life cycle and our proactive approach to assessing and managing risks.

Analysing these distinct climate scenarios has enabled us to understand the wide scope of climate-related risks and opportunities and inform actions to support our resilience.

Our scenarios

RCP 4.5
Low emissions scenario

Transition
Lower emissions scenario where there is increasing policy action to meet the Paris Agreement. Transition risks dominate.

Scenario impact

Economic
Substantial regulatory and market pressure to decarbonise and associated costs to meet these demands.

1.7–3.2°C
by 2100

Environmental
Less physical risk, although a 2°C warming still presents substantial physical climate risks.

RCP 8.5
High emissions scenario

Transition
Higher emissions, business-as-usual scenario where policy action is negligible and warming rises drastically. Physical risks dominate.

Scenario impact

Economic
Permanently stunted GDP growth and severe economic and social shifts.

3.2–5.4°C
by 2100

Environmental
Chronic changes to weather patterns and ecosystems causing severe impacts on a global scale.

Recommendation**Commentary****Risk management****Describe the organisation's processes for identifying and assessing climate-related risks**

In recognition of the threat climate change poses to our business, sector and global economy, in early 2022 we conducted a rigorous climate risk assessment. At both the business and portfolio level, we identified our material climate-related risks and assessed their potential likelihood and significance, quantitatively and qualitatively, relative to each other. These results have been integrated into our risk matrix, containing all of our material corporate risks, and given probability, impact and residual impact ratings ranging from low to high to demonstrate the relative significance of climate-related risks to other risks. Furthermore, this year, we updated our emerging risk dashboard into a risk radar that identifies the principal and emerging risks to the business. Our risk radar recognises 'climate change' as a top principal risk to the business, and therefore embeds climate-related considerations into all our risk management and decision-making processes. Climate-related risks are reviewed on an ongoing basis by the Executive Committee and presented to the Board as part of the annual Risk Management Policy review, or as necessary.

Results from the climate risk assessments highlighted that flooding is a key physical risk facing our existing portfolio. Therefore, this year we completed asset-level desktop assessments for our entire portfolio to understand our exposure to this climate risk at a more granular level, addressing flooding from rivers, surface water, reservoirs and sea. This helped us to assign a risk ranking to each asset, ranging from very low to high, whereby mitigation action is required at assets with a medium or high rank where flooding exposure is material. This exercise has and will continue to inform our investment into flood resilience measures, enabling us to prioritise our most at-risk assets. The initial assessments identified a number of properties where further investigation is required. This will take place during 2023/24.

Recommendation	Commentary
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Risk management continued	
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Describe the organisation's processes for managing climate-related risks	<p>Our risk matrix and risk radar are reviewed and updated regularly by the Executive Committee to ensure that we remain attentive to the changing nature of these risks and to reflect evolving stakeholder requirements and the wider macroeconomic and geopolitical landscape. The risk matrix identifies individual climate-related risks with a residual risk ranking (low, medium and high) and mitigating controls and individual responsibility are determined to ensure risks are managed appropriately. Based on ranking, risks are communicated across relevant levels of our business.</p> <p>As we now have a comprehensive understanding of our material climate-related risks to our portfolio, this year we began undertaking asset resilience inspections to measure each asset's resilience to its material climate-related risks. Next year, we will continue inspections across our portfolio, helping us to understand our portfolio's baseline resilience to climate risk impacts and informing our asset resilience planning and capital expenditure requirements. This ensures that our most at-risk assets are prioritised, building our climate resilience where it matters most first. We have created a TCFD and net zero carbon action tracker that is utilised across the business to record the actions being taken to manage physical and transition climate-related risks at the portfolio level and asset level. This document is monitored centrally and reviewed by the Executive Committee to guarantee our climate resilience strategy is progressing as intended.</p> <p>To enhance our management of climate-related risks in occupier-controlled spaces, we have introduced green lease clauses and are proactively engaging with occupiers at an early stage around their operational behaviour, energy efficiency and data sharing. Conducting ESG audits has enabled us to identify opportunities to reduce energy consumption and improve efficiencies, supporting our ability to make informed decisions during our investment and capital allocation activities, as well as acquisition and divestment decisions to maximise the overall performance and resilience of our portfolio.</p> <p>We remain committed to achieving our 2040 net zero carbon target, which will be key to support our resilience against transition climate risk impacts, including increased carbon costs and shifting market demand towards low carbon buildings. Demonstrating our support for BBP, we have publicly published our net zero carbon pathway, which sets out our priority actions towards decarbonising the portfolio.</p> <p>In the coming year, we plan to transform how we collect and manage our climate-related data by moving from a third-party managed system to an internal system. This will enhance our ability to access data and real-time updates across the portfolio, assisting our management of climate-related issues.</p>
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Describe how the processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management	<p>Our Risk Management Policy has enabled us to integrate the climate-related risks we have identified and assessed (see the Strategy section) into our overall risk management processes effectively such that sustainability and climate-related issues are considered across all our activities. We are committed to conducting business responsibly and in a way that creates a positive impact on society. Therefore, we will continue to ensure climate-related risks are identified, assessed and managed appropriately to fulfil our role in tackling climate change.</p>
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Recommendation

Commentary

Metrics and targets

Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management processes

We report in line with EPRA Sustainability Best Practices Recommendations for sustainability reporting and publish our EPRA tables annually. We use a range of metrics to inform our stakeholders of our climate-related performance and activities, including:

- Total and like-for-like Scope 1 and 2 emissions and total Scope 3 emissions
- Total and like-for-like electricity consumed in kWh, including energy intensity in kWh/m²
- Energy intensities for Scope 1 and 2 emissions using the metric tCO₂e/m²
- Total and like-for-like water consumption, including occupier water consumption in absolute terms, for each asset type
- Total and like-for-like waste disposal in tonnes, split into recycling, composting, recovery, incineration and landfill

To supplement our qualitative measures, we also assess key quantitative measures, including EPC ratings and building certifications to build a holistic view of our portfolio's performance.

Metrics included in our net zero carbon pathway include:

- Portfolio on-site renewable energy capacity (MW)
- Renewable energy procurement %
- High quality renewable energy procurement %
- Major refurbishment embodied carbon intensity (tCO₂e/m² GIA)
- Minor development and fit-out embodied carbon intensity (tCO₂e/m² GIA)
- Total portfolio embodied carbon development (tCO₂e)
- Total carbon emissions offset (tCO₂e)

In the coming year, we intend to track and publicly report additional metrics relating to our climate adaptation activities to support transparent communication of our progress to our stakeholders and investors. These will be included in our next TCFD report.

Disclose Scope 1, Scope 2 and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks

We disclose Scope 1, 2 and 3 greenhouse gas emissions in our Annual Report and Sustainability Data Performance Report. We provide trend analysis since 2019 to show progress and historical performance.

We calculate and report our emissions in line with the GHG Protocol Corporate Accounting and Reporting Standard.

Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets

In recognition of the escalating concerns around climate change and our awareness that the real estate industry is a key contributor to global GHG emissions, we have developed a 1.5°C aligned net zero carbon pathway with a target year of 2040.

Our Scope 3 emissions, attributed to landlord and occupier energy consumption, are a key source of our overall emissions. To support the net zero carbon guides we have created for all asset types in our portfolio, we intend to formulate targets per asset type based on the UKGBC's targets for offices and the Carbon Risk Real Estate Monitor (CRREM) 1.5°C Global Pathways' aligned targets for all other asset types.

We are pursuing an embodied carbon target of 300 kgCO₂e/m² by 2040 for major refurbishments, aligning with the LETI 2030 Design Target for upfront embodied carbon (A1-A5).

To increase our accountability and culturally embed climate risk management throughout the organisation, we have set remuneration-linked annual objectives applicable to Executive Directors' bonus opportunities for sustainability performance.

Sustainable thinking,



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We are committed to integrating sustainability within all our business activities and in a way that makes a positive contribution to society, whilst minimising any negative impact on people, local communities and the environment.

responsible business



Our Sustainability Data Performance Report is available on our [website](#)

This year we have made significant progress on our sustainability priorities.

We have incorporated our sustainability reporting into this Annual Report, which better reflects our integrated approach. We will be publishing a Sustainability Data Performance Report, which will be made available on our website, including disclosures which are third party assured. We report our emissions data by calendar year.

Our focus has been to build on our net zero carbon pathway and climate risk assessment work undertaken last year.

We have established a Climate Action Working Group, involving members of the team from all areas of the business. Our priorities have been to implement the short-term recommendations identified and good progress has been made on these aspects.

I am pleased to report that we have reduced our Scope 1 and 2 emissions by 24% in absolute terms compared to our 2019 baseline.

As the majority of our emissions come from Scope 3 emissions, I am pleased to note that we have further improved the level of occupier data collection over the year. Continued engagement and collaboration with our occupiers on both data collection and reducing emissions will be a key area of focus looking forward.

Engagement with stakeholders has been key and we have held sustainability briefings for investors and occupiers alike.

We have continued to develop team training on sustainability issues and additionally recruited a Head of Building Surveying who will coordinate the building fabric related improvements that are required to improve our assets.

Acting responsibly is a key strategic priority and an integral part of our approach to business. While we are only at the start of our net zero carbon journey, I am confident we are moving in the right direction.

Michael Morris
Chief Executive

Sustainable thinking: our responsible approach to business



Global trends driving sustainability

Society is becoming increasingly aware that the prosperity of humanity and the planet are intrinsically interlinked, and not everything should be measured in terms of economic success.

For businesses, the need to look beyond economic success is gaining momentum. Short-term profitability to the long-term detriment of the planet's natural systems and wider society is no longer an acceptable or a viable business model. A more holistic approach is required, which incorporates stakeholder wellbeing, circular economy principles and nature-based solutions, whilst accounting for natural capital and carbon emissions, and recognising alternative drivers of value like energy efficiency and supply chain resilience.

In 2023 the World Economic Forum (WEF) released its eighteenth Global Risks Report, stating that eight out of the top ten most severe risks on a global scale over the next ten years, as perceived by world leaders, are environmental and social risks, with the top three being climate action failure, failure of climate change adaptation and natural disasters and extreme weather events.

The Intergovernmental Panel on Climate Change's (IPCC) sixth assessment report confirmed that global average temperatures are already 1.1°C higher than pre-industrial levels. To keep irreversible tipping points from being reached, warming must be limited to 1.5°C, which means that greenhouse gas emissions must be halved by 2030. At COP28 in 2023, we are expecting the results of the Paris Agreement's global stocktake, which will assess the current position and global progress made towards the 1.5°C maximum target.

There are undoubtedly challenges to overcome and costs to incur, but also vast opportunities, cost savings and advantages to be gained. Those who do not engage and collaborate to drive change risk much higher costs in the future.

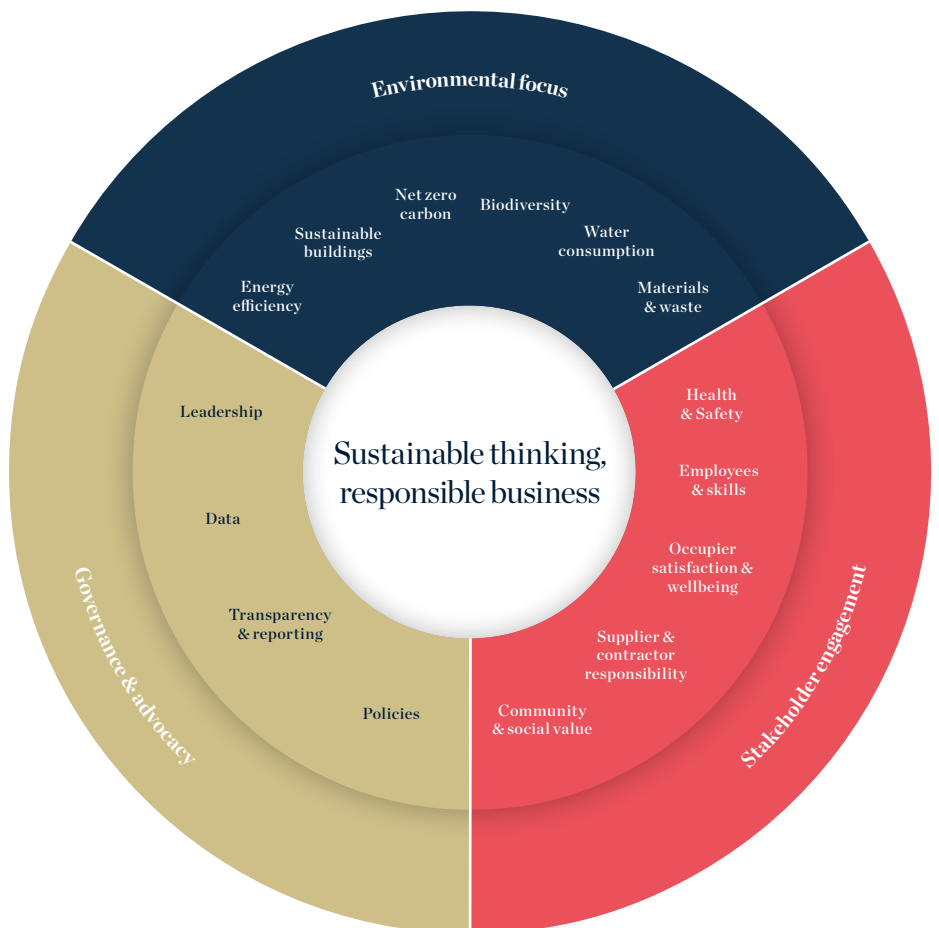
Our approach

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

Sustainable thinking is integrated within all our business activities. We are committed to making a positive contribution to society, whilst minimising any negative impact on people, local communities and the environment.

Our sustainability policy guides our long-term sustainability priorities.

We have in place a sustainability framework based on our key material issues and continue to review these key priorities annually.



Key highlights from this year

Environmental focus

24% reduction in absolute Scope 1 and 2 emissions compared to 2019 baseline

22% reduction in Scope 3 energy intensity compared to 2019 baseline



Commenced decarbonisation of assets

Commenced on-site renewable installation

76%

Improved portfolio EPCs rated A-C

64

Green leases completed

Stakeholder engagement

Carried out occupier surveys at office and industrial properties

Hosted sustainability webinars for investors and occupiers

Continued roll out of new supplier clauses addressing modern slavery

Helped develop new Better Buildings Partnership training modules

Carried out annual employee engagement survey

Provided further sustainability training for the team

£27,000

charitable donations, supporting 23 charities

Governance and advocacy

Climate Action Working Group established to oversee progress on net zero

Completed assessment of climate-related risks to the business

Reported in line with Task Force on Climate-related Financial Disclosures

Maintained EPRA Gold awards for both Annual Report and Sustainability Report

Improved GRESB rating to three green star status

Third party assurance of GRESB submission data

Implemented new sustainability data management system

85%

Improved overall energy data coverage

Key priorities for next year

Environmental focus

Continue net zero carbon pathway progress and focus on priority assets



Progress priorities identified within energy audits

Progress collaboration with occupiers to increase data collection coverage and reduce emissions

Continue to progress decarbonisation strategy across portfolio

Continue to progress solar installation across priority assets

Stakeholder engagement

Develop our occupier engagement strategy

Progress roll out of occupier apps across multi-let offices

Continue to improve the way in which we communicate with our occupiers on sustainability progress

Maintain our high level of health and safety compliance

Maintain our positive working culture and values



Governance and advocacy

Continue third party data assurance on sustainability reporting

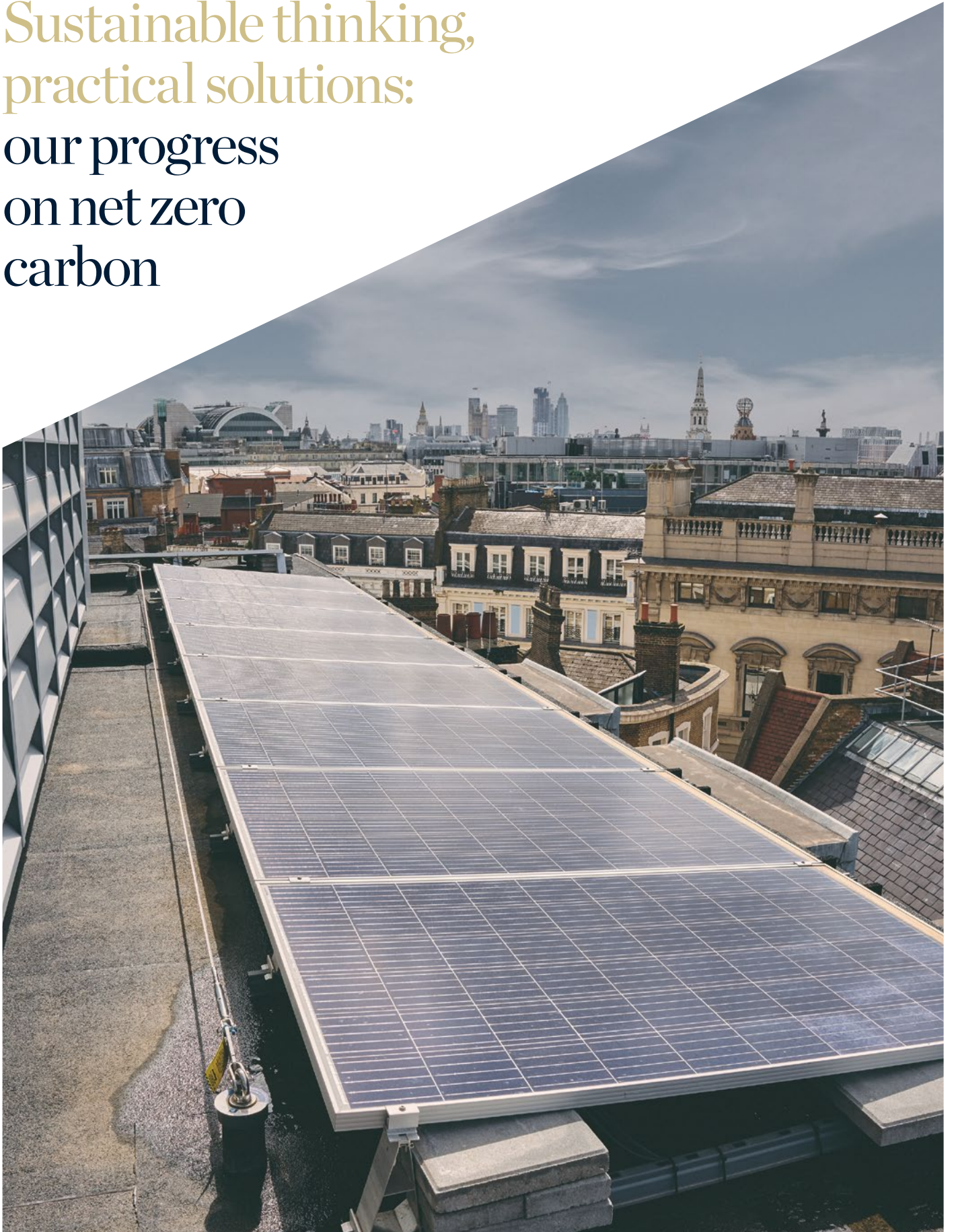


Maintain high standards of sustainability governance and management

Maintain clear and transparent reporting standards

Continue to improve GRESB rating

Sustainable thinking,
practical solutions:
our progress
on net zero
carbon



Environmental focus

Sustainable thinking, practical solutions

Climate change is one of the most significant issues to be addressed globally and requires urgent action.

It is recognised that commercial buildings are a key source of emissions and that as a responsible landlord we must seek to reduce the environmental impact of our buildings. We continually assess the environmental performance of our portfolio and seek to implement improvements where we can.

Net zero carbon pathway Our 2040 commitment

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

We have committed to be net zero carbon for our operational and embodied emissions by 2040. By then, all operational emissions will be reduced as much as possible through energy efficiency measures and renewable energy, with any residual emissions offset.

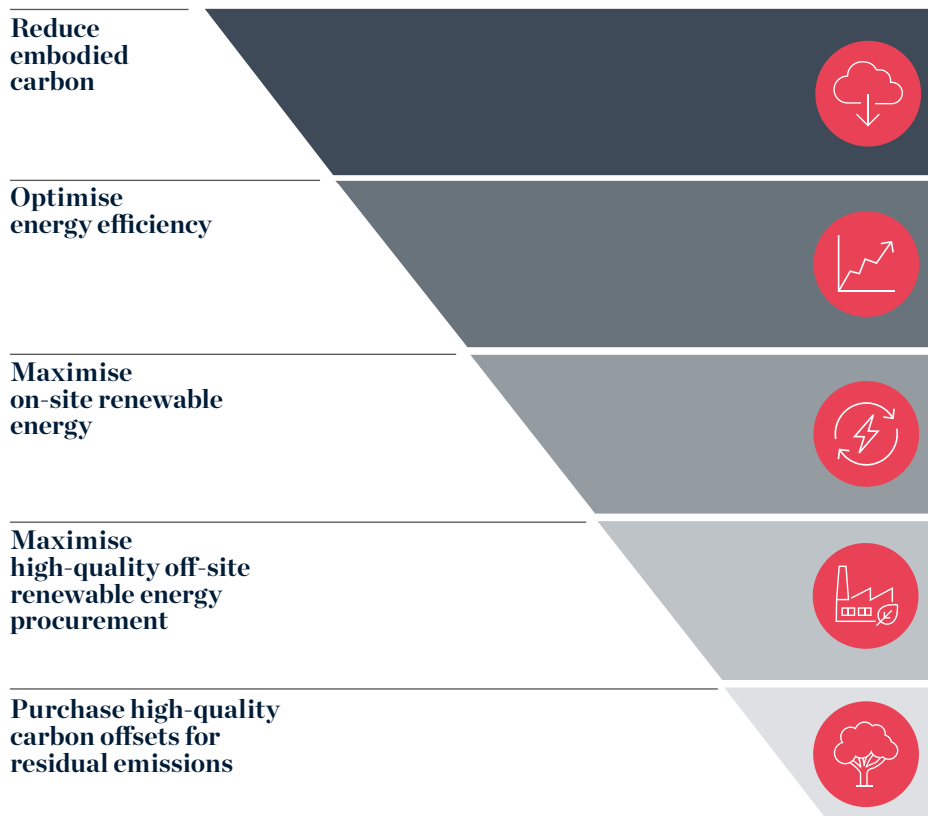
From 2040 onwards, all completed refurbishment projects will have reduced their embodied and operational carbon as much as possible, with any residual emissions offset upon practical completion.

We have defined our portfolio's baseline carbon footprint, using 2019 as the most representative recent year, to map the emissions' reductions required to meet our 2040 target. As with similar property companies, the majority of our emissions relate to the energy consumption of our occupiers.

Net zero governance

This year we have established a Climate Action Working Group, with members of the team across the business, to ensure we are progressing key actions and priorities on our pathway to net zero commitment, and reviewing and setting interim targets.

We have also embedded net zero carbon criteria into our acquisition due diligence process.



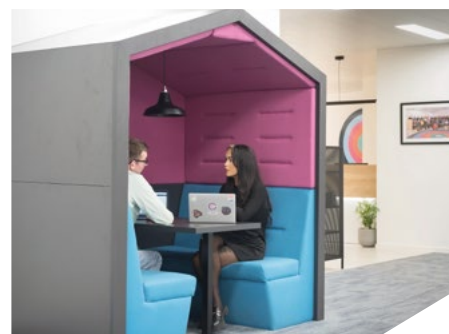
Our net zero carbon progress
Measuring and reducing embodied carbon

Our target for major refurbishment embodied carbon intensity is 300kgCO₂e/m² by 2040. The majority of our development activity comprises refurbishments and retrofit works, for which there are no industry benchmarks thus far. In due course, we will begin to conduct whole life carbon assessments for all major refurbishments (above £1.5 million) and fit-outs in pursuing an embodied carbon target for our major refurbishments.

To achieve the maximum embodied carbon savings, our sustainable refurbishment guidelines define our expectations for each project from the outset.

This year, our refurbishment activity across the portfolio has been carried out to improve and enhance the buildings' sustainability credentials through making alterations to structure, mechanical and electrical maintenance or landscaping.

As the contract value of each refurbishment has been under £1.5 million, in line with our refurbishment guidelines we did not carry out any embodied net zero carbon assessments, but we endeavoured to repurpose, recycle and reuse materials where possible, minimising site waste.



Read more on our GHG emissions on pages **66-67**

Net zero carbon progress

	Aims	Progress	Metrics
Embodied carbon	Minimise the embodied carbon cost of developments, major refurbishments and occupier fit-outs	No whole life carbon assessments were required during the year, as individual asset refurbishment activity did not exceed £1.5 million	Target embodied performance of less than 300kgCO ₂ e/m ² for major renovations
Operational carbon	Ensure operational carbon performance and efficiency across the portfolio is improved	We have worked on improving our data accuracy and coverage and carried out five energy audits across a representative sample of asset types	24% reduction in operational carbon emissions for Scope 1 and 2, relative to our 2019 baseline 40% reduction in energy intensity of all Scopes, relative to our 2019 baseline
On-site generation	Maximise amount of on-site renewable generation	We have commenced solar panel installation on industrial asset refurbishments and have commissioned feasibility studies across key identified assets	Five operational PV systems totalling 0.176 MWp with a further three schemes under construction totalling 0.238 MWp. Considering a further six schemes which would provide a capacity of 7.625 MWp.
Renewables procurement	Procure high quality renewable energy	No existing energy contracts were due for renewal during the period	100% of our purchased electricity is from REGO backed renewable sources
Offsetting	Acquire high quality offsets to neutralise residual emissions	While not yet under consideration, we will develop our strategy for high quality offsets post net zero carbon target year of 2040	
Third party verification	Maintain credibility and transparency of our net zero carbon pathway	Annual independent third party assurance of energy data	Certification of energy, water, and waste data by third-party assurance

Reducing operational carbon

Over the year we have been introducing energy efficiency measures across the portfolio to help measure and reduce occupier energy consumption, including:

- Developing an occupier engagement plan to ensure actions take place in a timely manner and effective cost-sharing mechanisms are introduced
- Continuing to include green lease clauses within our leases, with 64 completed this year
- Increasing data collection coverage to 85% and implementing a new data management system

- Carrying out a complete audit of all electricity, gas and water meters or sub-meters under our control to ensure that they are all functioning properly and recording consumption accurately. We plan to replace a small number of meters in 2023, which are now obsolete

Maximising renewable opportunities

To reduce the carbon footprint of our operational emissions, we are focusing on increasing our on-site renewable energy opportunities across our assets.

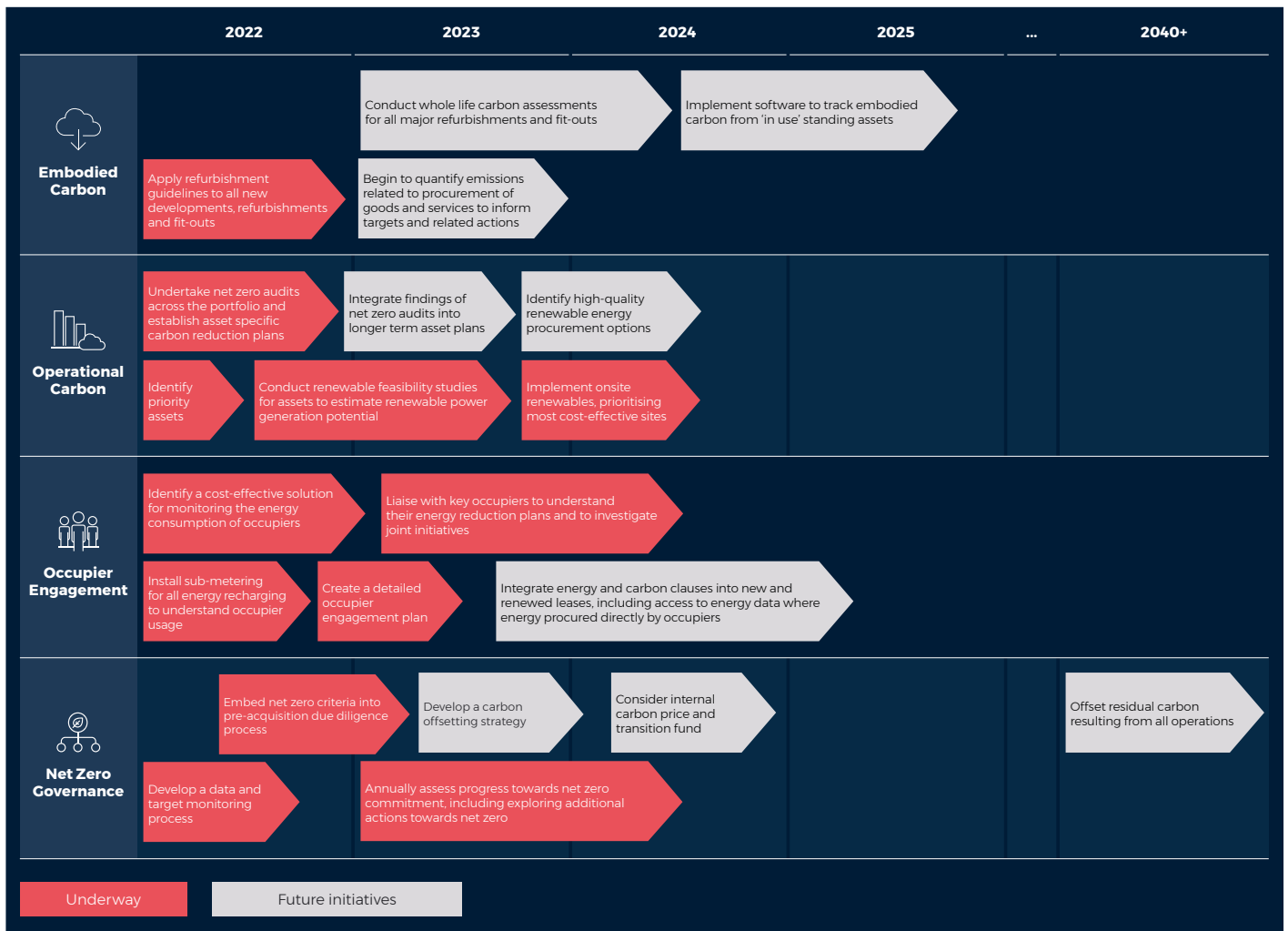
This year we have installed three schemes and undertaken six renewable energy feasibility studies to identify asset-specific opportunities across the portfolio.

Maximising off-site renewable procurement

Within our portfolio currently 100% of landlord procured electricity is REGO backed (Renewable Energy Guarantees of Origin).

When our electricity contracts expire, we will seek to procure high-quality renewables in line with the UKGBC guidance on renewable energy procurement.

We seek to follow three main criteria on renewable energy procurement. It must be from renewable non-fossil fuel energy sources; create additional capacity in the grid; and have exclusive ownership and claims of the energy attributes.



Energy usage

As part of our net zero carbon strategy, our focus on minimising landlord controlled gas heating in our assets has been reflected in the 3% absolute reduction in Scope 1 emissions over the period. This is despite increased building occupancy levels post-pandemic and property acquisitions over the period. On a like-for-like basis the reduction was 4% compared to the previous year.

As we continue to transition away from gas supplies, there is a corresponding increase in electricity consumption, which is up 7% on a like-for-like basis, but also impacted by increased occupancy post-pandemic.

Reflecting property acquisitions and in absolute terms, electricity consumption has increased by 25% over the year.

Greenhouse gas emissions Scope 1

Overall, we have seen an absolute reduction in our Scope 1 emissions of 3% over the year to 989 tCO₂e (-4% on a like-for-like basis), which reflects the ongoing strategy to replace gas with electricity across our portfolio. For example, during the year we replaced the gas based air conditioning system at 50 Farringdon Road, London and we have also removed gas from a number of our industrial units in line with our refurbishment guidelines. From our baseline year of 2019 we have reduced Scope 1 emissions by 15%.

Our Scope 1 energy intensity has reduced by 12% over the year as we have acquired new assets with lower energy intensity levels. On a like-for-like basis the energy intensity has increased by 10% which reflects greater activity and use post-pandemic at our multi-let assets. Since our 2019 baseline, our Scope 1 intensity has reduced by 29% to 0.017 tCO₂e/m².

Scope 2

On an absolute basis, our Scope 2 emissions have increased over the year by 14% to 1,657 tCO₂e as we have acquired new assets and replaced gas with electrical systems. However, on a like-for-like basis our Scope 2 emissions have reduced by 3%, which reflects improved building energy efficiency and grid decarbonisation. From our 2019 baseline we have reduced absolute Scope 2 emissions by 28%.

Scope 3

Around 80% of our total GHG emissions are Scope 3 emissions from our occupiers, therefore accurately recording this data is key to our net zero carbon strategy. This year we have increased our Scope 3 data coverage to 67% of the portfolio. We have achieved this with direct meter readings as well as ongoing dialogue with our occupiers.

On an absolute basis, our Scope 3 emissions are 9,775 tCO₂e. We have restated our 2021 Scope 3 emissions as we collected more data subsequent to the publication of last year's Annual Report, making comparisons more meaningful. Our Scope 3 energy intensity has reduced by 19% over the year to 0.026 tCO₂e/m². This is a 22% reduction from our 2019 baseline.

Methodology

We collect all of our landlord controlled energy data via automatic meter readings, and following improvements in occupier data collection, we have increased our overall data coverage across the portfolio to 85% (from 75% in 2021). The aim is to reach 100% coverage of our portfolio and we continue to work with our occupiers and data providers to achieve this.

All our large supplies work from automatic meter reads, with any void unit meter data being aggregated to an asset level. This means that 100% of landlord controlled data is meter read and not estimated. We are working towards rolling out automatic meter reads across the whole portfolio to increase coverage and reliability of our data and reporting accuracy.

We have reported on all the emission sources required under the core requirements of EPRA Best Practices Recommendations and have voluntarily disclosed business

Emission source	GHG Scope	2022		2021		2020	
		Absolute GHG emissions (tCO ₂ e)	GHG intensity (tCO ₂ e/m ²)	Absolute GHG emissions (tCO ₂ e)	GHG intensity (tCO ₂ e/m ²)	Absolute GHG emissions (tCO ₂ e)	GHG intensity (tCO ₂ e/m ²)
Combustion of fuel and operation of facilities	1	989	0.017	1,020	0.019	940	0.020
Electricity, heat, steam and cooling purchased for own use	2	1,649	0.019	1,448	0.028	1,499	0.031
Office premises	2	8	0.026	5	0.018	8	N/A
Total Scope 1 and 2		2,646	0.027	2,473	0.044	2,447	0.043
Business travel	3	3	N/A	2	N/A	1	N/A
Occupier data	3	9,735	0.033	10,455	0.039	3,892	0.027
Landlord water and treatment	3	21	0.000	6	0.000	12	0.000
Landlord waste	3	16	0.000	8	0.000	7	0.000
Total Scope 3		9,775	0.026	10,471	0.032	3,912	0.019
Total all Scopes		12,421	0.053	12,944	0.076	6,358	0.062

travel, occupier, and own premises consumption emissions. An operational control approach has been adopted and all our properties are included. Figures presented are absolute for utility and waste consumption and relate only to landlord-obtained utilities and waste removal. Occupier-obtained consumption is included where possible. We have calculated and reported our emissions in line with the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and used emission factors from UK Government's GHG Conversion Factors for Company Reporting 2022. We continue to report on a calendar year basis to ensure there is sufficient time to collect occupier consumption data.

We have calculated our intensity measurements based on the area served by each meter, for example whole site, common area or a specific floor within an asset. External supplies have been excluded from the intensity calculations. So that an accurate comparison can be made between reporting years, this approach has been backdated to 2019 figures.

We have continued to voluntarily report on Scope 3 vehicle emissions. Vehicle emissions were calculated using our vehicle expenses reports and the vehicle emission factors from the UK Government GHG Conversion Factors for Company Reporting 2022. Year-on-year, we will continue to update

24%

Reduction in Scope 1 and 2 emissions since 2019

67%

Scope 3 occupier energy data collection



previous reported figures if applicable to remove estimates and ensure actual data is captured and reported. We occupy a floor within one of our assets under management and as such, have apportioned out our consumption based on the floor area and this is reported as a separate line item.

Head office

We started collecting and reporting our head office data in 2016, and while it is only a small part of our overall footprint, we believe it is important to provide a holistic view where possible. Our head office is located on a floor within Stanford Building, London, which is one of our own assets. This is a recently refurbished space, providing the latest technology and energy efficiency measures. This switch has allowed us to obtain more reliable data and cut our office emissions significantly. In 2022 our energy usage did increase, but this reflects a greater return to office working, following the pandemic.

Business travel

We have seen a small increase in business travel emissions as our team have begun travelling more regularly to our assets. We continue to encourage sustainable forms of travel and virtual meetings where feasible.

Smart buildings

During the year we have seen a kWh reduction in four properties of between 16% and 34%, following the installation of Asset IQ. The system aims to help reduce energy consumption and is currently installed at 401 Grafton Gate, Milton Keynes, Pembroke Court, Chatham, 180 West George Street, Glasgow and 50 Farringdon Road, London.

The tool connects to the building management systems, providing live updates from each piece of plant equipment throughout the building and builds a holistic picture of each building's energy usage over a 24/7 period. The tool highlights any key inefficiencies and helps to:

- Identify issues with the operation of the equipment
- Pinpoint the reasons for anomalies
- Suggest the most suitable technical solutions
- Identify the improvement of the overall energy strategy

This information provides quarterly action plans and enables discussions with occupiers on how the building systems can be adjusted for optimum performance and help reduce energy costs.

We aim to increase the use of Asset IQ throughout our multi-let offices where feasible.



Over the year we are pleased to have increased Scope 3 data collection, achieving this in part via improved automated data collection.

Tim Hamlin

Director of Asset Management

SOLAR

We currently have five operational solar array systems totalling 0.176 MWp and we have seen a 42% increase in energy generation over the year.

We have a further three schemes currently under construction totalling 0.238 MWp.

In addition we are establishing the feasibility of a further six schemes which would have a maximum output of 7.625 MWp.

We are also investigating a 'sleeving' arrangement which would enable us to export any excess electricity generated to other buildings in our portfolio. This would enable them to benefit from cost-effective on-site renewable energy.

Following our sustainability workshop engagement programme with key occupiers, we are currently engaged in a number of feasibility studies to identify the optimum delivery strategy to support them in installing solar panels.



Sustainable buildings

We are committed to monitoring and enhancing the environmental performance of our buildings and ensuring they are resilient to changes in both climate and the regulatory environment.

It is important that we ensure our buildings meet changes in occupier requirements, and our approach to our portfolio management adheres to best practice with respect to data collection, communication and implementation.

In line with our net zero carbon commitment, we aim to remove fossil fuel supplies where practical, introduce on-site renewable energy, increase the efficiency of existing equipment and support our occupiers with their own sustainability strategies.

Over the course of this year we have:

- Developed our strategy for on-site solar power generation
- Started to implement our strategy for the roll out of electric vehicle charging
- Improved the percentage of A-C rated EPCs in our portfolio from 71% to 76%
- Continued to implement green lease clauses
- Carried out five net zero audits across the portfolio


Collaborating with our occupiers to understand their own sustainability strategies is key to delivering improved environmental initiatives across our buildings.

Mark Alder
Head of Occupier Services

Electric car charging points

Over the last 12 months we have gradually increased the number of charging points at our properties.

There are currently 41 car charging points across our portfolio, of which 26 we have installed ourselves and the remainder have been put in by our occupiers.

During 2022, we supported our occupiers with their own installations at Parkbury Industrial Estate, Radlett, Sundon Business Park, Luton and Atlas House, Marlow.

In conjunction with one of the major electric vehicle charging infrastructure operators, we have developed a plan to install a further 38 rapid and fast chargers across five further sites including our retail warehouse locations.

41

Charging points installed across seven of our sites



SUSTAINABILITY ACTION PLANS

Over the year we have implemented sustainability action plans at our multi-let properties.

These plans identify areas for improvement, including biodiversity measures and social amenities as well as the introduction of energy efficiency measures.

Energy efficiency measures introduced include new LED lighting at Colchester Business Park, Longcross, Cardiff, 180 West George Street, Glasgow, Gloucester Retail Park, Parkbury Industrial Estate, Radlett and Sundon Business Park, Luton. We have also installed motion sensor lighting at Trident House, St Albans and Parkbury Industrial Estate, Radlett.

We have also undertaken a metering survey across our service charge sites to ensure effective metering and improve energy reporting.

The use of the Asset IQ building management system to monitor and improve energy efficiency at 401 Grafton Gate, Milton Keynes, Pembroke Court, Chatham, 180 West George, Glasgow and 50 Farringdon Road, London has resulted in a significant kWh reduction in electricity usage across those assets.

Our sustainability action plans are reviewed annually and we plan to action further initiatives over the course of next year.



Sustainable refurbishments

Our sustainable refurbishment guidelines, introduced in 2021, form an integral part of the planning and execution stages of refurbishment and construction projects. The guidelines allow for discussion with consultants, designers and other stakeholders, and provide clarity in a changing market.

The guidelines are under constant review to ensure we evolve with markets, technology, and expertise enabling us to deliver against our targets.

Updates to our sustainable refurbishment guidelines will include:

- Ensuring clarity of metering and transparency of energy usage
- Incorporation of on-site renewable energy
- Incorporation of certification schemes, suitable for the different types of refurbishment
- Updated procurement, supply chain and waste policies
- Provision of building records
- Ensuring the end product meets all current and expected future legislative requirements

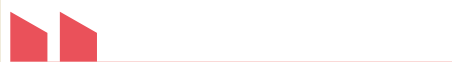
Building certifications

Whilst our net zero carbon pathway is focused on reducing carbon emissions, we also recognise the value of building certifications to provide third party validation.

We have three certified office buildings in our portfolio, at Metro, Manchester and Tower Wharf, Bristol which were both awarded BREEAM 'Excellent' when they were refurbished, and Angel Gate, London, which has ISO 14001 certification.

In line with our refurbishment guidelines and recognising the composition of the portfolio we are exploring alternative certifications that reflect the nature of our assets and on-site strategies.

Site type	Green building certification 2023
Office	29%
Retail, High Street	0%
Retail, Warehouse	0%
Industrial, Business Parks	0%
Industrial, Distribution Warehouse	0%
Hotel	0%
	6%



Our refurbishment guidelines aim to improve the sustainability credentials of our properties.

Andy Lynch
Head of Building Surveying



Our bespoke set of green lease clauses continue to be successfully incorporated in new lettings and renewals.

Jay Cable

Head of Asset Management

76%

EPC ratings A-C

64

Green leases completed



Net zero carbon building audits

During the year we undertook net zero carbon building audits at five representative assets across our portfolio. These took place at our office assets at Pembroke Court, Chatham and 401 Grafton Gate, Milton Keynes, our retail warehouse asset in Bury and our industrial estates at Luton and Radlett.

In respect of the office assets, the reports assessed the energy performance of the assets using the UKGBC targets for reduction in Energy Use Intensity (EUI) required to meet the 1.5°C global warming target for 2030 and 2050 and identified the interventions required to achieve these reductions. In respect of the retail and industrial assets the reports used the Carbon Real Estate Risk Monitor (CRREM) targets for the same years and same climate target.

In each case, the reports indicated the interventions required to deliver the reduction in EUI. These were principally to the internal building systems (for example, replacing gas based systems with electric systems), external fabric (for example, PV systems and improved solar shielding) as well as changes to the operation of the buildings (for example implementing smart building management systems).

Whilst the characteristics of every building differ, the output from the reports has been valuable in helping us refine our refurbishment guidelines, management regimes and begin the process of setting individual asset net zero carbon strategies.

Green lease clauses

Green leasing continues to be an important tool to enable us and our occupiers to improve the performance of a building.

The ideal green lease will help enhance the environmental performance of a building, mitigate any environmental legislative and market risk and foster improvements in data collection.

Our bespoke set of green lease clauses represent best practice and continue to be successfully incorporated in new leases and lease renewals. We continue to review and amend these clauses accordingly where appropriate.

Over the year, we completed 64 green leases. We will continue to use lease events and letting of vacant units to drive further take up.

Minimum Energy Efficiency Standards (MEES)

We continue to improve the EPC profile of the portfolio. Looking at the percentage of EPC ratings by estimated rental value (ERV) of our portfolio, 76% have an EPC rating of A-C and 24% are D or E. For the year to March 2022, 71% of the portfolio was rated A-C by ERV.

We continue to proactively manage our compliance with MEES, which, as of April 2023, prohibits leasing space that is F or G rated, unless an exemption certificate applies. We have one small non-compliant industrial unit, for which we are in the process of applying for an exemption due to its very basic construction.

Over the year we reassessed 38 EPCs. Using the same reporting basis as above, 79% have been reassessed to an A-C rating, 21% a D rating, and none were E, F or G rated. We continue to use lease events, common area works and EPC renewals to implement improvement works with the overall aim of continually improving our EPC score and ensuring compliance with MEES.

The minimum EPC rating is likely to be raised further, with the UK Government having consulted in 2021 on proposals to require a minimum rating of a C by 1 April 2027, and a B by 1 April 2030. The outcome of this consultation is awaited.

Notwithstanding the legislative position, we see alignment with MEES regulations as integral to our net zero carbon pathway, occupier engagement strategy, and environmental focus. We will continue to proactively manage the portfolio on this basis.

Biodiversity

We are committed to broadening the scope of biodiversity across our portfolio by introducing more measures at our offices and across a number of industrial estates where possible.

We take a collaborative approach to biodiversity, working with biodiversity advisers, our managing agents, landscapers and our occupiers to ensure we take on board ideas and suggestions.

In line with the Better Buildings Partnership's biodiversity checklist, we aim to:

- Set biodiversity targets at selected properties
- Plan the implementation of biodiversity improvements measures, alongside expert advice
- Ensure adequate funding is available to maintain these measures
- Monitor progress and adapt if necessary

During the year, we have installed additional beehives, bug hotels, bird and bat boxes as well as compost bins across several of our multi-let office buildings. We also have in place biodiversity plans to guide our approach to landscaping to promote wild vegetation at some of our larger locations – for example, at Colchester Business Park.

We have also introduced biodiversity measures successfully at appropriate industrial estates including in Epsom and Radlett.

Our plans for 2023 are to continue to use the Better Buildings Partnership's biodiversity checklist, and carefully manage the funding required to introduce and maintain our biodiversity measures as well as improve the way in which we communicate locally about the importance of biodiversity.

Water consumption

We collect the majority of our water data via actual manual meter reads (90% from actual reads). Due to the location of some water meters, achieving accurate and regular consumption measurements is not practical, therefore we rely on estimated data from the suppliers.

Reflecting increased occupancy post-pandemic and portfolio acquisitions, over the year we have seen an overall increase across the portfolio of 228% for absolute landlord purchased water consumption and a like-for-like increase of 60%. The large increase is due to the increased occupancy levels at our multi-let office buildings, property acquisitions and improved data capture.

We have begun works to install automatic water flow measuring devices across the portfolio. These will enable us to accurately measure water consumption and significantly improve our data collection.

Over the past year the largest increase in consumption in absolute terms occurred across our office portfolio, from 12,028m³ to 29,003m³ (a 241% increase). On a like-for-like basis, the increase was 169%.

Due to the nature of our retail portfolio and distribution warehouse portfolio (which have very few communal areas or utility supplies), the water consumption figures are insignificant at a portfolio level (comprising less than 0.1% of the total landlord controlled consumption).

Going forward, we will continue to follow our refurbishment guidelines by adopting water efficiency measures as we undertake refurbishment and maintenance projects across the portfolio.

Materials and waste

We recognise the importance of sustainable waste disposal and therefore remain committed to eliminating landfill waste disposal across the landlord controlled portfolio. This year we have again successfully diverted 100% of waste from landfill across property management activities, using either recycling or heat recovery.

Following increased occupancy across the portfolio post-pandemic, this has led to an increase in absolute waste generation over the year of 102%. Of this, 83% was recycled and 17% recovered. On a like-for-like basis, the increase was 100% with 84% recycled and 16% recovered.

We continue to engage with our waste providers and occupiers with the aim of improving the sorting and filtering of waste at our properties. The benefit of this is to make the downstream sorting, recycling and recovery process more efficient.



100%

Waste diverted from landfill from property management activities

Stakeholder engagement

Sustainable thinking, collaborative action

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

Occupier engagement, wellbeing and satisfaction

Working with our occupiers is at the heart of what we do. Understanding their current and future requirements and working collaboratively to reduce our environmental impact is key for us.

We continue to look for ways to improve our occupiers' experience. Our Picton Promise was created to bring together the five main commitments to our occupiers: Action, Community, Technology, Support and Sustainability. These are at the core of our engagement strategy.

Building on the success of the launch of our apps at Angel Gate, London and Colchester Business Park in 2022, we have begun to roll out more of these apps at our other multi-let office buildings and by the Summer we expect to have a total of ten new apps in place. We see this as an important part of our engagement strategy to communicate effectively with our occupiers and their staff.

During the year, we undertook an occupier survey across all our multi-let offices and industrial estates.

The results of the survey indicated that:

- 85% of respondents would recommend us as a landlord to others
- 80% of respondents were happy with our communication
- 70% of respondents were happy with our responsiveness
- 80% of respondents were happy with the level of services we provided

- 75% of respondents were interested in increasing their awareness of sustainability

Where occupiers highlighted building specific issues, our managing agents have taken quick action to handle these and communicated with the occupiers concerned.

We will be using the valuable feedback we obtained from these surveys to help shape our engagement strategy over the next year.

In 2023, we will also broaden our collaboration with occupiers on sustainability matters either through direct dialogue with them or within the regular occupier meetings held at our multi-let offices. We will focus on working together to reduce energy costs and sharing utilities consumption data as well as ways to improve the effectiveness of waste removal.

Occupier health and safety

We are fully committed to making our buildings a healthy and safe environment for our occupiers and their visitors, our employees, contractors, and the public. We therefore ensure that they comply with the relevant health and safety legislation and guidelines.

Health and safety is embedded within our management culture of our organisation.

Our Health and Safety Committee meets every other month and reviews all aspects of health and safety across our portfolio and in our own office. The Committee reports directly to the Responsibility Committee and health and safety is a standing item on the Board's agenda.



Our health and safety record continued to be strong with no reportable accidents, near misses or other health and safety incidents during the year. We were 99% compliant in all critical and secondary health and safety documentation.

During the year, our team improved their health and safety knowledge by attending training courses in areas including the Building Safety Act, first aid and regulatory defensibility.

As part of our property management retender, we improved our managing agent's health and safety KPIs covering reporting and delivery times.

In 2023, we plan to undertake security and lighting improvements at some of our industrial and retail warehouse properties, as well as providing further training to our employees for example in asbestos management.

85%

Of occupiers surveyed would recommend us



Employee engagement

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

We have once more this year carried out an employee engagement survey across the whole team, excluding the Directors. Overall, the scores were very positive, with over half of the questions receiving Agree or Strongly Agree responses.

The overall satisfaction score was 82%. Issues that were raised by the team included:

- The increasing demands to meet net zero carbon commitments
- The balancing of information flows against time and resource constraints
- Plans for growing the business in terms of assets and resources

This year we held a team off-site in Gloucester. We discussed many issues and challenges facing the business and what actions and improvements could be made. We were also able to visit the recent acquisitions made in that area.

Diversity and inclusion

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

We recognise the benefits of diversity and the value this brings to the Group. We aim to maintain the right blend of skills, experience and knowledge within the Group.

The numbers of men and women employed by the Group are:

	Men	Women
Picton Board	4	2
Rest of team	5	4
Total	9	6

Wellbeing and benefits

We believe that having a happy and healthy team is important to the success of the business. Our commitment to providing a safe and healthy working environment for our employees is achieved by:

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

We offer health benefits to all employees, and they also all participate in the Deferred Bonus and Long-term Incentive Plans, providing alignment with shareholders.

The absentee rate for the year was 0.5%. There were no fatalities or work-related injuries during the year.

The turnover of employees during the year was:

	Number	% of average number during year
Joiners	1	11
Leavers	0	0

The joiner during the year was Andy Lynch, our new Head of Building Surveying. Subsequent to the year-end, Kathy Thompson has joined as Company Secretary.

82%

Employee satisfaction score

Training and development

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

Employee development is based on the following key principles.

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

All our employees have a formal performance appraisal on an annual basis, together with a mid-year review of their progress against objectives set at the start of the year.

This year the amount of training carried out by the team was 1.1%, based on the number of hours spent on training as a percentage of the total working hours of all employees. This year members of the team attended the new elective modules of the Better Buildings Partnership's ESG Training Course for Real Estate Professionals. Additionally, further training was carried out in respect of health and safety, sustainability and market regulations.

Next year we intend to implement a formal cyber security awareness training programme for the whole team.

Community and social value

As an owner of commercial property, we recognise our role in providing places which improve quality of life, enhance wellbeing and generate a positive social outcome, whilst minimising any negative impacts our buildings have on society and the environment. We are committed to understanding and supporting the needs of local communities where we own buildings.

Community engagement programme

Site type	Building coverage (assets)
Office	100%
Retail, High Street	100%
Retail, Warehouse	100%
Industrial, Business Parks	100%
Industrial, Distribution Warehouse	100%
Hotel	100%

Under the four key themes of employment, economic growth, health and wellbeing and promoting social innovation we have:

- Supported local economies through creating employment opportunities in our buildings and local communities
- Contributed to safer communities through investment in security and surveillance technology on our sites
- Procured goods and services locally where possible, through transparent, ethical and sustainable supply chains, and ensured that our suppliers adhere to our Supplier Code of Conduct
- Promoted health and wellness initiatives across our team and to our occupiers through occupier apps and various on-site events
- Provided training opportunities and career progression for our employees, remaining committed to evolving talent in our employees to help all reach their full potential and career goals
- Supported both national and local charities within our communities as set out in our charitable giving policy
- Conducted a series of investor and occupier sustainability briefings to share knowledge and drive change

Charitable giving and partnerships

This year we supported 23 charities and donated a total of £27,000. Our aim through our charitable giving and charity partnerships is to invest in our communities at grassroots level, seeking to make a positive difference to the local areas in which we hold property.

We seek to support charities which;

- Drive positive social change
- Respond to specific local needs
- Create a positive community impact
- Are committed to improving local areas

We have established partnerships with a number of nationwide charities and charities working in the local areas in which we operate. We have long-standing relationships with The Funding Network and Coram and this year were delighted to forge two new partnerships with The Fostering Network and Future Youth Zone, based near our industrial estate in Barking. We also regularly support LandAid each year.

In addition, this year we responded to the humanitarian crisis in Turkey and Syria through donating to the Disasters Emergency Committee appeal.



£27,000

Charitable donations

23

Charities supported

This year we were delighted to begin working with Coram and its Young Citizens programme for young people from migrant and refugee backgrounds, by offering work experience and career advice to those wishing to explore different career options within the real estate sector.

Working with The Fostering Network, we are currently in the process of joining their Fostering Friendly employers' scheme, which includes initiatives such as additional annual leave for foster carers to accommodate appropriate training, social worker visits and other fostering-related activities.

We continue to offer our occupier led charitable matched giving initiative, which supports occupiers within our portfolio in their local community-based fundraising efforts. Occupiers are invited to apply for a matched giving donation programme of up to £100 per year for a registered UK charity.



We value our long-standing partnership with Coram and supporting its Young Citizen programme is an integral part of our community, social value and charitable giving commitment.

Coram's work to support young trainers such as Aymen with their future progression is important in providing opportunities for all and empowering young people, particularly those from migrant or refugee backgrounds.

Mark Alder

Head of Occupier Services

Supplier and contractor responsibility

We are committed to conducting our business in a fair and honest manner and ensuring our suppliers operate in an ethical way and share our business principles in observing relevant laws and regulations. We seek to maintain productive and long-term relationships with our business partners.

We have in place a Supplier Code of Conduct. This is designed to promote safe and fair working conditions and the responsible management of social, ethical and environmental issues in our supply chain.

This year we have developed our approach to supplier responsibility and particularly the issue of modern slavery within our supply chain.

We have assessed the level of risk in our supplier base of exposure to modern slavery and human trafficking as low, as the vast majority of our suppliers are based in the UK.

However, we recognise that there are certain activities within the real estate sector that are more susceptible to modern slavery risks, including construction and maintenance.

New supplier terms now incorporate additional clauses reflecting the perceived level of risk. We are also using our supplier due diligence questionnaire for new suppliers.



Governance

Sustainable thinking, positive change

We aim to have in place high standards of sustainability governance and management and will undertake initiatives to promote greater environmental responsibility. This also includes a focus on business practices, which are activities relating to the way the business is run, including business ethics, compliance and tax principles.

Leadership

The Board has responsibility for the long-term success of the business, providing leadership and direction with due regard and consideration to all of our stakeholders. The Board comprises the Chair, two Executive Directors and three independent Non-Executive Directors. They have a range of skills and experience that are complementary and relevant to the business. The tables below set out the Board's composition, tenure and diversity characteristics.

Function	Number	%
Non-Executive Chair	1	17
Executive Directors	2	33
Independent Non-Executive Directors	3	50

Diversity	Number	%
Male	4	67
Female	2	33

Tenure	Number	%
0 to 3 years	2	33
3 to 6 years	3	50
6 to 9 years	1	17

Age	Number	%
50 to 54 years	1	17
55 to 59 years	1	17
60 to 64 years	3	50
65 to 69 years	1	16

The Board has full responsibility for the direction and control of the business, and sets and implements strategy within a framework of internal controls and risk management. The Board has established four Committees, comprising entirely Non-Executive Directors, to carry out specific functions on its behalf. In addition, there are three Management Committees with responsibility for certain operational matters, chaired by one of the Executive Directors and including other members of the Picton team. One of these Management Committees is the Responsibility Committee, which oversees all sustainability-related matters.

As a company listed on the London Stock Exchange, we apply the principles of the UK Corporate Governance Code and report against the Code each year.

More detail on the role and activities of the Board, including their biographies, and its Committees is set out in the Governance section.



Read more in the Governance section on pages **78-125**

Transparency and reporting

We recognise that it is important to be transparent on sustainability issues, so that our stakeholders can make informed decisions. Also we aim to ensure our data collection and management is in line with best practice to assist with our GRESB and EPRA reporting requirements.

We have been reporting to GRESB since 2017. Our score for 2022 increased from 61 to 77, and from one green star to three. We improved our score in many areas, including improved data coverage and assurance, and were ranked second in our peer group. We were also ahead of the GRESB average for the first time.

We have maintained our GRESB Public Disclosure score at 91, which is at the highest possible A grade rating. We were ranked second in our peer group for disclosure methods, disclosure of sustainability implementation and disclosure of stakeholder engagement practices.

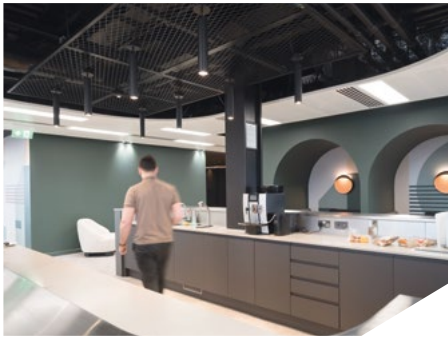
We have continued to report in line with the EPRA Sustainability Best Practices Recommendations and received a Gold award for our 2022 Sustainability Report.



Our Sustainability Data Performance Report is available on our **website**



GRESB
 ★★☆☆☆ 2022



Better Buildings Partnership

The Better Buildings Partnership (BBP) is a collaboration of the UK's leading commercial property owners. We joined the BBP in 2020 and are a signatory to the BBP Climate Commitment.

This year we have continued to participate in the working group for the ESG Training Course for Real Estate Professionals, developing new elective modules.

This year we have also reported our portfolio's energy data in the BBP Real Estate Environmental Benchmark for the first time.

Policies

We have in place an overriding sustainability policy. This sets out our approach to sustainability issues and how they are embedded into all of our activities. We believe that a responsible and ethical approach to business is essential for the benefit of all our stakeholders and within our policy we seek to:

- Meet the highest standards of corporate governance
- Tackle environmental challenges
- Provide safe and sustainable buildings for our occupiers
- Focus on our employees
- Engage with all our stakeholders

Our Responsibility Committee guides, defines and leads our focus on these priorities. Our sustainability policy is supported by specific sustainability strategies and initiatives including:

- Net zero carbon pathway
- Community and Social Value Policy
- Charitable Giving Policy
- Modern Slavery Statement
- Supplier Code of Conduct
- Sustainable Refurbishment Guidelines



All our ESG Policies are set out on our **website**

Data management

We are committed to the responsible and secure handling of data and our data management practices adhere to relevant regulatory requirements.

We strive to provide timely and accurate data to our stakeholders, in a format that is easily understandable. We continuously evaluate and enhance our data reporting processes to meet the evolving needs of our stakeholders.

Recognising how important being able to use accurate energy data is to achieve our sustainability objectives, we have taken steps during the year to broaden our understanding of energy use at our buildings.

We are now implementing a data management and monitoring system designed to help real estate stakeholders gain a better understanding of their sustainability performance and achieve their sustainability goals.

For Scope 3 data, we have increased our dialogue with our occupiers on sustainability and energy management and have improved the level of energy data sharing as part of this, either through obtaining data directly from occupiers or by installing a link to their meters to receive energy data automatically.

Welcome to Governance

The UK Corporate Governance Code 2018 (the Code) has been applied for the financial year ended 31 March 2023. Our Statement of Compliance is set out in the Directors' Report on page 123.

A summary of the system of governance adopted by the Company and how we have applied the principles of the Code are set out in this section of the Annual Report.





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Introduction to the Corporate Governance Report

On behalf of the Board, I am pleased to introduce our 2023 Corporate Governance Report.

Dear Shareholder

This year we have returned to more familiar working arrangements. We have maintained our schedule of Board and Committee meetings throughout the year with our main meetings held in person. As a result we have also been able to interact more regularly with the whole Picton team, which we have all valued.

The external Board evaluation was conducted this year and brought interesting perspectives to how we operate. More detail is set out in the Nomination Report.





The return to in-person meetings has helped to build a stronger working relationship across the whole Picton team.

Lena Wilson CBE
Chair

Board activities

Under the Leadership and Purpose section of this report we have set out the activities of the Board and its Committees during the year. It has been another busy year. Following feedback from our investors, we have looked at opportunities to increase the scale of the business and which would also provide benefit to shareholders. We have progressed our sustainability agenda and have actioned many of the recommendations arising from the Board evaluation.

Board composition and diversity

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

The Board is aware of the recent changes to the Listing Rules around diversity and inclusion. As set out on page 96 we currently meet one of the three new requirements for diversity on listed company boards. We recognise the need for diversity and support the move for greater gender and ethnicity representation on Boards. From an all-male Board in 2018 we have moved to 33% female representation, in line with the Alexander-Hampton Review target, but slightly short of the new Listing Rules. As a small Board we do not have frequent turnover and opportunities to increase diversity are limited; however, we fully intend to comply with the new Listing Rules as future appointments are made.

UK Corporate Governance Code

Our Statement of Compliance with the Corporate Governance Code is set out within the Directors' Report. I am

pleased to report that we have fully complied with the Code this year.

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

Board evaluation

Last year we carried out a Board evaluation internally, which gave rise to a number of actions and recommendations. Good progress has been made against these actions and this is set out in more detail in the Nomination Committee report.

This year an external review has been conducted by Boardroom Review Limited. The conclusion of the review was that the Board and its Committees were continuing to operate very effectively. The review provided helpful improvements to operating practices and we will address these over the course of this year.

One key action was to review our company secretarial and governance arrangements. We have considered this and decided that the company secretarial function would be more effective if brought in-house. As a result, I am pleased to note that Kathy Thompson has recently joined the Picton team and she will shortly become our Company Secretary following an orderly transition from Northern Trust in Guernsey. I would very much like to express my thanks to the team at Northern Trust for their hard work and support over many years.

Annual General Meeting

This year we held our Annual General Meeting in September, earlier than in previous years and closer to the announcement of our annual results. I am pleased that the meeting was held in-person for the first time since the Covid-19 pandemic, and I would like to thank shareholders for their support. All of the resolutions were approved by shareholders, with at least 97% of votes in favour.

Our people and culture

We have returned to a regular pattern of in-person Board meetings this year in the office, giving us the opportunity to meet with the whole team on many occasions. This has certainly helped to build a stronger

working relationship across the whole Picton team. We have maintained our flexible working arrangements for the team, working in the office three days each week, and at home on the other two days. Feedback from the team confirms that they continue to value this flexibility.

In November our new Head of Building Surveying, Andy Lynch, joined the team. Andy will be overseeing capital projects across the portfolio and will be key in helping us with our net zero carbon pathway. On behalf of the whole Board, I would like to welcome both Andy and Kathy to the team.

The results of this year's employee engagement survey were discussed at our Board meeting in March. The feedback from the survey is that the team is content and functioning well. More detail is provided in the Being Responsible section on page 73, as well as the actions arising from the survey.

Our stakeholders

Our occupier focused approach is key to our portfolio strategy. We have carried out two occupier surveys this year, one at our office assets, and another at the industrial assets. Overall the results showed that there was a high level of satisfaction among our occupiers. The surveys covered sustainability topics, and there was good interest from occupiers in making environmental improvements at their properties. This is very encouraging from a net zero carbon perspective.

Reporting

I am pleased to report that last year's Annual Report and Sustainability Report both received an EPRA Gold award, reflecting our aim to report our activities and results clearly and concisely. This year we are fully incorporating our sustainability activities within this report, which is more consistent with our integrated approach to sustainability. The progress that we have made against our net zero carbon pathway is set out in the Being Responsible section on pages 62 to 65. We will, however, publish all of our sustainability data in a separate report online, which will be available shortly.

Lena Wilson CBE
Chair
24 May 2023

We have the relevant skills and experience for future growth.



Lena Wilson CBE
Chair
Chair of the Nomination Committee

Appointed to the Board
January 2021

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

Key strengths and skills

- Over 15 years of Non-Executive, Senior Independent Director and Chair experience including FTSE 100 companies across the financial and industrial sectors
- Multi-disciplinary global career across private and public sectors
- Experienced CEO leading organisations with an international footprint

Principal external commitments

- Chair, Chiene + Tait LLP
- Non-Executive Director and Chair of the Group Performance and Remuneration Committee NatWest Group plc
- Chair, AGS Group (to 31 May 2023)

Previous experience and appointments

- Chief Executive, Scottish Enterprise
- Senior Investment Advisor at the World Bank
- Non-Executive Director, Intertek PLC
- Non-Executive Director, Scottish Power Renewables
- Non-Executive Director and Senior Independent Director, Argentex Group PLC



Mark Batten
Chair of the Audit and Risk Committee
Senior Independent Director

Appointed to the Board
October 2017

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

Key strengths and skills

- Chartered Accountant and restructuring specialist
- Extensive experience in banking, insurance, real estate, debt structuring and restructuring
- Broad real estate knowledge, covering most sub-sectors

Principal external commitments

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

Previous experience and appointments

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



Maria Bentley
Chair of the Remuneration Committee

Appointed to the Board
October 2018

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

Key strengths and skills

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

Principal external commitments

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

Previous experience and appointments

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

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



Richard Jones
Chair of the Property Valuation
Committee

Appointed to the Board

September 2020

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

Key strengths and skills

- Significant real estate investment experience
- Broad experience of property asset management
- Extensive experience of property valuation

Principal external commitments

- Investment Committee, Henley Secure Income Property Unit Trust
- Investment Committee, Henley Secure Income Property Unit Trust II
- Special Advisor, Clearbell UK Strategic Trust

Previous experience and appointments

- UK Managing Director on Aviva's Investors' Global Real Estate Board
- Special Director, Ribston UK Industrial Property Unit Trust
- Non-Executive Director, Royal Brompton and Harefield Hospital NHS Foundation Trust
- Transport for London's Commercial Property Advisory Group



Michael Morris
Chief Executive

Appointed to the Board

October 2015

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

Key strengths and skills

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

Principal external commitments

None

Previous experience and appointments

- 25 years' wide-ranging commercial real estate market experience
- Senior Director and Fund Manager, ING Real Estate Investment Management



Andrew Dewhirst
Finance Director

Appointed to the Board

October 2018

Responsible for strategic financial planning and reporting for the Group.

Key strengths and skills

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

Principal external commitments

None

Previous experience and appointments

- Director of Client Accounting, ING Real Estate Investment Management
- Director, Hermes Administration Services

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



Louisa McAleenan
Research Analyst

Louisa has over 15 years of experience in real estate research and is responsible for all aspects of research and analysis, contributing to the direction of the Group's investment strategy and is a member of the Responsibility Committee.



James Forman
Director of Accounting

James is a Certified Accountant and has worked with the Group since its launch in 2005 and has over 20 years of experience in the real estate sector. He is responsible for all the accounting and financial reporting for the Group and is a member of the Transaction and Finance Committee.



Mark Alder
Head of Occupier Services

Mark joined in 2020 and is a Chartered Surveyor with over 30 years of property management experience. He is responsible for delivering effective property management and strengthening our relationship with our occupiers. Mark is a member of the Responsibility Committee and the Health and Safety Committee.



Michael Morris
Chief Executive

Michael has over 25 years of experience within the UK commercial property sector and is responsible for the strategic direction and effective execution of the Group's business model. Michael is Chair of the Executive Committee and of the Transaction and Finance Committee.



Melissa Ricardo
Office Manager

Melissa joined in 2017 and is responsible for the day-to-day management of the office and oversees the administrative aspects of the Company. She is a member of the Health and Safety Committee.



Tim Hamlin
Director of Asset Management

Tim is a Chartered Surveyor with over 15 years of real estate experience and is responsible for creating and implementing asset level business plans in line with the portfolio's strategic direction and is a member of the Responsibility Committee.



Andrew Dewhirst
Finance Director

Responsible for the financial strategy and reporting for the Group, Andrew has over 30 years of experience within the financial services and real estate sectors. Andrew is Chair of the Responsibility Committee.



Jay Cable
Senior Director and Head of Asset Management

A Chartered Surveyor with over 20 years of real estate experience, Jay has worked with the Group since its launch in 2005. He is responsible for the proactive asset management of the portfolio and overseeing its strategic direction and is a member of the Executive Committee, the Transaction and Finance Committee and is Chair of the Health and Safety Committee.



Lucy Stearman
Assistant Accountant

Lucy has over ten years of experience within financial services and joined the Group in April 2019 to assist with the accounting and financial reporting.



Andy Lynch
Head of Building Surveying

Andy is a Chartered Surveyor with over 15 years of experience within the commercial real estate sector. Andy joined the Group in November 2022 and will oversee refurbishment projects and other building matters across the portfolio, with a particular focus on environmental improvements.



Kathy Thompson
Company Secretary

Kathy joined in May 2023 and, following a handover period, will become Company Secretary to the Group. Kathy is a Chartered Secretary with over ten years of experience within the financial services sector.

Leadership and purpose

Purpose

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

The role of the Board

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

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

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

The Board has collectively a range of skills and experience that are complementary and relevant to the business.

These are set out in the biographies of the individual Directors on pages 82 and 83.

Our culture and values Principled

We are professional, diligent and strategic.

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

Perceptive

We are insightful, thoughtful and intuitive.

Demonstrated through our long-term track record, our dynamic positioning of the portfolio, gearing strategy and engagement with our occupiers.

Progressive

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

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

Board meetings

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

Attendance at Board and Committee meetings

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

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

Board Committees

The Board has established four Committees:

Audit and Risk, Remuneration, Property Valuation and Nomination. These are comprised entirely of Non-Executive Directors and operate within defined terms of reference.

Conflicts of interest

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



The terms of reference are available on the Company's website.

Board activities in 2022/23

The Board met on ten occasions during the year, as well as having a more informal Strategy Day. Here we have set out the key activities and approvals over the year. Throughout the year we have maintained a programme of Board education within the schedule of regular meetings, with relevant external input. How the Board has engaged with all its stakeholders is set out on pages 92 and 93, and consideration of Section 172 matters is described on pages 90 and 91.

2022

April/May

June/July

September

The following recurring matters were considered and discussed at these meetings

- Review of quarterly management accounts
- Review of portfolio activity
- Review of portfolio and financial forecasts
- Market update from the Company's brokers
- Report from the Company Secretary
- Review of quarterly management accounts
- Review of portfolio activity
- Health and safety matters across the portfolio
- Review of portfolio and financial forecasts
- Market update from the Company's brokers
- Report from the Company Secretary

The Board considered and approved the following matters

- The quarterly dividend for the January to March 2022 period at the rate of 0.875 pence per share
- Acceptance of the recommendation from the Property Valuation Committee in respect of the 31 March 2022 independent valuation
- The Annual Report for the year ended 31 March 2022 and the Stock Exchange announcement of the results
- The net zero carbon pathway
- The salary and bonus awards for the year ended 31 March 2022
- Deferred Bonus and LTIP share awards for the team
- The acquisition of 109-117 High Street, Cheltenham
- The quarterly dividend for the April to June 2022 period at the rate of 0.875 pence per share
- Acceptance of the recommendation from the Property Valuation Committee in respect of the 30 June 2022 independent valuation
- Corporate bonus objectives for the Executive Directors for 2022/23
- The Company's Modern Slavery Statement for the year ended 31 March 2022
- The updated Sustainability and Health and Safety policies
- The updated Share Dealing Code
- Capital expenditure at Madleaze Trading Estate, Gloucester

The Board discussed the following one-off items of business

- Initial salary review and bonus proposals for the team
- Review of independent benchmarking report on market remuneration levels, both for employees and Directors
- Review of feedback received on corporate opportunity
- Options for renewable energy within the Picton portfolio
- Planning of the forthcoming Annual General Meeting
- Actions from the previous Board evaluation
- Actions arising from the previous Board evaluation



- Review of quarterly management accounts
- Review of portfolio activity
- Health and safety matters across the portfolio
- Review of the external auditor
- Review of progress against sustainability priorities

- Review of portfolio and financial forecasts
- Market update from the Company's brokers
- Report from the Company Secretary

- Review of quarterly management accounts
- Review of portfolio activity

- Review of portfolio and financial forecasts
- Market update from the Company's brokers
- Report from the Company Secretary

- The quarterly dividend for the July to September 2022 period at the rate of 0.875 pence per share
- Acceptance of the recommendation from the Property Valuation Committee in respect of the 30 September 2022 independent valuation

- The Half Year Report to 30 September 2022 and the Stock Exchange announcement of the results

- The quarterly dividend for the October to December 2022 period at the rate of 0.875 pence per share
- Acceptance of the recommendation from the Property Valuation Committee in respect of the 31 December 2022 independent valuation

- The updated Sustainability and Health and Safety policies

- Debrief from the recent Annual General Meeting

- Feedback from the announcement of the Half Year results
- Consideration of the external Board effectiveness review
- Reviewed feedback on current corporate opportunities

- Reviewed feedback on current corporate opportunities

- Reviewed feedback on current corporate opportunities
- Reviewed the feedback from the latest employee engagement survey, and considered actions arising
- Reviewed the actions arising from the external Board evaluation
- Reviewed succession planning
- Considered Board diversity and inclusion measures

Section 172 Statement

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

The Directors have regard to:

The likely long-term consequences of decisions



Read more on pages **86-93**

The interests of its employees



Read more on page **73**

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



Read more on pages **72-75**

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



Read more on pages **56-71**

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



Read more on pages **80-95**

The need to act fairly towards shareholders



Read more on pages **88-93**

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

Board engagement with stakeholders Our shareholders

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

Our occupiers

One of our key priorities is to work with our occupiers, so that we can understand their needs and aim to meet their current and future requirements. The Board has delegated responsibility for engaging with occupiers to the asset management team, who have ongoing communication with occupiers, and use this information when making proposals to the Board on investment transactions, such as refurbishment projects or leasing events.

Our people

Our people are key to our success and we want them to succeed both as individuals and as a team. One of our Non-Executive Directors, Maria Bentley, has responsibility for employee engagement. This year we have carried out our annual employee survey and the feedback from the survey has been discussed by the Board, with a number of actions arising. The Board has also been able to meet with the whole team informally when in-person Board meetings have been held at Stanford Building.

Local communities and environment

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

Suppliers

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

Considering stakeholders in key Board decision-making

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

Actions

Evaluation of growth opportunities

The Board has considered a number of growth opportunities over the year. Growth of the business would bring financial benefits to shareholders in the form of enhanced earnings and dividends. Growth would also bring further benefits to the team in the form of career progression.

Review of dividend

The Board is aware of the value of regular dividend payments to shareholders and reviews the level of dividend each quarter. The Board has maintained the current dividend level throughout the year, despite more challenging microeconomic conditions.

Occupier engagement

The Board agreed that occupier surveys should be carried out this year to determine whether occupiers were satisfied with the quality of space provided and the level of service provided by the property managers.

Company Secretary

Following the Board evaluation in 2022, the Board decided to bring the Company Secretary role in-house. The Board considered that this would create a more effective function that would benefit both shareholders and the team.

Engagement with stakeholders

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

Our Section 172 statement for the year ended 31 March 2023 is available on the previous pages and sets out how some of the key decisions made by the Board during the year were guided by stakeholder engagement.

Stakeholders and what is important to them



Our people

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



Local communities and charities

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



Our occupiers

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



Our investors

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



Suppliers

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

How we engage

We have a small team and engage regularly with them. We have an appraisal process where each member of the team will discuss their performance and objectives with their line manager twice a year. The Board discusses individual development and career progression regularly. We carry out an annual employee survey, and the results of this are discussed by the Board. The Board also meets with the whole team informally when in-person Board meetings are held at Stanford Building.

We are committed to improving local communities where we own buildings, whether providing space to local businesses, improvement of local areas or minimising the environmental impact of buildings themselves. We engage through our charity and community initiatives and through our occupier engagement programme.

One of our key priorities is to work with our occupiers, so that we can understand their needs and aim to meet their current and future requirements. Our asset managers, guided by our Picton Promise, maintain regular contact with occupiers and discuss with them any issues regarding the buildings and any future plans we have. Our Head of Occupier Services has developed an occupier engagement programme and attends occupier meetings and other events. We send out an occupier newsletter regularly with relevant and helpful information.

We value the views of all our shareholders and senior management hold regular meetings to update shareholders on progress and activity. We issue regular investor updates with key financial highlights and updates on the portfolio. Our website provides investors with up-to-date information about the Group. This year our Annual General Meeting was at Stanford Building and we also held a webinar for shareholders at the same time for those unable to attend in person.

We seek to maintain productive and long-term relationships with our business partners. We have in place a framework for conducting business across the Group in a way that makes a positive contribution to society, while minimising any negative impact on people and the environment.

What we have done this year

The results of the employee engagement survey were positive and our flexible working arrangements were still valued by the team. This year we were able to hold a Christmas social event for the team and guests for the first time since the start of the pandemic.

Our charitable donations for the year were £27,000, and we supported 23 different charities. We have maintained our long-standing partnerships with The Funding Network and Coram, and this year have established new charity partnerships with The Fostering Network and Future Youth Zone, which is based close to one of our properties.

This year we have undertaken occupier surveys at our multi-let offices and industrial estates. The results from the surveys were positive, and the specific issues raised regarding buildings have been dealt with by our property managers. We have also rolled out our occupier app at a further two properties, and will continue to implement this at more properties over the course of this year.

The Chair and Chief Executive have held meetings with major shareholders this year to receive feedback on issues important to the strategic direction and growth of the business. The Chair of the Remuneration Committee has sought consultation from our shareholders regarding the Directors' Remuneration Report ahead of the 2022 Annual General Meeting and will consult further ahead of this year's Annual General Meeting.

We have continued to ensure that our suppliers are paid promptly and within payment terms. This year we have further rolled out our modern slavery terms with new suppliers.

The role of the Board and its Committees

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

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

Board Committees

Audit and Risk
Chair: Mark Batten
Comprises: 3 Non-Executive Directors
Responsibilities:

- Oversees financial reporting
- Monitors risk management
- Reviews system of internal controls
- Agrees internal audit plan and reviews reports
- Evaluates external auditor

Remuneration
Chair: Maria Bentley
Comprises: 4 Non-Executive Directors
Responsibilities:

- Determines remuneration policy
- Sets remuneration of Executive Directors
- Reviews remuneration of whole workforce
- Approves bonus and LTIP awards

Property Valuation
Chair: Richard Jones
Comprises: 4 Non-Executive Directors
Responsibilities:

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

Nomination
Chair: Lena Wilson CBE
Comprises: 4 Non-Executive Directors
Responsibilities:

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

Management Committees

Executive Committee
Chair: Michael Morris
Comprises: 2 Executive Directors and 1 senior executive
Responsibilities:

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

Transaction and Finance
Chair: Michael Morris
Comprises: 2 Executive Directors and senior management
Responsibilities:

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

Responsibility
Chair: Andrew Dewhirst
Comprises: 1 Executive Director and senior management
Responsibilities:

- Determines sustainability policy and strategy
- Monitors compliance with relevant standards and legislation
- Oversees Health and Safety Committee and Climate Action Working Group
- Approves sustainability reporting
- Employee wellbeing

Responsibilities of the Directors

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

Role	Responsibilities
Chair Lena Wilson CBE	<ul style="list-style-type: none"> – Leads the Board – Responsible for overall Board effectiveness – Promotes Company culture and values – Sets the agenda and tone of Board discussions – Ensures that all Directors receive full and timely information to enable effective decision-making – Promotes open debate at meetings – Ensures effective communication with stakeholders – Fosters productive relationships between Executive and Non-Executive Directors
Chief Executive Michael Morris	<ul style="list-style-type: none"> – Develops and recommends strategy to the Board – Responsible for the implementation of strategy set by the Board – Manages the business on a day-to-day basis – Manages communication with shareholders and ensures that their views are represented to the Board
Senior Independent Director Mark Batten	<ul style="list-style-type: none"> – Leads the evaluation of the Chair – Available for communication with shareholders when other channels are not appropriate
Non-Executive Directors Mark Batten Maria Bentley Richard Jones	<ul style="list-style-type: none"> – Bring independent judgement and scrutiny to the decisions of the Board – Bring a range of skills and experience to the deliberations of the Board – Monitor business progress against agreed strategy – Review the risk management framework and the integrity of financial information – Determine the remuneration policy for the Group and approve performance targets in line with strategy
Executive Director Andrew Dewhurst	<ul style="list-style-type: none"> – Supports the Chief Executive in the formulation of strategy – Manages the financial operations of the Group – Develops and maintains the system of financial controls within the Group – Recommends the risk management framework to the Audit and Risk Committee and the Board

Board composition and diversity

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

The Board currently comprises the Chair, two Executive Directors and three independent Non-Executive Directors. The Non-Executive Directors bring a variety of skills and business experience to the Board. Their role is to bring independent judgement and scrutiny to the recommendations of the Executive Directors. Each of the Non-Executive Directors is considered to be independent in character and judgement.

As at 31 March 2023 the Board comprised 50% independent Non-Executive Directors.

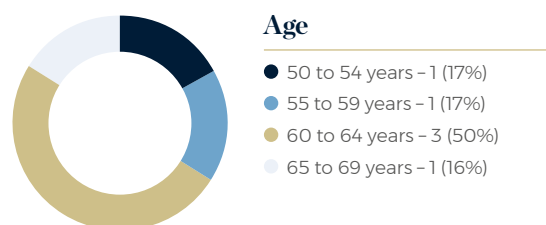
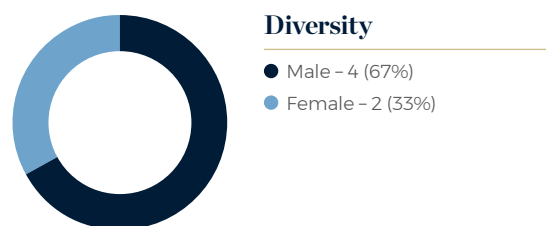
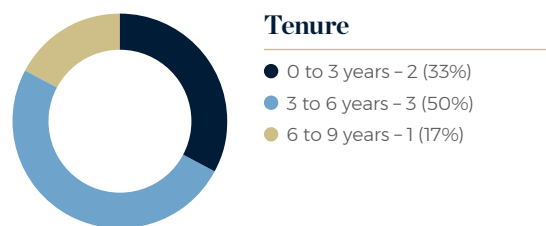
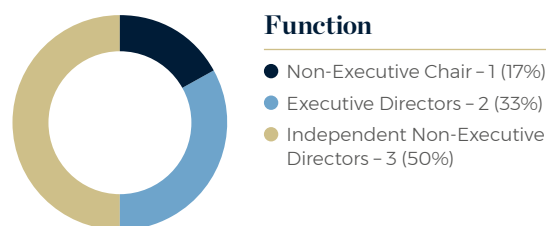
The biographies of the Directors can be found on pages 82 and 83, which set out their skills and experience, and their membership of each of the Committees.

Sex/gender representation

	Number of Board members	Percentage of the Board	Number of senior Board positions	Number in executive management	Percentage of executive management
Men	4	67%	3	3	100%
Women	2	33%	1	0	0%

Ethnic representation

	Number of Board members	Percentage of the Board	Number of senior Board positions	Number in executive management	Percentage of executive management
White British	6	100%	4	3	100%



Nomination Committee

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

The role of the Committee is to consider the size, structure and composition of the Board to ensure that it has the right balance of skills, knowledge, experience and diversity to carry out its duties and provide effective leadership. In making any new appointment the Committee will consider many factors, including the skills and experience that will be relevant to any specific role and that will complement the existing Board members. The Committee will also seek to continuously improve the diversity of the Board including gender, ethnicity, age and socio-economic background.

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

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



Terms of reference

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

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

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Activity

The Committee met twice during the year ended 31 March 2023 and considered the following matters:

- The performance and constitution of the Committee;
- The time commitment required from Non-Executive Directors;
- The changes to the Listing Rules in respect of diversity targets;
- The external Board evaluation for the current year and the recommendations arising from it; and
- Succession planning for the Executive Directors.

Board evaluation

In accordance with the requirements of the Code, the Board undertakes a review of the effectiveness of its performance and that of its Committees every year. An external review is normally carried out every three years, with internal reviews in the intervening years.

In 2022 the Board carried out an internal review of its effectiveness. The following sets out the actions that were identified following the review together with the progress made since the review.

Action	Progress
Establish an ongoing programme of shareholder engagement with clarity on roles	Discussions on shareholder engagement have taken place at all Board meetings during the year and a programme of engagement has been put in place principally for the Chair, the Chief Executive and the Chair of the Remuneration Committee.
Incorporate relevant external perspectives to Board meetings and strategy sessions	A series of external advisers and other third parties have provided input to both Board and strategy days on key topics identified by the Board.
Review strategy statements to ensure they reflect ambition	Relevant external communications have been reviewed and updated to include appropriate wording.
Highlight relevant governance updates in Board packs	Governance and company secretarial updates are included in Board packs.
Establish external annual review of governance and director training	Governance was further considered in this year's external Board evaluation and the resulting recommendations are being actioned. Director training has taken place through external speakers at Board meetings and attendance at relevant seminars and/or webinars.
Prepare annual governance calendar	A corporate calendar covering the Board and its Committees has been implemented.
Ensure proactive approach to governance topics	The Chair regularly discusses governance topics, changes and updates with the Company Secretary and the Board is advised accordingly.
Focus on key items in Board materials and discussions	Board agendas clearly state key decision items allowing these to be prioritised for discussion.
Reduce business as usual topics	Items for the Board to note are highlighted as such and dealt with after key decision items.
Implement thematic calendar for meetings	This has been implemented as part of the corporate calendar.
Develop focused risk reporting for Board	A new risk radar document has been implemented which summarises principal and emerging risks together with an assessment of impact and likelihood. This is reviewed by the Audit and Risk Committee on a regular basis.
Undertake in-depth reviews of specific risk areas	This year we have appointed BDO as internal auditor to the Group. They have carried out three in-depth reviews this year, covering cyber security, key financial controls and debt covenants. The results of these reviews are discussed in the Audit and Risk Committee report. The internal audit plan for 2023/24 has been agreed with the Audit and Risk Committee, and will cover property and lease management, and valuations.
Ensure annual review of Board composition	The composition of the Board and succession planning are discussed at the Nomination Committee meetings.
Establish programme of engagement with team	In addition to the annual employee engagement survey, we have established regular informal meetings between the Board and the rest of the team following each in-person Board meeting.



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

Lena Wilson CBE

Chair of the Nomination Committee

This year the Board conducted an external review carried out by Boardroom Review Limited. This comprised a series of interviews with each of the Directors individually, and the Company Secretary, followed by a workshop where the interview feedback was discussed and summarised, and subsequent actions agreed.

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

The key themes and actions arising from the review were:

- Ensure opportunities for growth and increasing scale are fully considered
- Establish clear parameters on risk appetite
- Maintain occupier focus, especially around office working and technology
- Encourage more external perspectives, particularly ESG and technology
- Consider expertise and resource within the team
- Improve diversity at Board level and within the team
- Review existing company secretarial arrangements
- Consider future Board composition
- Review cyber security and data

As noted in the Introduction to Governance, we have reviewed our company secretarial arrangements and decided the function should be brought in-house. The Committee will provide an update on the other actions arising from the evaluation in its next report.

Boardroom Review Limited has no connection to Picton or with any of its Directors.

Diversity and inclusion

The Company values the contributions made by all of our team and is committed to treating all employees equally and considers all aspects of diversity, including gender, when considering recruitment at any level of the business. We recognise the need for diversity and support the move for greater gender and ethnicity representation on Boards. As a small team we do not have regular appointments and opportunities to increase diversity are limited, however it is our strong intention to do so whenever possible. All candidates are considered on merit but having regard to the right blend of skills, experience and knowledge at Board and Executive level, and amongst our employees generally.

Tenure and re-election

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

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

Lena Wilson CBE

Chair of the Nomination Committee
24 May 2023

Audit, risk and internal control

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

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

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

Internal control and risk management

The Board is responsible for establishing and maintaining the Group's system of internal controls and reviewing its effectiveness. Internal control systems are designed to manage the achievement of business objectives, rather than eliminate the failure to achieve them and can only provide reasonable, and not absolute, assurance against material misstatement or loss. They have therefore established an ongoing process designed to meet the particular needs of the Group in managing the risks to which it is exposed, consistent with the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

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

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

The Board has appointed BDO LLP ('BDO') to provide internal audit and assurance services to the Group, in place of additional control testing procedures carried out by the external auditor. The Board considers that this will provide it with a greater level of assurance that the Group's internal controls are robust and are operating effectively. The annual programme of testing carried out by BDO is agreed in advance by the Audit and Risk Committee. Details of the reviews carried out by BDO are set out in the Audit and Risk Committee report.

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

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

Audit and Risk Committee

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

Meetings of the Audit and Risk Committee are attended by the Group's Finance Director and other members of the finance team, the internal auditor and the external auditor. The external auditor is given the opportunity to discuss matters without management presence.



The Committee was satisfied that the 2023 Annual Report is fair, balanced and understandable.

Mark Batten

Chair of the Audit and Risk Committee



Terms of reference

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

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



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Activity

The Audit and Risk Committee met five times during the year ended 31 March 2023 and considered the following matters:

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

Financial reporting and significant reporting matters

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

The Directors are responsible for preparing the Annual Report. At the request of the Board, the Committee considered whether the 2023 Annual Report was fair, balanced and understandable and whether it provided the necessary information for shareholders to assess the Group's strategy, business model and performance.

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

The valuation is conducted on a quarterly basis by external valuers and is subject to oversight by the Property Valuation Committee. It is a key component of the annual and half-year financial statements and is inherently subjective, requiring significant judgement. Members of the Property Valuation Committee, together with members of the Picton team, meet with the external valuer on a quarterly basis to review the valuations and underlying assumptions, including the year-end valuation process. The Chair of the Property Valuation Committee reported to the Audit and Risk Committee at its meeting on 2 May 2023 and confirmed that the following matters had been considered in discussions with the external valuers:

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

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

The Committee was satisfied that the 2023 Annual Report is fair, balanced and understandable and included the necessary information as set out above, and it has confirmed this to the Board.

Risk Management Policy

The Committee has considered and developed a comprehensive Risk Management Policy which has been adopted by the Group.

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

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

Internal control and internal audit

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

As part of this process, a risk matrix has been prepared that identifies the Company's key functions and the individual activities undertaken within those functions. From this, the Board has identified the Company's principal risks and the controls employed to manage those risks. These are reviewed at each Audit and Risk Committee meeting. The Board monitors the performance of the Company against its strategy and receives regular reports from management covering all business activities.

The Committee has received and reviewed a copy of CBRE Limited's Real Estate Accounting Services – Service Organisation Control Report as at 31 December 2022, prepared in accordance with International Standard on Assurance Engagements 3402, in respect of property management accounting services provided to Picton Property Income Limited.

During the year the Board appointed BDO LLP to undertake internal audit and assurance services, replacing the previous arrangement of additional controls testing by the external auditor. The Committee agreed a programme of reviews for 2022/23, which covered cyber security, key financial controls and debt covenants. The Committee has considered the review reports and the recommendations arising, which had been discussed with management. The Committee also considered and agreed the review plan for 2023/24 which will cover property management, lease management and asset management.

Independence of auditor

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

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

	2023	2022
	£000	£000
Audit fees	179	174
Interim review fees	16	16
Non-audit fees	-	16
	195	206

Annual auditor assessment

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

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

- They have internal procedures in place to identify any aspects of non-audit work which could compromise their role as auditor and to ensure the objectivity of their work and 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 any non-audit services which they provide to the Group.

KPMG Channel Islands Limited have been auditor to the Group since the year ended 31 December 2009. They were reappointed as the Group's auditor following a tender process in February 2020. The current audit engagement partner, Steve Stormonth, has now completed his first year as audit partner.

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

Mark Batten

Chair of the Audit and Risk Committee
24 May 2023

Property Valuation Committee

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





Over the course of the year there have been significant market movements in the valuation.

Richard Jones

Chair of the Property Valuation Committee

Terms of reference

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

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



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Activity

The Committee met four times during the year ended 31 March 2023. Members of the Property Valuation Committee, together with management, met with the external valuer each quarter to review the valuations and considered the following matters:

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

Over the course of the year there have been significant market movements in the valuation which have been carefully considered and the Committee is confident that these were fully reflected by the external valuer. The Committee was satisfied with the valuation process throughout the year.

External valuer

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

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

The Committee awaits the outcome of the consultation process following the RICS Review of Real Estate Investment Valuations and the proposed recommendations.

Richard Jones

Chair of the Property Valuation Committee
24 May 2023

Remuneration Committee

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

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



Our remuneration packages are designed to attract and retain the right talent and to fairly reward delivery of strategic priorities and enhanced shareholder value.

Maria Bentley
Chair of the
Remuneration Committee





The remuneration arrangements provide alignment with shareholders through the use of financial metrics and corporate objectives.

Maria Bentley

Chair of the Remuneration Committee

Terms of reference

The principal functions of the Committee as set out in the terms of reference include the following matters:

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



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Advisers

During the year, Deloitte LLP has provided independent advice in relation to market data, share valuations, share plan administration and content of the Remuneration Report. Total fees for the year were £18,780 (calculated on a time spent basis). Deloitte LLP is a founding member of the Remuneration Consultants Group and, as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. In addition, Deloitte also provided taxation services and advice to the Company during the year. The Committee has reviewed the nature of this additional advice and is satisfied that it does not compromise the independence of the advice that it has received.

Annual statement

Dear Shareholders

Introduction

On behalf of the Board, I am pleased to introduce the Remuneration Committee report for the year ended 31 March 2023.

This report comprises three sections:

- This annual statement;
- A Summary of the Directors' Remuneration Policy; and
- The Annual Report on Remuneration for the year ended 31 March 2023.

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

Implementation of the Remuneration Policy in 2023/24

Our objective is to provide straightforward remuneration packages for our Executive Directors, fair and reasonable for all stakeholders, which are designed so as to attract and retain the right talent and to fairly reward delivery of strategic priorities and enhanced shareholder value.

In 2021 we set out our new Remuneration Policy, including a three-year plan to transition the Executive Directors' remuneration packages to more fairly represent their responsibilities as Directors of a listed company. The new Policy was overwhelmingly approved by shareholders that year (97% in favour) and the first two years of the transition plan have been implemented. Ahead of the 2022 Annual General Meeting, we contacted major shareholders about the second stage of the transition plan and I am delighted that shareholders approved the resulting Remuneration Report for the year ended 31 March 2022 by a large majority (97% in favour).

The Committee has carefully considered whether the final stage of the transition plan should be implemented for 2023/24, taking into account the performance of the Company and of the Executive Directors over the past year.

The key performance highlights noted by the Committee included:

- The total property return was ahead of the MSCI UK Quarterly Property Index for the year, and our long-term record of outperformance has been maintained over one, three, five and ten years, and since inception;
- EPRA earnings rose by 0.5% compared to 2022/23, despite lower occupancy and higher costs;
- The portfolio ERV increased by 9% over the year;
- Net property income rose by 2.3% compared to the previous year;
- Good progress has been made against the net zero carbon pathway, including on-site renewable energy installation;
- Key climate-related risk management recommendations have been implemented;
- The proportion of the portfolio’s EPC ratings (A to C) has increased to 76% from 71% last year; and
- Scope 1 and 2 greenhouse gas emissions are 24% below the 2019 baseline.

In light of this performance assessment, the Committee is satisfied that it is appropriate for the final stage of the transition to proceed. Accordingly, the base salaries of the Chief Executive and Finance Director will be increased by 15% to £380,219 and £258,549 respectively from 1 April 2023 and their annual bonus opportunity for 2023/24 will be reduced to 145% of salary (2022/23: 155%).

Group performance and alignment

We have set out on pages 22 to 25, the Key Performance Indicators (KPIs) that we currently use to monitor the success of the business. In order to appropriately align executive remuneration with business performance we incorporate KPIs within our incentive schemes. For both 2022/23 and 2023/24, the KPIs that we are using to determine variable remuneration are set out in the table above.

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

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

Annual bonus awards for 2022/23

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

The two financial measures were total return and total property return. The actual outcomes are set out in the Annual Remuneration Report, but the overall result was that the Directors earned an estimated 49% of the maximum award available under these financial measures.

The corporate objectives were set to ensure that specific key strategic targets were reached. These included targets relating to sustainability, including progress against the net zero carbon pathway, portfolio environmental measures and the implementation of climate-risk recommendations. The Committee considered the extent to which the Executive Directors had met the objectives, and concluded that good progress had been made against many, but the fall in occupancy and increased costs also had to be recognised. Overall the Committee considered that an outcome of 74% of the maximum award for each of the two Executive Directors were merited against the corporate objectives.

In aggregate, annual bonus awards for the two Executive Directors are 59% of the maximum award (2021/22: 64% of maximum).

The Committee considered the overall bonus awards against the reported financial results and determined that the proportion of the bonus deferred be increased to 60% from 50% for the Executive Directors, and therefore the cash element is reduced from 50% to 40%.

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

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

Long-term Incentive Plan awards (performance period to 31 March 2023)

The LTIP provides the link between the long-term success of the Company and the remuneration of the whole team. The awards made under the Long-term Incentive Plan (LTIP) in June 2020 were based on three performance conditions measured over the three-year period ended on 31 March 2023. The Committee has assessed the extent to which these three performance conditions have been met.

The three equally weighted performance conditions were total shareholder return, total property return and growth in EPRA earnings per share. The actual outcomes for these conditions are set out in the Annual Remuneration Report and give rise to an overall award of 52.5% of the maximum granted. As explained above, the Committee concluded that it was satisfied the formulaic outcome was a fair reflection of overall Group performance over the performance period. As these awards were reduced by 30% at grant to avoid the potential for windfall gains on vesting, the Committee is satisfied that no further adjustments are required.

Employee remuneration and engagement

As in prior years, the Committee received an independent benchmarking report covering each of the roles, which detailed market trends. Having considered the report, the Committee determined that, for the team as a whole (excluding the Executive Directors), there would be an overall average rise of 9.4% in base salaries with effect from 1 April 2023. The average employee bonus (excluding the Executive Directors) fell by 5.9%, reflecting our continued outperformance but also the more difficult economic and property market conditions.

I have met informally with the team on a number of occasions this year, and we have also carried out our annual employee engagement survey. This is discussed in more detail elsewhere, but the results continue to demonstrate a high level of satisfaction among the team.

UK Corporate Governance Code

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

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

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

Implementation of Policy

Our remuneration structure will be in accordance with the Policy for the year to 31 March 2024.

The bonus deferral policy for Executive Directors will continue, with a minimum of 50% of any annual bonus award being deferred into Picton shares for a period of two years before vesting. The maximum annual bonus potential for 2023/24 will fall to 145% from 155% of base salary for the Executive Directors as outlined above. As in previous years the annual bonus will be determined 60% by financial metrics and 40% by corporate objectives. For 2023/24 we will continue to use two financial metrics, being total return, relative to a comparator group, and total property return, relative to the MSCI UK Quarterly Property Index.

The awards under the Long-term Incentive Plan have been reduced this year by 25% to reflect the lower share price and discount to net asset value, and to avoid any windfall gains arising on vesting. For the awards to be made in June 2023 for the three-year period to 31 March 2026 we will retain the three performance measures used previously, being:

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

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

The Committee is satisfied that the significant deferral element to the annual bonus combined with the Long-term Incentive Plan opportunity plus shareholding guidelines ensures that Executive Directors are aligned with and focused on delivering long-term growth.

Following a review of market trends, time commitment and role responsibilities, fee levels for the Chair and Non-Executive Directors have been increased by an average of 4.6% from 1 April 2023.

As a Committee, we are committed to ongoing dialogue with our shareholders and welcome any feedback regarding our remuneration practices either ahead of the Annual General Meeting or in the year ahead, as we undertake our regular triennial Remuneration Policy review. We look forward to receiving your continued support at the forthcoming Annual General Meeting.




Maria Bentley


Chair of the Remuneration Committee
24 May 2023

Remuneration at a glance

The components of remuneration for 2022/23 are:

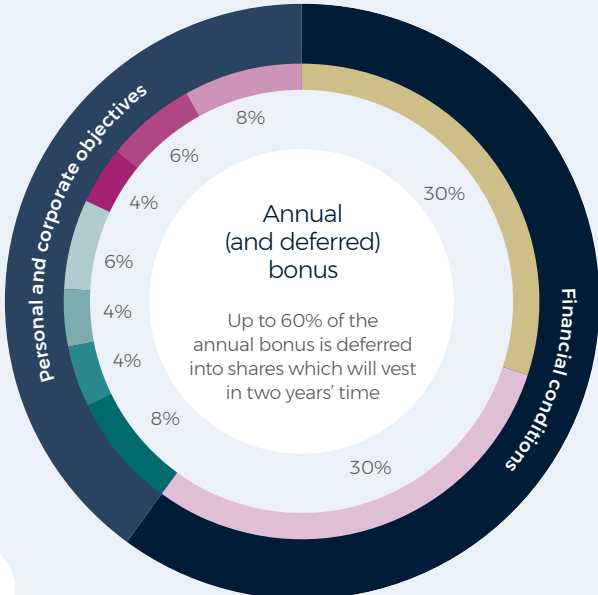
Fixed pay

-  Base salary
-  Benefits
-  Pension contributions

 Read more on pages **115-121**

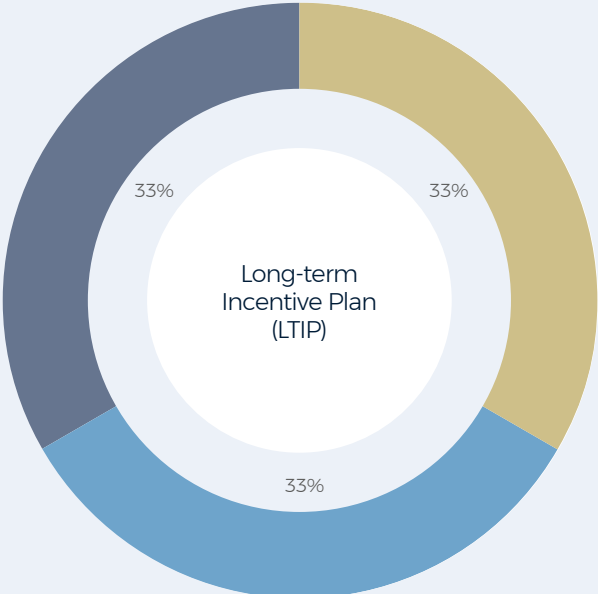
Variable pay

The annual bonus for 2022/23 is determined by:



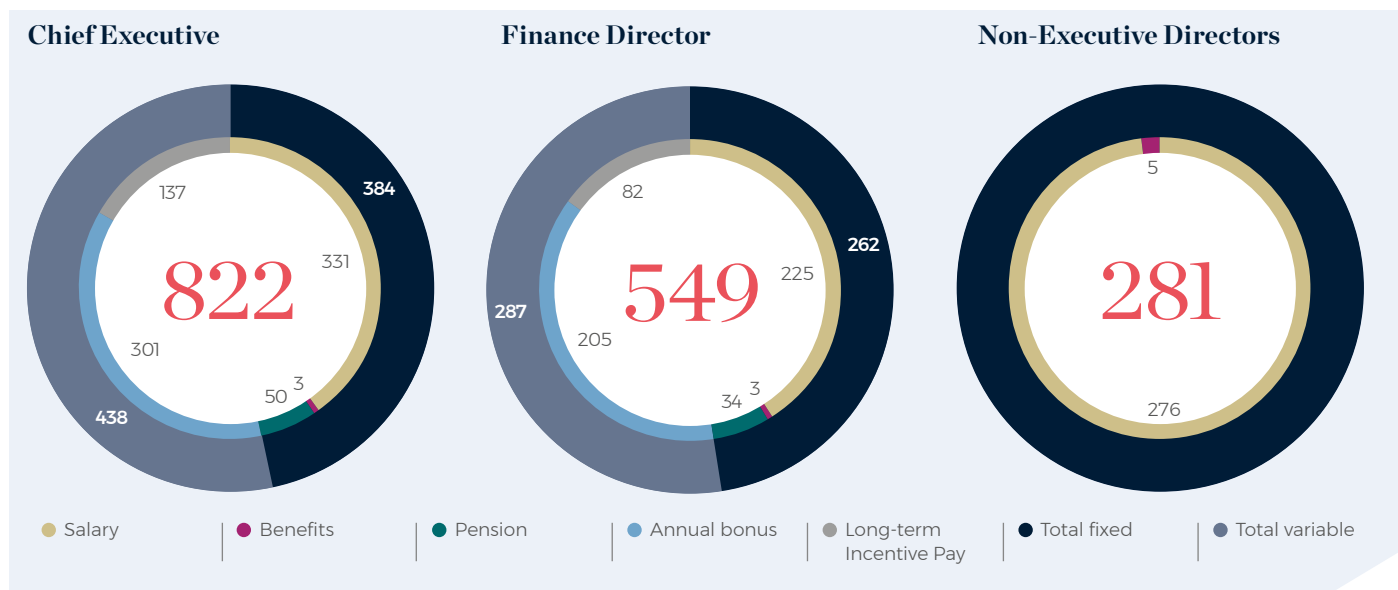
Annual (and deferred) bonus
Up to 60% of the annual bonus is deferred into shares which will vest in two years' time

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

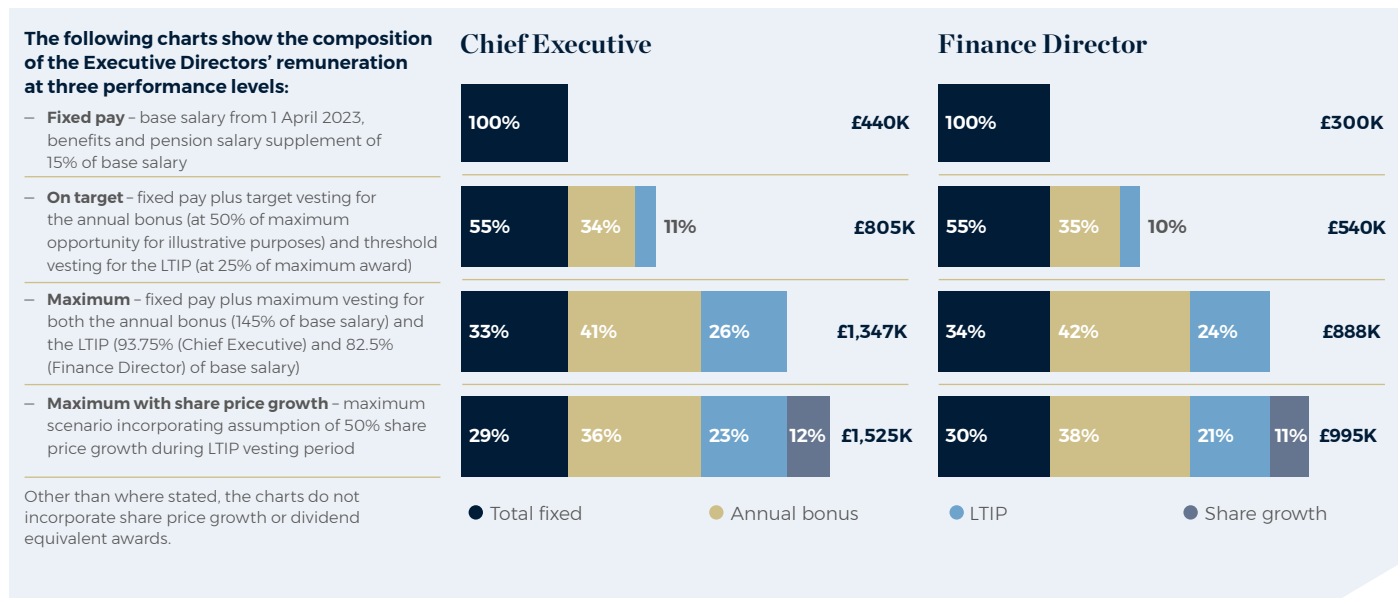


- Personal and corporate objectives**
 - Improve income and occupancy
 - Make progress against net zero carbon pathway
 - Improve portfolio environmental factors
 - Improve level of net property income and operational expenses
 - Implementation of TCFD recommendations
 - Positive stakeholder engagement
 - Identify and evaluate growth opportunities
- Financial conditions**
 - Total return
 - Total property return
 - Growth in EPRA earnings per share
 - Total shareholder return

The single figure of remuneration for the Directors for the year 2022/23 (in £ thousands) is:



The potential remuneration of the Executive Directors for the year to 31 March 2024 is:



Summary of Directors' Remuneration Policy

Principles

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

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

A summary of the Directors' Remuneration Policy approved by shareholders at the 2021 Annual General Meeting is set out below. The full Policy is contained in our 2021 Annual Report which is available on our website at www.picton.co.uk.

Executive Directors' Remuneration Policy Table

Base salary

Purpose	A base salary to attract and retain Executives of appropriate quality to deliver the Group's strategy.
Operation	Base salaries are normally reviewed annually with changes effective on 1 April. When setting base salaries the Committee will consider relevant market data, as well as the scope of the role and the individual's skills and experience.
Maximum	No absolute maximum has been set for Executive Director base salaries. Any annual increase in salaries is set at the discretion of the Remuneration Committee taking into account the factors stated in this table and the following principles: <ul style="list-style-type: none"> - Salaries would typically be increased at a rate consistent with the average employee salary increase. - Larger increases may be considered appropriate in certain circumstances (including, but not limited to, a change in an individual's responsibilities or in the scale of their role or in the size and complexity of the Group). - Larger increases may also be considered appropriate if a Director has been initially appointed to the Board at a lower than typical salary.
Performance measures	None
Clawback	None
Pension	
Purpose	Part of competitive remuneration package.
Operation	The Company has established defined contribution pension arrangements for all employees. For Executive Directors the Company pays a monthly salary supplement in lieu of Company pension contributions.
Maximum	A consistent rate of pension provision (15% of base salary) applies to all employees including Executive Directors.
Performance measures	None
Clawback	None

Benefits

Purpose	Part of a competitive remuneration package.
Operation	This principally comprises: <ul style="list-style-type: none"> - Private medical insurance - Life assurance - Permanent health insurance <p>The Committee may agree to provide other benefits as it considers appropriate.</p>
Maximum	Benefits are provided at market rates.
Performance measures	None
Clawback	None

Annual bonus

Purpose	A short-term incentive to reward Executive Directors on meeting the Company's annual financial and strategic targets and on their personal performance.
Operation	The Committee may determine that up to 50% of the annual bonus will be paid in the Company's shares and deferred for two years. Dividend equivalents will be paid at the end of the deferral period (in the form of shares or cash).
Maximum	The maximum bonus permitted under the Policy will be 175% of base salary. The level of bonus opportunity within this maximum will be determined by the Committee each year. In 2023/24, the maximum opportunity will be limited to 145% of base salary.
Performance measures	The annual bonus is based on a range of financial, strategic, ESG, operational and individual targets (measured over a period of up to one year) set by the Committee. The weightings will also be determined annually to ensure alignment with the Company's strategic priorities although at least 50% of the award will be assessed on corporate financial measures. For corporate financial measures, 50% of the maximum bonus opportunity will be payable for on-target performance and, if applicable, up to 25% for threshold performance.
Clawback	Malus and clawback provisions may be applied in the event (within two years of bonus determination/grant of the deferred bonus shares) of a material misstatement of the audited financial results, an error in assessing a performance condition applicable to the award or in the information or assumptions on which the award was granted or is released, a material failure of risk management, material misconduct on the part of the award holder or a corporate failure.

Long-term Incentive Plan

Purpose	A long-term incentive plan to align Executive Directors' interests with those of shareholders and to promote the long-term success of the Company.
Operation	Awards are granted annually usually in the form of a conditional share award or nil cost option. Awards will normally vest at the end of a three-year period subject to meeting the performance conditions and continuing employment. The Remuneration Committee may award dividend equivalents (in the form of shares or cash) on awards that vest. The Committee will usually apply a holding period of a further two years to awards that vest.
Maximum	Annual awards with a maximum value of up to 150% of base salary may be made.
Performance measures	Vesting will be subject to performance conditions, aligned to the corporate strategy, as determined by the Committee on an annual basis. There will be three performance conditions, each measured over a three-year performance period. Each condition will be equally weighted, but the Committee has the flexibility to vary this for each award. For threshold levels of performance up to 25% of the award vests, rising usually on a straight-line basis to 100% for maximum performance.
Clawback	Malus and clawback provisions may be applied in the event (within five years of grant) of a material misstatement of the audited financial results, an error in assessing a performance condition applicable to the award or in the information or assumptions on which the award was granted or is released, a material failure of risk management, material misconduct on the part of the award holder or a corporate failure.

Remuneration Report/Continued

Shareholding guidelines

Purpose	To align Executive Directors with the interests of shareholders.
Operation	Whilst in employment, Executive Directors are expected to build up and thereafter maintain a minimum shareholding equivalent to 200% of base salary. The Committee will review progress towards the guideline on an annual basis and has the discretion to adjust the guideline in what it feels are appropriate circumstances. Executive Directors will also be expected to remain compliant with the above guideline for a period of two years post-employment.
Maximum	Not applicable
Performance measures	Not applicable
Clawback	Not applicable

Non-Executive Directors' Policy Table

Fees

Purpose	To provide competitive Director fees.
Operation	Annual fee for the Chair, and annual base fees for other Non-Executive Directors. Additional fees for those Directors with additional responsibilities such as chairing a Board Committee. All fees will be payable monthly in arrears in cash. Fees will usually be reviewed independently every three years. The independent Non-Executive Directors are not eligible to receive share options or other performance-related elements or receive any other benefits other than where travel to the Company's registered office is recognised as a taxable benefit in which case a Non-Executive Director may receive the grossed-up costs of travel as a benefit. Non-Executive Directors are entitled to reimbursement of reasonable expenses.
Maximum	The Company's Articles set an annual limit for the total of Non-Executive Directors' remuneration of £300,000.
Performance measures	None
Clawback	None

Notes to table:

1. The Committee may amend or substitute any performance condition(s) if one or more events occur which cause it to determine that an amended or substituted performance condition would be more appropriate, provided that any such amended or substituted performance condition would not be materially less difficult to satisfy than the original condition (in its opinion). The Committee may adjust the calculation of performance targets and vesting outcomes (for instance for material acquisitions, disposals or investments and events not foreseen at the time the targets were set) to ensure they remain a fair reflection of performance over the relevant period. The Committee also retains discretion to make downward or upward adjustments resulting from the application of the performance measures if it considers that an adjustment is appropriate (for example, if the outcomes are not deemed by the Committee to be a fair and accurate reflection of business performance). In the event that the Committee was to make an adjustment of this sort, a full explanation would be provided in the next Remuneration Report.
2. Performance measures – annual bonus. The annual bonus measures are reviewed annually and chosen to focus executive rewards on delivery of key financial targets for the forthcoming year as well as key strategic or operational goals relevant to an individual. Specific targets for bonus measures are set at the start of each year by the Remuneration Committee based on a range of relevant reference points, including for Group financial targets, the Company's business plan and are designed to be appropriately stretching.
3. The Committee may amend the terms of awards granted under the share schemes referred to above in accordance with the rules of the relevant plans.
4. Performance measures – LTIP. The LTIP performance measures will be chosen to provide alignment with our longer-term strategy of growing the business in a sustainable manner that will be in the best interests of shareholders and other key stakeholders in the Company. Targets are considered ahead of each grant of LTIP awards by the Remuneration Committee taking into account relevant external and internal reference points and are designed to be appropriately stretching.
5. The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out above where the terms of the payment were agreed (i) before the Policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved Remuneration Policy in force at the time they were agreed; or (ii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes 'payments' includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.
6. The Committee may make minor amendments to the Remuneration Policy for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation, without obtaining shareholder approval for that amendment.

Policy for other employees

Remuneration for other employees broadly follows the same principles as for Executive Directors. A significant element of remuneration is linked to performance measures. All employees usually participate in the Long-term Incentive Plan and in the annual bonus. The weighting of individual and corporate measures is dependent on an individual's role.

The Committee does not formally consult with employees when determining Executive Director pay. However, the Committee is kept informed of general management decisions made in relation to employee pay and is conscious of the importance of ensuring that its pay decisions for Executive Directors are regarded as fair and reasonable within the business.

Annual Report on Remuneration

The table below sets out the total remuneration receivable by each of the Directors who held office during the year to 31 March 2023, with a comparison to the previous financial year:

		Salary/ fees £000	Benefits £000	Pension salary supplement £000	Total fixed £000	Annual bonus £000	Deferred bonus £000	Long-term Incentive Plan £000	Total variable £000	Total £000
Executive										
Michael Morris	2023	331	3	50	384	120	181	137	438	822
	2022	288	2	43	333	151	151	181	483	816
Andrew Dewhirst	2023	225	3	34	262	82	123	82	287	549
	2022	196	2	29	227	103	102	118	323	550
Non-Executive										
Lena Wilson	2023	117	5	-	122	-	-	-	-	122
	2022	117	3	-	120	-	-	-	-	120
Mark Batten	2023	53	-	-	53	-	-	-	-	53
	2022	53	-	-	53	-	-	-	-	53
Maria Bentley	2023	53	-	-	53	-	-	-	-	53
	2022	53	-	-	53	-	-	-	-	53
Richard Jones	2023	53	-	-	53	-	-	-	-	53
	2022	53	-	-	53	-	-	-	-	53
Total (audited)	2023	832	11	84	927	202	304	219	725	1,652
	2022	760	7	72	839	254	253	299	806	1,645

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

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

The above 2022 LTIP figures for the Executive Directors have been restated to reflect the actual share price at vesting (92.3 pence) rather than the average for the quarter ended 31 March 2022 (100.1 pence). This restatement represents a decrease in the value of the 2022 LTIP awards of £14,000 for Michael Morris and of £9,000 for Andrew Dewhirst.

The value of LTIP awards for 2023 is based on the number of shares to be awarded to the Executive Directors in respect of the June 2020 LTIP awards and the average share price over the quarter ended 31 March 2023 of 74.41 pence, and the estimated value of dividend equivalents.

Annual bonus for 2022/23

The annual bonus for the year ended 31 March 2023 for the Executive Directors was based on a combination of financial metrics (60%) and corporate objectives (40%).

The targets set for the year ended 31 March 2023 and the assessment of actual performance achieved are set out in the table below.

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

At the date of this report not all of the companies in the total return comparator group had announced their results to 31 March 2023 and the Committee has estimated, based on the results to date, that this condition will not be met, resulting in an award of 0%. The Committee will determine the actual outcome of this condition once all companies have reported, and any adjustment required between the estimate and actual will be made in next year's Remuneration Report. There will be no payout of the bonus until a finalised result can be confirmed.

Performance condition	Basis of calculation	Range	Actual	Awarded (% of maximum)	Awarded (% of salary)
Total return versus comparator group Bonus weighting: 30%	Less than median – 0% Equal to median – 50% Equal to upper quartile – 100%	Not yet available	(13.9)%	0% (estimate)	0% (estimate)
Total property return versus MSCI Index Bonus weighting: 30%	Less than median – 0% Equal to median – 50% Equal to upper quartile – 100%	Median (12.9)% Upper quartile (8.5)%	(8.7)%	98.0%	45.6%

The corporate objectives for the Executive Directors for the year to 31 March 2023 were determined by the Remuneration Committee and accounted for 40% of the maximum award.

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

Performance condition	Assessment	Awarded (% of maximum)	Awarded (% of salary)
Improve occupancy and income profile Bonus weighting: 8%	The Committee considered that income metrics, including passing rent, estimated rental value and net property income under IFRS, had all improved over the year. However occupancy has decreased from 93% to 91% and therefore assessed this objective as 50% met.	50%	6.2%
Make progress against net zero carbon pathway Bonus weighting: 4%	The published net zero carbon pathway set out a number of short-term objectives. The Committee assessed the progress made against these objectives and this is set out in the Being Responsible section on page 64.	90%	5.6%
Improve portfolio environmental factors Bonus weighting: 4%	The Committee assessed performance against a series of key environmental metrics, including EPCs, GHG emissions and intensity, and green lease clauses, as well as other environmental initiatives that had been implemented during the year. The Committee noted that all key metrics had shown improvement over the year.	85%	5.3%
Improve level of net property income and operational expenses Bonus weighting: 6%	EPRA earnings have remained stable at 3.9 pence per share, and the reported cost ratio is still at 1.0%. However both EPRA cost ratios have increased this year.	40%	3.7%
Implementation of TCFD recommendations Bonus weighting: 4%	The progress made against TCFD recommendations is set out in detail in the TCFD Statement on pages 47 to 55.	85%	5.3%
Positive stakeholder engagement Bonus weighting: 6%	Occupier surveys were carried out in the year, with 80% of respondents satisfied with the level of service provided. Supportive shareholder feedback has been received via the Company's brokers. Employee satisfaction remains high at 82%.	90%	8.4%
Identify and evaluate growth opportunities Bonus weighting: 8%	A key objective for the Executive Directors was to identify growth opportunities. In addition to asset acquisitions a number of key corporate opportunities were considered and progressed during the year.	90%	11.2%

As discussed in the Committee Chair's statement on pages 106 to 109, the Committee considered the formulaic bonus outcome in the context of the Group's overall performance for the year and concluded that it was satisfied that the formulaic bonus outcome was a fair reflection of overall Group performance during the year. The Committee was also satisfied that the above performance was achieved within an acceptable risk profile.

Subject to the estimated total return component noted above, the overall annual bonus outcome for the Executive Directors is, therefore, as follows:

	Financial metrics (out of maximum 60%)	Corporate objectives (out of maximum 40%)	Overall bonus % of maximum	Bonus % of salary	Total bonus £
Michael Morris	29.4	29.4	58.8	91.1	301,300
Andrew Dewhurst	29.4	29.4	58.8	91.1	204,800

This year the Committee has determined that the proportion of the bonus deferred be increased to 60% of the annual bonuses awarded to the Executive Directors and payable in shares in two years' time. Dividend equivalents will accrue on the shares and these will be paid in cash when the awards vest.

Long-term Incentive Plan

The LTIP awards granted on 29 June 2020 were subject to performance conditions for the three years ended 31 March 2023. The performance conditions and the actual performance for these were as follows:

Performance condition	Basis of calculation	Range	Actual	Weighting (% of award)	Awarded (% of maximum)
Total shareholder return versus comparator group	Less than median - 0% Equal to median - 25% Equal to upper quartile - 100%	Median - 9.4% Upper quartile - 22.0%	4.6%	33.3%	0%
Total property return versus MSCI Index	Less than median - 0% Equal to median - 25% Equal to upper quartile - 100%	Median - 2.5% Upper quartile - 4.3%	6.8% (above upper quartile)	33.3%	100%
Growth in EPRA EPS	Less than 3.75 pence per share for the year ended 31 March 2023 - 0% Equal to 3.75 pence per share for the year ended 31 March 2023 - 25% Equal or greater than 4.1 pence per share for the year ended 31 March 2023 - 100%		3.90p	33.3%	57.7%

The Committee was satisfied that the above performance was achieved within an acceptable risk profile. As discussed in the Committee Chair's statement on pages 106 to 109, the Committee considered the formulaic LTIP outcome in the context of the Group's overall performance over the performance period and concluded that it was satisfied the formulaic outcome was a fair reflection of overall Group performance during the period. Based on the vesting percentage above, the shares awarded and their estimated values, using an average share price of 74.41 pence for the quarter ended 31 March 2023, are:

Director	Maximum number of shares at grant	Number of shares vesting	Number of lapsed shares	Estimated value ^{1,2} £
Michael Morris	309,275	162,524	146,751	136,980
Andrew Dewhurst	185,070	97,254	87,816	81,970

1. The estimated value includes dividend equivalent awards which will be made in relation to vested LTIP awards at the point of vesting. The value of the dividend equivalent awards is £16,050 (Michael Morris) and £9,600 (Andrew Dewhurst).

2. £5,980 (Michael Morris) and £3,580 (Andrew Dewhurst) of this value relates to share price growth since the date of grant.

The following awards in the Long-term Incentive Plan were granted to the Executive Directors on 17 June 2022:

	Number of shares	Basis (% of salary)	Face value per share (£)	Award face value (£)	Performance period	Threshold vesting
Michael Morris	437,473	125%	0.9447	413,281	1 April 2022 to 31 March 2025	25%
Andrew Dewhurst	261,784	110%	0.9447	247,308	1 April 2022 to 31 March 2025	25%

Remuneration Report/Continued

The face value is based on a weighted average price per share, being the average of the closing share prices over the three business days immediately preceding the award date. Awards will vest after three years subject to continued service and the achievement of three equally weighted performance conditions (relative total shareholder return, relative total property return and EPRA EPS). The vesting schedule for the relative measures will be as applied to the June 2020 LTIP set out above. The EPS element will vest at 25% for achievement of EPRA EPS of 4.15 pence in the year ended 31 March 2025 increasing on a straight line basis to 100% vesting for EPRA EPS of 4.50 pence.

Any LTIP vesting will also be subject to the Remuneration Committee confirming that, in its assessment, the vesting outturn was achieved within an acceptable risk profile.

The Executive Directors have the following outstanding share awards under the Long-term Incentive Plan and Deferred Bonus Plan:

	Date of grant	Performance period	Market value on date of grant	At 1 April 2022	Granted in year	Exercised in year	Lapsed in year	As at 31 March 2023
Michael Morris								
2019 LTIP	19 June 2019	1 April 2019 to 31 March 2022	95.23p	328,153	-	(177,760)	(150,393)	-
2020 LTIP	29 June 2020	1 April 2020 to 31 March 2023	70.73p	309,275	-	-	-	309,275
2021 LTIP	22 June 2021	1 April 2021 to 31 March 2024	89.10p	403,339	-	-	-	403,339
2022 LTIP	17 June 2022	1 April 2022 to 31 March 2025	94.47p	-	437,473	-	-	437,473
2020 DBP	29 June 2020	1 April 2019 to 31 March 2020	70.73p	215,333	-	(215,333)	-	-
2021 DBP	22 June 2021	1 April 2020 to 31 March 2021	89.10p	186,666	-	-	-	186,666
2022 DBP	17 June 2022	1 April 2021 to 31 March 2022	94.47p	-	159,555	-	-	159,555
				1,442,766	597,028	(393,093)	(150,393)	1,496,308
Andrew Dewhirst								
2019 LTIP	19 June 2019	1 April 2019 to 31 March 2022	95.23p	214,218	-	(116,041)	(98,177)	-
2020 LTIP	29 June 2020	1 April 2020 to 31 March 2023	70.73p	185,070	-	-	-	185,070
2021 LTIP	22 June 2021	1 April 2021 to 31 March 2024	89.10p	241,358	-	-	-	241,358
2022 LTIP	17 June 2022	1 April 2022 to 31 March 2025	94.47p	-	261,784	-	-	261,784
2020 DBP	29 June 2020	1 April 2019 to 31 March 2020	70.73p	154,312	-	(154,312)	-	-
2021 DBP	22 June 2021	1 April 2020 to 31 March 2021	89.10p	126,933	-	-	-	126,933
2022 DBP	17 June 2022	1 April 2021 to 31 March 2022	94.47p	-	108,498	-	-	108,498
				921,891	370,282	(270,353)	(98,177)	923,643

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

Comparator group

The Committee has agreed that the following companies will be used as a comparator group for the total shareholder return and total return metrics in determining variable remuneration for 2023/24 awards. A smaller group is used for the total return metric due to the different reporting periods of some companies.

Company	Total shareholder return	Total return
abrdn Property Income Trust Limited	✓	✓
AEW UK REIT plc	✓	✓
Balanced Commercial Property Trust Limited	✓	✓
CT Property Trust Limited	✓	✓
Custodian REIT plc	✓	✓
Ediston Property Investment Company PLC	✓	✓
NewRiver REIT PLC	✓	✓
Regional REIT Limited	✓	✓
Schroder Real Estate Investment Trust Limited	✓	✓
Supermarket Income REIT PLC	✓	✓
UK Commercial Property REIT Limited	✓	✓
Urban Logistics REIT plc	✓	✓
Warehouse REIT plc	✓	✓
Workspace Group PLC	✓	✓

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

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

Statement of Directors' shareholdings

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

The numbers of shares beneficially held by each Director (including connected persons) as at 31 March 2023, were as follows:

	Beneficial holding 2023	Beneficial holding 2022	Holding as a % of salary	Outstanding LTIP awards	Outstanding DBP awards
Michael Morris	740,717	537,673	155	1,150,087	346,221
Andrew Dewhirst	471,758	332,113	145	688,212	235,431
Lena Wilson	30,000	30,000			
Mark Batten	-	-			
Maria Bentley	74,436	74,436			
Richard Jones	53,845	53,845			

The percentage holding for the Executive Directors is based on base salaries as at 31 March 2023 and a share price of £0.693. The beneficial holdings of shares include any held by connected persons.

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

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

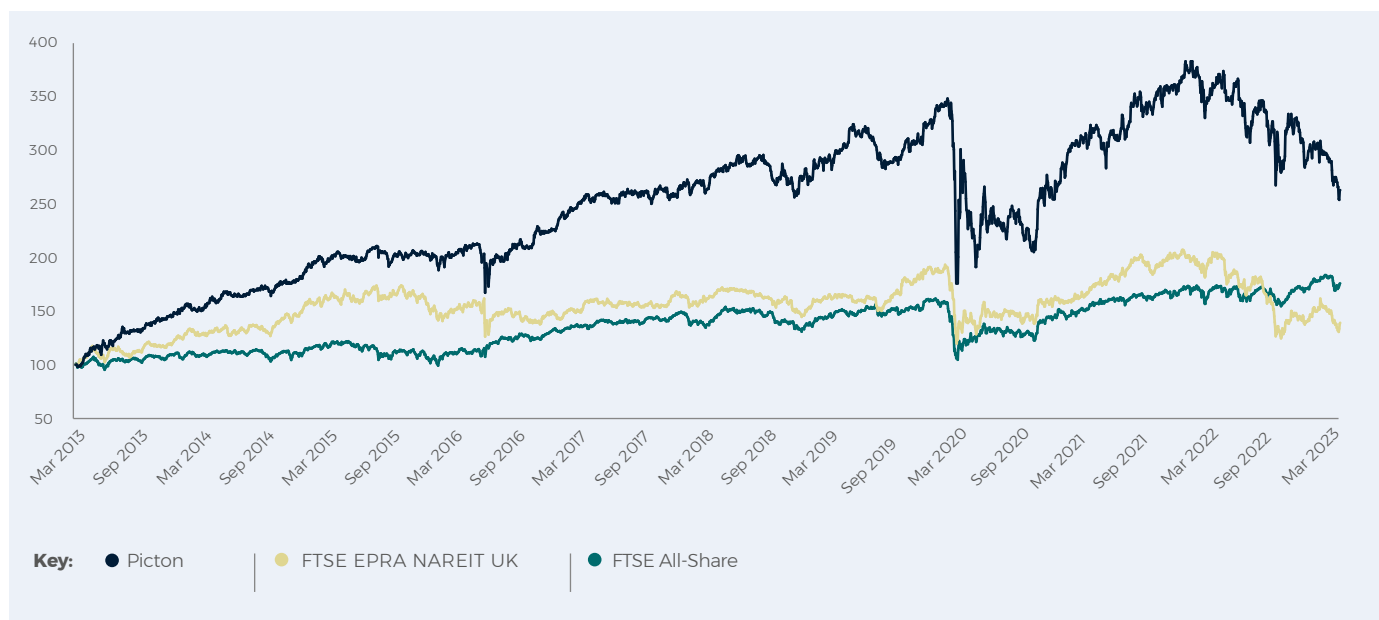
Payments to past Directors or payments for loss of office

There were no payments to past Directors or payments for loss of office to Directors during the year ended 31 March 2023.

Historical total shareholder return performance

The graph below shows the Company's total shareholder return (TSR) since 31 March 2013 as represented by share price growth with dividends reinvested, against the FTSE All-Share Index and the FTSE EPRA NAREIT UK Index. These indices have been chosen as they provide comparison against relevant sectoral and pan-sectoral benchmarks.

TSR chart



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

	Total remuneration (£000)	Annual bonus (% of maximum)	LTIP vesting (% of maximum award)
2023	822	59%	52%
2022	816	64%	54%
2021	836	76%	67%
2020	769	70%	67%
2019	920	79%	83%

Relative importance of spend on pay

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

	31 March 2023 £000	31 March 2022 £000	% change
Employee costs	3,487	3,415	2.1%
Dividends	19,091	18,425	3.6%
EPRA earnings	21,285	21,188	0.5%

Implementation of Remuneration Policy in 2023/24

Change from prior year

Executive Directors

Base salaries	Michael Morris (Chief Executive) – £380,219 Andrew Dewhirst (Finance Director) – £258,549	As outlined in the 2021 Remuneration Report base salaries for the Executive Directors are being transitioned over a three-year period – 2023/24 will be the final year of that transition. The average increase for the rest of the workforce is 9.4%.
Pension and benefits	15% salary supplement in lieu of pension plus standard other benefits	No change. All employees receive company pension contributions at the rate of 15% of base salary or 15% salary supplement in lieu of company contributions.
Annual bonus*	Maximum bonus of 145% of salary with 50% of any bonus deferred in shares for two years 60% of bonus to be determined by corporate financial metrics of relative total return and relative total property return (using the same performance target ranges as in 2022/23) with the remaining 40% determined by corporate and personal measures	As outlined in the 2021 Remuneration Report the maximum bonus potential for Executive Directors will decrease from 155% of salary to 145% of salary this year.
LTIP*	Award of shares worth: – Michael Morris (Chief Executive) 93.75% of salary – Andrew Dewhirst (Finance Director) 82.5% of salary Shares released after three-year performance and two-year holding period. Vesting of shares based equally on relative total shareholder return, relative total property return and growth in EPRA earnings per share measures. Target ranges for the relative measures are as set out on page 117. Targets for the EPS measure for the year ended 31 March 2026 are: Less than 4.20 pence per share – 0% Equal to 4.20 pence per share – 25% Greater than 4.55 pence per share – 100% A result between 4.20 pence and 4.55 pence will be calculated on a straight-line basis between 25% and 100%	Awards to the Executive Directors have been reduced by 25% this year to avoid the potential for windfall gains on vesting.

Non-Executive Directors

Fees	Chair – £122,000 Director – £47,000 Supplementary fee for Committee Chairs – £8,000	The fees payable from 1 April 2023 have increased by an average of 4.6%.
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* The Remuneration Committee has discretion to override the formulaic outcomes in both the annual bonus and LTIP.

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

Remuneration Report/Continued

Percentage change in remuneration

The table below shows the percentage change in total remuneration for each of the Directors compared to the average remuneration of the employees of the Group.

	Change from 31/3/22 to 31/3/23			Change from 31/3/21 to 31/3/22			Change from 31/3/20 to 31/3/21		
	Salary/fees	Benefits	Bonus	Salary/fees	Benefits	Bonus	Salary/fees	Benefits	Bonus
Michael Morris	15.0%	16.0%	(0.1)%	15.0%	15.8%	(9.4)%	0.0%	0.6%	14.4%
Andrew Dewhirst	15.0%	16.4%	(0.1)%	15.0%	16.1%	(9.4)%	0.0%	0.8%	8.6%
Lena Wilson	0.0%	-	-	11.2%	-	-	n/a	n/a	n/a
Mark Batten	0.0%	-	-	10.5%	-	-	0.0%	-	-
Maria Bentley	0.0%	-	-	16.7%	-	-	0.0%	-	-
Richard Jones	0.0%	-	-	16.7%	-	-	n/a	n/a	n/a
Average of all other employees	8.8%	21.1%	(5.9)%	6.4%	15.0%	13.2%	4.6%	8.1%	15.4%

Statement of voting at the last Annual General Meeting

The following table sets out the voting for the Remuneration Report, which was approved by shareholders at the Annual General Meeting held on 1 September 2022, representing 62% of the issued share capital of the Company, and also for the Remuneration Policy, which was approved by shareholders at the Annual General Meeting held on 17 November 2021, representing 63% of the issued share capital of the Company.

	Remuneration Report		Remuneration Policy	
	Votes cast	%	Votes cast	%
For	336,412,718	97.0	333,280,593	96.5
Against	10,453,842	3.0	12,044,009	3.5
Votes cast	346,866,560	100.0	345,324,602	100.0
Withheld	3,089,785		304,835	

Maria Bentley

Chair of the Remuneration Committee

24 May 2023

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 2023.

The Company is registered under the provisions of the Companies (Guernsey) Law, 2008.

Principal activity

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

Results and dividends

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

The Company is a UK Real Estate Investment Trust (REIT) and must distribute to its shareholders at least 90% of the profits on its property rental business for each accounting period as a Property Income Distribution (PID).

As set out in Note 10 to the consolidated financial statements, the Company has paid four interim dividends in the year at 0.875 pence per share, making a total dividend for the year ended 31 March 2023 of 3.5 pence per share (2022: 3.375 pence). All four interim dividends were paid as PIDs.

Directors

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

- Lena Wilson
- Maria Bentley
- Mark Batten
- Andrew Dewhurst
- Richard Jones
- Michael Morris

The Directors' interests in the shares of the Company as at 31 March 2023 are set out in the Remuneration Report.

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

2018 UK Corporate Governance Code Compliance Statement

The Board confirms that for the year ended 31 March 2023 the principles of good corporate governance contained in the 2018 UK Corporate Governance Code have been consistently applied.

The Company is fully compliant with the Code.

Listing

The Company is listed on the main market of the London Stock Exchange.

Share capital

The issued share capital of the Company as at 31 March 2023 was 547,605,596 (2022: 547,605,596) ordinary shares of no par value, including 2,388,694 ordinary shares which are held by the Trustee of the Company's Employee Benefit Trust (2022: 1,974,253 ordinary shares).

The Directors have authority to buy back up to 14.99% of the Company's ordinary shares in issue, subject to the renewal of this authority from shareholders at each Annual General Meeting. Any buy-back of ordinary shares is, and will be, made subject to Guernsey law, and the making and timing of any buy-backs are at the absolute discretion of the Board. No ordinary shares were purchased under this authority during the year.

At the 2022 Annual General Meeting shareholders gave the Directors authority to issue up to 54,760,558 shares (being 10% of the Company's issued share capital as at 4 August 2022) without having to first offer those shares to existing shareholders. No ordinary shares have been issued under this authority, which expires at this year's Annual General Meeting and resolutions will be proposed for its renewal.

Shares held in the Employee Benefit Trust

The Trustee of the Picton Property Income Limited Long-term Incentive Plan holds 2,388,694 ordinary shares in the Company in a trust to satisfy awards made under the Long-term Incentive Plan and the Deferred Bonus Plan. During the year the Trustee acquired 1,250,000 ordinary shares at an average price of 89.9 pence per share. The Trustee has waived its right to receive dividends on the shares it holds.

Statement of going concern

The Directors have focused on assessing whether the going concern basis remains appropriate for the preparation of the financial statements for the year ended 31 March 2023. In making their assessment the Directors have considered the principal and emerging risks relating to the Group, its loan covenants, access to funding and liquidity position. They have also considered a number of scenarios, in particular regarding the impact of different levels of rent collection across the portfolio and over varying timescales, and the potential consequences on financial performance, asset values, capital projects and loan covenants. Leasing and investment transactions have been assumed to be curtailed throughout the assessment period. Future lease events over the assessment period have been considered on a case-by-case basis to determine the range of most likely outcomes. More details regarding the Group's business activities, together with the factors affecting performance, investment activities and future development are set out in the Strategic Report.

Further information on the financial position of the Group, including its liquidity position, borrowing facilities and debt maturity profile, is set out in the Financial Review and in the consolidated financial statements.

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

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

Viability assessment and statement

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

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

The major risks identified were those relating to high inflation, rising interest rates, other recessionary pressures and the lead up to a general election over the period of the assessment. In the ordinary course of business, the Board reviews a detailed financial model on a quarterly basis, including forecast market returns. This model allows for different assumptions regarding lease expiries, breaks and incentives. For the purposes of the viability assessment of the Group, the model covers a five-year period and is stress tested under various scenarios.

The Board considered a number of scenarios and their impact on the Group's property portfolio and financial position. These scenarios included different levels of rent collection, occupier defaults, void periods and incentives within the portfolio, and the consequential impact on property costs and loan covenants. All lease events and assumptions were reviewed over the period under the different scenarios, including their impact on revenue and cash flow. Forecast movements in capital values were included in these scenarios, including their potential impact on the Group's loan covenants. The Group's long-term loan facilities are contracted to be in place throughout the assessment period, while the Board has assumed that the Group will continue to have access to its short-term facilities which expire in 2025. The Board considered the impact of these scenarios on its ability to continue to pay dividends at different rates over the assessment period.

These matters were assessed over the period to 31 March 2028 and will continue to be assessed over rolling five-year periods.

The Directors consider that the stress testing performed was sufficiently robust and that even under extreme conditions the Company remains viable.

Based on their assessment, and in the context of the Group's business model and strategy, the Directors expect that the Group will be able to continue in operation and meet its liabilities as they fall due over the five-year period to 31 March 2028.

Substantial shareholdings

Based on notifications received and on information provided by the Company's brokers, the Company understands the following shareholders held a beneficial interest of 3% or more of the Company's issued share capital as at 5 May 2023.

	% of issued share capital
Investec Wealth & Investment Limited	16.2
Thames River Capital LLP	10.8
BlackRock Inc.	5.6
The Vanguard Group Inc.	4.6
Evelyn Partners	3.9
RBC Brewin Dolphin Limited	3.3
Alder Investment Management Limited UK	3.0

Disclosure of information to auditor

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

Auditor

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

Statement of Directors' responsibilities

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

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

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of its profit or loss for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies (Guernsey) Law, 2008. They are responsible for such internal controls as they determine are necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error, and have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

Directors' responsibility statement in respect of the Annual Report and financial statements

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Issuer, together with a description of the principal risks and uncertainties that they face.

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

By Order of the Board

Andrew Dewhirst

24 May 2023

Welcome to our financial statements

This section sets out the Group's financial statements for the year ended 31 March 2023.

**Financial Statements**

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

Our opinion is unmodified

We have audited the consolidated financial statements of Picton Property Income Limited (the ‘Company’) and its subsidiaries (together, the ‘Group’), which comprise the consolidated balance sheet as at 31 March 2023, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements:

- give a true and fair view of the financial position of the Group as at 31 March 2023, and of the Group’s financial performance and cash flows for the year then ended;

- are prepared in accordance with International Financial Reporting Standards; and
- comply with the Companies (Guernsey) Law, 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (‘ISAs (UK)’) and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company and Group in accordance with, UK ethical requirements including the FRC Ethical Standard as required by the Crown Dependencies’ Audit Rules and Guidance. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

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

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the consolidated financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matter was as follows (unchanged from 2022):

Valuation of investment properties	The risk	Our response
<p>£746 million (2022: £830 million)</p> <p>Refer to page 102 of the Audit and Risk Committee Report, Note 2 significant accounting policies and Note 13 investment properties disclosures.</p>	<p>Basis: The Group’s investment properties accounted for 94% (2022: 93%) of the Group’s total assets as at 31 March 2023. The fair value of investment properties at 31 March 2023 was assessed by the Board of Directors based on independent valuations prepared by the Group’s third party independent valuer (the ‘Valuer’). The Valuer performed the valuations based on the Royal Institution of Chartered Surveyors (‘RICS’) Valuation – Global Standards and the requirements of IFRS.</p> <p>In determining the valuation of a property, the Valuer takes into account property specific information such as the current tenancy agreements and rental income and apply assumptions for yields and estimated market rent, which are influenced by prevailing market yields and comparable market transactions, to arrive at the final valuation.</p> <p>Risk: The valuation of the Group’s investment properties is considered a significant area of our audit in view of the significance of the estimates and judgements that may be involved in the determination of their fair value and given that it represents the majority of the total assets of the Group.</p> <p>The valuation is inherently subjective due to property specific factors which include, but are not limited to, the individual nature of the property, the location and condition of the property and the expected future rental streams for that particular property.</p>	<p>Our audit procedures included:</p> <p>Control Evaluation: We assessed the design, implementation and operating effectiveness of controls over the valuation of investment properties including the capture and recording of information contained in the lease database for investment properties.</p> <p>Evaluating experts engaged by management: We assessed the competence, capabilities and objectivity of the Valuer. We also assessed the independence of the Valuer by considering the scope of their work and the terms of their engagement.</p> <p>Evaluating assumptions and inputs used in the valuation: With the assistance of our own Real Estate valuation specialist we assessed the valuations prepared by the Valuer by:</p> <ul style="list-style-type: none"> – evaluating the appropriateness of the valuation methodologies and assumptions used – critically evaluating key subjective valuation inputs and assumptions, on a judgemental sample of properties, against market information such as industry benchmarks and our own knowledge and understanding of the property market. <p>We also compared a sample of the key inputs used to calculate the valuations such as annual rent and tenancy contracts for consistency with other audit findings.</p> <p>We verified that the fair values as derived by the Valuer for the entire property portfolio were correctly included in the financial statements.</p> <p>Assessing disclosures: We also considered the Group’s investment property valuation policies and their application as described in the notes to the consolidated financial statements for compliance with IFRS in addition to the adequacy of disclosures in Note 13 in relation to fair value of the investment properties.</p>

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

Materiality for the consolidated financial statements as a whole was set at £7.93million, determined with reference to a benchmark of group total assets of £792.6 million, of which it represents approximately 1.0% (2022: 1.0%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the consolidated financial statements as a whole. Performance materiality for the Group was set at 75% (2022: 75%) of materiality for the consolidated financial statements as a whole, which equates to £5.9million. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £396,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Group was undertaken to the materiality level specified above, which has informed our identification of significant risks of material misstatement and the associated audit procedures performed in those areas as detailed above.

The group team performed the audit of the Group as if it was a single aggregated set of financial information. The audit was performed using the materiality level set out above and covered 100% of total group revenue, total group profit before tax, and total group assets and liabilities.

Going concern

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

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

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

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

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

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the consolidated financial statements is appropriate;

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

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

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

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

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

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

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

We performed procedures including:

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

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

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

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

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

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

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

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

Other information

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

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

Disclosures of emerging and principal risks and longer term viability

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

- the directors' confirmation within the Viability assessment and statement (page 124) that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the emerging and principal risks disclosures describing these risks and explaining how they are being managed or mitigated;

- the directors' explanation in the Viability assessment and statement (page 124) as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to review the Viability assessment and statement, set out on page 124 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the consolidated financial statements and our audit knowledge.

Corporate governance disclosures

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

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

- the directors' statement that they consider that the annual report and consolidated financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- the section of the annual report describing the work of the Audit Committee, including the significant issues that the audit committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the Company's risk management and internal control systems.

We are required to review the part of Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

We have nothing to report on other matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

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

Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 125, the directors are responsible for: the preparation of the consolidated financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

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

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

Steven Stormonth For and on behalf of KPMG Channel Islands Limited

Chartered Accountants and
Recognised Auditors
Guernsey
24 May 2023

Consolidated statement of comprehensive income

for the year ended 31 March 2023

	Notes	2023 £000	2022 £000
Income			
Revenue from properties	3	51,816	46,543
Property expenses	4	(15,566)	(11,098)
Net property income		36,250	35,445
Expenses			
Administrative expenses	6	(5,955)	(5,755)
Total operating expenses		(5,955)	(5,755)
Operating profit before movement on investments		30,295	29,690
Investments			
Profit on disposal of investment properties	13	-	42
Revaluation of owner-occupied property	14	(382)	-
Investment property valuation movements	13	(110,433)	129,801
Total (loss)/profit on investments		(110,815)	129,843
Operating (loss)/profit		(80,520)	159,533
Financing			
Interest received		24	-
Interest paid	8	(9,034)	(8,502)
Debt prepayment fees	18	-	(4,045)
Total finance costs		(9,010)	(12,547)
(Loss)/profit before tax		(89,530)	146,986
Tax	9	-	-
(Loss)/profit after tax		(89,530)	146,986
Other comprehensive income			
Revaluation of owner-occupied property	14	(434)	434
Total other comprehensive (loss)/income for the year		(434)	434
Total comprehensive (loss)/income for the year		(89,964)	147,420
Earnings per share			
Basic	11	(16.5)p	27.0p
Diluted	11	(16.5)p	26.9p

All items in the above statement derive from continuing operations.

All of the profit and total comprehensive income for the year is attributable to the equity holders of the Company.

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

Consolidated statement of changes in equity

for the year ended 31 March 2023

	Notes	Share capital £000	Retained earnings £000	Other reserves £000	Revaluation reserve £000	Total £000
Balance as at 31 March 2021		164,400	364,466	(669)	-	528,197
Profit for the year		-	146,986	-	-	146,986
Dividends paid	10	-	(18,425)	-	-	(18,425)
Share-based awards		-	-	668	-	668
Purchase of shares held in trust	7	-	-	(730)	-	(730)
Other comprehensive income for the year	14	-	-	-	434	434
Balance as at 31 March 2022		164,400	493,027	(731)	434	657,130
Loss for the year		-	(89,530)	-	-	(89,530)
Dividends paid	10	-	(19,091)	-	-	(19,091)
Share-based awards		-	-	675	-	675
Purchase of shares held in trust	7	-	-	(1,126)	-	(1,126)
Other comprehensive loss for the year	14	-	-	-	(434)	(434)
Balance as at 31 March 2023		164,400	384,406	(1,182)	-	547,624

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

Consolidated balance sheet

as at 31 March 2023

	Notes	2023 £000	2022 £000
Non-current assets			
Investment properties	13	746,342	830,027
Property, plant and equipment	14	3,415	4,383
Total non-current assets		749,757	834,410
Current assets			
Accounts receivable	15	22,749	22,850
Cash and cash equivalents	16	20,050	38,547
Total current assets		42,799	61,397
Total assets		792,556	895,807
Current liabilities			
Accounts payable and accruals	17	(19,471)	(19,138)
Loans and borrowings	18	(1,129)	(1,068)
Obligations under leases	22	(114)	(114)
Total current liabilities		(20,714)	(20,320)
Non-current liabilities			
Loans and borrowings	18	(221,635)	(215,764)
Obligations under leases	22	(2,583)	(2,593)
Total non-current liabilities		(224,218)	(218,357)
Total liabilities		(244,932)	(238,677)
Net assets		547,624	657,130
Equity			
Share capital	20	164,400	164,400
Retained earnings		384,406	493,027
Other reserves		(1,182)	(731)
Revaluation reserve		-	434
Total equity		547,624	657,130
Net asset value per share	23	100p	120p

These consolidated financial statements were approved by the Board of Directors on 24 May 2023 and signed on its behalf by:

Andrew Dewhirst

Director
24 May 2023

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

Consolidated statement of cash flows

for the year ended 31 March 2023

	Notes	2023 £000	2022 £000
Operating activities			
Operating (loss)/profit		(80,520)	159,533
Adjustments for non-cash items	21	111,655	(129,010)
Interest received		24	-
Interest paid		(7,937)	(8,102)
Decrease/(increase) in accounts receivable		101	(3,305)
(Decrease)/increase in accounts payable and accruals		(291)	897
Cash inflows from operating activities		23,032	20,013
Investing activities			
Purchase of investment properties	13	(20,613)	(25,005)
Capital expenditure on investment properties	13	(6,135)	(9,551)
Disposal of investment properties	13	-	726
Purchase of tangible assets	14	(13)	(3)
Cash outflows from investing activities		(26,761)	(33,833)
Financing activities			
Borrowings repaid	18	(6,368)	(26,917)
Borrowings drawn	18	12,000	79,545
Debt prepayment fees	18	-	(4,045)
Financing costs	18	(183)	(419)
Purchase of shares held in trust	7	(1,126)	(730)
Dividends paid	10	(19,091)	(18,425)
Cash (outflows)/inflows from financing activities		(14,768)	29,009
Net (decrease)/increase in cash and cash equivalents		(18,497)	15,189
Cash and cash equivalents at beginning of year		38,547	23,358
Cash and cash equivalents at end of year	16	20,050	38,547

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

Notes to the consolidated financial statements

for the year ended 31 March 2023

1. General information

Picton Property Income Limited (the 'Company' and together with its subsidiaries the 'Group') was established on 15 September 2005 as a closed ended Guernsey domiciled investment company and entered the UK REIT regime on 1 October 2018. The consolidated financial statements are prepared for the year ended 31 March 2023 with comparatives for the year ended 31 March 2022.

2. Significant accounting policies

Basis of accounting

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

The Directors have assessed whether the going concern basis remains appropriate for the preparation of the financial statements. They have reviewed the Group's principal and emerging risks, existing loan facilities, access to funding and liquidity position and then considered different adverse scenarios impacting the portfolio and the potential consequences on financial performance, asset values, dividend policy, capital projects and loan covenants. Under all these scenarios the Group has sufficient resources to continue its operations, and remain within its loan covenants, for the foreseeable future and in any case for a period of at least 12 months from the date of these financial statements.

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

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

New or amended standards issued

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

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- Annual Improvements to IFRS Standards 2018-2020
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
- Reference to the Conceptual Framework (Amendments to IFRS 3)

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

At the date of approval of these financial statements, there are a number of new and amended standards in issue but not yet effective for the financial year ended 31 March 2023 and thus have not been applied by the Group.

- IFRS 17 Insurance Contracts
- Amendments to IFRS 17
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
- Definition of Accounting Estimates (Amendments to IAS 8)
- Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction – Amendments to IAS 12 Income Taxes
- Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Amendments to IFRS 17)
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)
- Non-current Liabilities with Covenants (Amendments to IAS 1)
- Sale or Contributions of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

The adoption of these new and amended standards, together with any other IFRSs or IFRIC interpretations that are not yet effective, are not expected to have a material impact on the financial statements of the Group.

Use of estimates and judgements

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

2. Significant accounting policies/Continued

Significant judgements and estimates

Judgements made by management in the application of IFRSs that have a significant effect on the financial statements and major sources of estimation uncertainty are disclosed in Note 13.

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

Basis of consolidation

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

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. These financial statements include the results of the subsidiaries disclosed in Note 12. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Fair value hierarchy

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

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

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

Level 3: unobservable inputs for the asset or liability.

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

Investment properties

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

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

The fair value of investment property generally involves consideration of:

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

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

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

The majority of the investment properties are charged by way of a first ranking mortgage as security for the loans made to the Group; see Note 18.

Notes to the consolidated financial statements/Continued

2. Significant accounting policies/Continued

Property, plant and equipment

Owner-occupied property

Owner-occupied property is stated at its revalued amount, which is determined in the same manner as investment property. It is depreciated over its remaining useful life (in this case 40 years) with the depreciation included in administrative expenses. On revaluation, any accumulated depreciation is eliminated against the gross carrying amount of the property concerned, and the net amount restated to the revalued amount. Subsequent depreciation charges are adjusted based on the revalued amount. Any difference between the depreciation charge on the revalued amount and that which would have been charged under historic cost is transferred between the revaluation reserve and retained earnings as the property is used. Any gain arising on this remeasurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in other comprehensive income and presented in the revaluation reserve. Any loss is recognised in profit or loss. However, to the extent that an amount is included in the revaluation surplus for that property, the loss is recognised in other comprehensive income and reduces the revaluation surplus within equity.

Plant and equipment

Plant and equipment is depreciated on a straight-line basis over the estimated useful lives of each item of plant and equipment. The estimated useful lives are between three and five years.

Leases

Where the Group holds interests in investment properties other than as freehold interests (e.g. as a head lease), these are accounted for as right of use assets, which is recognised at its fair value on the Balance Sheet, within the investment property carrying value. Upon initial recognition, a corresponding liability is included as a lease liability. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining lease liability. Contingent rent payable, being the difference between the rent currently payable and the minimum lease payments when the lease liability was originally calculated, are charged as expenses within property expenditure in the years in which they are payable.

The Group leases its investment properties under commercial property leases which are held as operating leases. An operating lease is a lease other than a finance lease. A finance lease is one where substantially all the risks and rewards of ownership are passed to the lessee. Lease income is recognised as income on a straight-line basis over the lease term. Direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income. Upon receipt of a surrender premium for the early termination of a lease, the profit, net of dilapidations and non-recoverable outgoings relating to the lease concerned, is immediately reflected in revenue from properties if there are no relevant conditions attached to the surrender.

Cash and cash equivalents

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

Income and expenses

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

Lease incentive payments are amortised on a straight-line basis over the period from the date of lease inception to the end of the lease term and presented within accounts receivable. Lease incentives granted are recognised as a reduction of the total rental income, over the term of the lease.

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

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

Employee benefits

Defined contribution plans

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

2. Significant accounting policies/Continued

Short-term benefits

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

Share-based payments

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

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

The cost of the Company's shares held by the Employee Benefit Trust is deducted from equity in the Consolidated Balance Sheet. Any shares held by the Trust are not included in the calculation of earnings or net assets per share.

Dividends

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

Accounts receivable

Accounts receivable are stated at their nominal amount as reduced by appropriate allowances for estimated irrecoverable amounts. The Group applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected impairment provision for all applicable accounts receivable. Bad debts are written off when identified.

Loans and borrowings

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

Assets classified as held for sale

Any investment properties on which contracts for sale have been exchanged but which had not completed at the period end are disclosed as properties held for sale. Investment properties included in the held for sale category continue to be measured in accordance with the accounting policy for investment properties.

Other assets and liabilities

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

Share capital

Ordinary shares are classified as equity.

Revaluation reserve

Any surplus or deficit arising from the revaluation of owner-occupied property is taken to the revaluation reserve. A revaluation deficit is only taken to retained earnings when there is no previous revaluation surplus to reverse.

Taxation

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

Notes to the consolidated financial statements/Continued

2. Significant accounting policies/Continued

Principles for the Consolidated Statement of Cash Flows

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

The cash amounts in the Consolidated Statement of Cash Flows include those assets that can be converted into cash without any restrictions and without any material risk of decreases in value as a result of the transaction.

3. Revenue from properties

	2023 £000	2022 £000
Rents receivable (adjusted for lease incentives)	42,964	40,133
Surrender premiums	147	59
Dilapidation receipts	170	21
Other income	107	118
Service charge income	8,428	6,212
	51,816	46,543

Rents receivable have been adjusted for lease incentives recognised of £1.2 million (2022: £2.8 million).

4. Property expenses

	2023 £000	2022 £000
Property operating costs	3,491	2,477
Property void costs	3,647	2,409
Recoverable service charge costs	8,428	6,212
	15,566	11,098

5. Operating segments

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

The Board has considered the requirements of IFRS 8 'Operating Segments'. The Board is of the opinion that the Group, through its subsidiary undertakings, operates in one reportable industry segment, namely real estate investment, and across one primary geographical area, namely the United Kingdom, and therefore no segmental reporting is required. The portfolio consists of 49 commercial properties, which are in the industrial, office, retail and leisure sectors.

6. Administrative expenses

	2023 £000	2022 £000
Director and staff costs	3,487	3,415
Auditor's remuneration	195	206
Other administrative expenses	2,273	2,134
	5,955	5,755

6. Administrative expenses/Continued

	2023 £000	2022 £000
Auditor's remuneration comprises:		
Audit fees:		
Audit of Group financial statements	92	92
Audit of subsidiaries' financial statements	87	82
Audit-related fees:		
Review of half-year financial statements	16	16
	195	190
Non-audit fees:		
Additional controls testing	-	16
	-	16
	195	206

7. Director and staff costs

	2023 £000	2022 £000
Wages and salaries	1,879	1,765
Non-Executive Directors' fees	275	275
Social security costs	425	402
Other pension costs	34	27
Share-based payments - cash settled	142	201
Share-based payments - equity settled	732	745
	3,487	3,415

The emoluments of the Directors are set out in detail within the Remuneration Committee report, including the audited totals on page 115.

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

For all employees, a proportion of any discretionary annual bonus will be an award under the Deferred Bonus Plan. With the exception of Executive Directors, awards are cash settled and vest after two years. The final value of awards is determined by the movement in the Company's share price and dividends paid over the vesting period. For Executive Directors, awards are equity settled and also vest after two years. On 17 June 2022, awards of 500,905 notional shares were made which vest in June 2024 (2022: 531,108 notional shares). The next awards are due to be made in June 2023 for vesting in June 2025.

The table below summarises the awards made under the Deferred Bonus Plan. Employees have the option to defer the vesting date of their awards for a maximum of seven years.

Vesting date	Units at 31 March 2021	Units granted in the year	Units cancelled in the year	Units redeemed in the year	Units at 31 March 2022	Units granted in the year	Units cancelled in the year	Units redeemed in the year	Units at 31 March 2023
19 June 2021	438,907	-	-	(438,907)	-	-	-	-	-
29 June 2022	599,534	-	-	-	599,534	-	-	(589,779)	9,755
22 June 2023	-	531,108	-	-	531,108	-	-	-	531,108
17 June 2024	-	-	-	-	-	500,905	-	-	500,905
	1,038,441	531,108	-	(438,907)	1,130,642	500,905	-	(589,779)	1,041,768

The Group also has a Long-term Incentive Plan for all employees which is equity settled. Awards are made annually and vest three years from the grant date. Vesting is conditional on three performance metrics measured over each three-year period. Awards to Executive Directors are also subject to a further two-year holding period. On 17 June 2022, awards for a maximum of 1,174,589 shares were granted to employees in respect of the three-year period ending on 31 March 2025. In the previous year, awards of 1,107,155 shares were made on 22 June 2021 for the period ending 31 March 2024.

Notes to the consolidated financial statements/Continued

7. Director and staff costs/Continued

The three performance metrics are:

- Total shareholder return (TSR) of Picton Property Income Limited, compared to a comparator group of similar listed companies;
- Total property return (TPR) of the property assets held within the Group, compared to the MSCI UK Quarterly Property Index; and
- Growth in EPRA earnings per share (EPS) of the Group.

The fair value of share grants is measured using the Monte Carlo model for the TSR metric and a Black-Scholes model for the TPR and EPS metrics. The fair value is recognised over the expected vesting period. For the awards made during this year and the previous year the main inputs and assumptions of the models, and the resulting fair values, are:

Assumptions	17 June 2022	22 June 2021
Grant date		
Share price at date of grant	92.6p	87.3p
Exercise price	Nil	Nil
Expected term	3 years	3 years
Risk-free rate – TSR condition	2.28%	0.23%
Share price volatility – TSR condition	28.3%	28.3%
Median volatility of comparator group – TSR condition	32.4%	31.8%
Correlation – TSR condition	25.0%	29.4%
TSR performance at grant date – TSR condition	(2.5)%	0.3%
Median TSR performance of comparator group at grant date – TSR condition	2.2%	10.7%
Fair value – TSR condition (Monte Carlo method)	46.0p	37.7p
Fair value – TPR condition (Black-Scholes model)	92.6p	87.3p
Fair value – EPS condition (Black-Scholes model)	92.6p	87.3p

The Trustee of the Company's Employee Benefit Trust acquired 1,250,000 ordinary shares during the year for £1,126,000 (2022: 750,000 shares for £730,000).

The Group employed ten members of staff at 31 March 2023 (2022: nine). The average number of people employed by the Group for the year ended 31 March 2023 was nine (2022: ten).

8. Interest paid

	2023 £000	2022 £000
Interest payable on loans	8,576	8,134
Interest on obligations under finance leases	175	129
Non-utilisation fees	283	239
	9,034	8,502

The loan arrangement costs incurred to 31 March 2023 are £3,328,000 (2022: £3,325,000). These are amortised over the duration of the loans with £304,000 amortised in the year ended 31 March 2023 and included in interest payable on loans (2022: £967,000).

9. Tax

The charge for the year is:

	2023 £000	2022 £000
Tax expense in year	-	-
Total tax charge	-	-

9. Tax/Continued

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

	2023 £000	2022 £000
(Loss)/profit before taxation	(89,530)	146,986
Expected tax (credit)/charge on ordinary activities at the standard rate of taxation of 19% (2022: 19%)	(17,011)	27,927
Less:		
UK REIT exemption on net income	(4,044)	(3,257)
Revaluation movement not taxable	21,055	(24,662)
Gains on disposal not taxable	-	(8)
Total tax charge	-	-

As a UK REIT, the income profits of the Group's UK property rental business are exempt from corporation tax, as are any gains it makes from the disposal of its properties, provided they are not held for trading. The Group is otherwise subject to UK corporation tax at the prevailing rate.

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

10. Dividends

	2023 £000	2022 £000
Declared and paid:		
Interim dividend for the period ended 31 March 2021: 0.8 pence	-	4,365
Interim dividend for the period ended 30 June 2021: 0.85 pence	-	4,644
Interim dividend for the period ended 30 September 2021: 0.85 pence	-	4,640
Interim dividend for the period ended 31 December 2021: 0.875 pence	-	4,776
Interim dividend for the period ended 31 March 2022: 0.875 pence	4,774	-
Interim dividend for the period ended 30 June 2022: 0.875 pence	4,775	-
Interim dividend for the period ended 30 September 2022: 0.875 pence	4,771	-
Interim dividend for the period ended 31 December 2022: 0.875 pence	4,771	-
	19,091	18,425

The interim dividend of 0.875 pence per ordinary share in respect of the period ended 31 March 2023 has not been recognised as a liability as it was declared after the year-end. This dividend of £4,771,000 will be paid on 31 May 2023.

11. Earnings per share

Basic and diluted earnings per share is calculated by dividing the net (loss)/profit for the year attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue during the year, excluding the average number of shares held by the Employee Benefit Trust for the year. The diluted number of shares also reflects the contingent shares to be issued under the Long-term Incentive Plan.

The following reflects the (loss)/profit and share data used in the basic and diluted profit per share calculation:

	2023	2022
Net (loss)/profit attributable to ordinary shareholders of the Company from continuing operations (£000)	(89,964)	147,420
Weighted average number of ordinary shares for basic earnings per share	545,378,286	545,904,197
Weighted average number of ordinary shares for diluted earnings per share	546,856,450	547,295,589

Notes to the consolidated financial statements/Continued

12. Investments in subsidiaries

The Company had the following principal subsidiaries as at 31 March 2023 and 31 March 2022:

Name	Place of incorporation	Ownership proportion
Picton UK Real Estate Trust (Property) Limited	Guernsey	100%
Picton (UK) REIT (SPV) Limited	Guernsey	100%
Picton (UK) Listed Real Estate	Guernsey	100%
Picton UK Real Estate (Property) No 2 Limited	Guernsey	100%
Picton (UK) REIT (SPV No 2) Limited	Guernsey	100%
Picton Capital Limited	England & Wales	100%
Picton (General Partner) No 2 Limited	Guernsey	100%
Picton (General Partner) No 3 Limited	Guernsey	100%
Picton No 2 Limited Partnership	England & Wales	100%
Picton No 3 Limited Partnership	England & Wales	100%
Picton Financing UK Limited	England & Wales	100%
Picton Financing UK (No 2) Limited	England & Wales	100%
Picton Property No 3 Limited	Guernsey	100%

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

Picton UK Real Estate Trust (Property) Limited and Picton (UK) REIT (SPV) Limited own 100% of the units in Picton (UK) Listed Real Estate, a Guernsey Unit Trust (the 'GPUT'). The GPUT holds a 99.9% interest in both Picton No 2 Limited Partnership and Picton No 3 Limited Partnership and the remaining balances are held by Picton (General Partner) No 2 Limited and Picton (General Partner) No 3 Limited respectively.

13. Investment properties

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

	2023 £000	2022 £000
Fair value at start of year	830,027	665,418
Capital expenditure on investment properties	6,135	9,551
Acquisitions	20,613	25,005
Disposals	-	(687)
Acquisition of right of use asset	-	897
Realised gains on disposal	-	42
Unrealised movement on investment properties	(110,433)	129,801
Fair value at the end of the year	746,342	830,027
Historic cost at the end of the year	681,118	654,370

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

	2023 £000	2022 £000
Appraised value	766,235	849,325
Valuation of assets held under head leases	2,081	2,237
Owner-occupied property	(3,248)	(4,168)
Lease incentives held as debtors	(18,726)	(17,367)
Fair value at the end of the year	746,342	830,027

The investment properties were valued by independent valuers, CBRE Limited, Chartered Surveyors, as at 31 March 2023 and 31 March 2022 on the basis of fair value in accordance with the version of the RICS Valuation – Global Standards (incorporating the International Valuation Standards) and the UK national supplement (the Red Book) current as at the valuation date. The total fees earned by CBRE Limited from the Group are less than 5% of their total UK revenue.

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

13. Investment properties/Continued

In addition, the Group's investment properties are valued quarterly by CBRE Limited. The valuations are based on:

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

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

As at 31 March 2023 and 31 March 2022 all of the Group's properties, including owner-occupied property, are Level 3 in the fair value hierarchy as it involves use of significant judgement. There were no transfers between levels during the year and the prior year. Level 3 inputs used in valuing the properties are those which are unobservable, as opposed to Level 1 (inputs from quoted prices) and Level 2 (observable inputs either directly, i.e. as prices, or indirectly, as derived from prices).

Information on these significant unobservable inputs per sector of investment properties is disclosed as follows:

	2023			2022		
	Office	Industrial	Retail and Leisure	Office	Industrial	Retail and Leisure
Appraised value (£000)	245,260	439,570	81,405	251,125	509,730	88,470
Area (sq ft, 000s)	877	3,240	692	828	3,240	692
Range of unobservable inputs:						
Gross ERV (sq ft per annum)						
– range	£11.00 to £84.12	£3.30 to £27.83	£3.23 to £26.05	£10.96 to £82.32	£2.82 to £26.77	£3.23 to £28.49
– weighted average	£35.33	£13.16	£11.66	£35.10	£11.47	£11.83
Net initial yield						
– range	–0.68% to 11.65%	2.28% to 7.75%	3.51% to 30.85%	0.92% to 9.00%	0.00% to 6.75%	3.07% to 25.00%
– weighted average	5.32%	4.30%	8.56%	4.64%	3.25%	7.33%
Reversionary yield						
– range	4.76% to 13.55%	4.83% to 8.17%	6.87% to 12.18%	4.29% to 9.63%	3.04% to 7.37%	6.19% to 12.89%
– weighted average	7.87%	5.78%	7.98%	7.00%	4.24%	7.42%
True equivalent yield						
– range	4.57% to 10.38%	4.75% to 7.98%	7.00% to 12.17%	4.09% to 9.95%	3.00% to 7.00%	6.25% to 13.02%
– weighted average	7.23%	5.51%	8.11%	6.49%	4.11%	7.55%

An increase/decrease in ERV will increase/decrease valuations, while an increase/decrease to yield decreases/increases valuations. We have reviewed the ranges used in assessing the impact of changes in unobservable inputs on the fair value of the Group's property portfolio and concluded these were still reasonable. The table below sets out the sensitivity of the valuation to changes of 50 basis points in yield.

Sector	Movement	2023 Impact on valuation	2022 Impact on valuation
Industrial	Increase of 50 basis points	Decrease of £36.7m	Decrease of £55.2m
	Decrease of 50 basis points	Increase of £44.5m	Increase of £69.0m
Office	Increase of 50 basis points	Decrease of £16.1m	Decrease of £11.9m
	Decrease of 50 basis points	Increase of £18.0m	Increase of £12.5m
Retail and Leisure	Increase of 50 basis points	Decrease of £4.5m	Decrease of £5.1m
	Decrease of 50 basis points	Increase of £5.1m	Increase of £5.9m

Notes to the consolidated financial statements/Continued

14. Property, plant and equipment

Property, plant and equipment principally comprises the fair value of owner-occupied property. The fair value of these premises is based on the appraised value at 31 March 2023.

	Owner Occupied Property £000	Plant and equipment £000	Total £000
At 1 April 2021	3,830	281	4,111
Additions	-	3	3
Depreciation	(96)	(69)	(165)
Revaluation	434	-	434
At 31 March 2022	4,168	215	4,383
Additions	-	13	13
Depreciation	(104)	(61)	(165)
Revaluation	(816)	-	(816)
At 31 March 2023	3,248	167	3,415

15. Accounts receivable

	2023 £000	2022 £000
Tenant debtors (net of provisions for bad debts)	2,855	4,618
Lease incentives	18,726	17,367
Other debtors	1,168	865
	22,749	22,850

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

Amounts are considered impaired using the lifetime expected credit loss method. Movement in the balance considered to be impaired has been included in the Consolidated Statement of Comprehensive Income. As at 31 March 2023, tenant debtors of £92,000 (2022: £302,000) were considered impaired and provided for.

16. Cash and cash equivalents

	2023 £000	2022 £000
Cash at bank and in hand	20,045	38,542
Short-term deposits	5	5
	20,050	38,547

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

17. Accounts payable and accruals

	2023 £000	2022 £000
Accruals	4,712	4,994
Deferred rental income	8,654	8,399
VAT liability	1,782	1,638
Trade creditors	515	357
Other creditors	3,808	3,750
	19,471	19,138

18. Loans and borrowings

	Maturity	2023 £000	2022 £000
Current			
Aviva facility	-	1,433	1,372
Capitalised finance costs	-	(304)	(304)
		1,129	1,068
Non-current			
Canada Life facility	24 July 2031	129,045	129,045
Aviva facility	24 July 2032	82,089	83,518
NatWest revolving credit facility	26 May 2025	11,900	4,900
Capitalised finance costs	-	(1,399)	(1,699)
		221,635	215,764
		222,764	216,832

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

	2023 £000	2022 £000
Balance at start of year	216,832	163,655
Changes from financing cash flows		
Proceeds from loans and borrowings	12,000	79,545
Repayment of loans and borrowings	(6,368)	(26,917)
Financing costs paid	(183)	(419)
	5,449	52,209
Other changes		
Amortisation of financing costs	304	967
Change in accrued financing costs	179	1
	483	968
Balance as at 31 March	222,764	216,832

The Group has a £129.0 million loan facility with Canada Life which matures in July 2031. Interest is fixed at 3.25% per annum over the remaining life of the loan. The loan agreement has a loan to value covenant of 65% and an interest cover test of 1.75. The loan is secured over the Group's properties held by Picton No 2 Limited Partnership and Picton UK Real Estate Trust (Property) No 2 Limited, valued at £353.2 million (2022: £415.2 million). In the prior year a debt prepayment fee of £4.0 million was incurred to reset the interest rate on the Canada Life facility.

Additionally, the Group has a £95.3 million term loan facility with Aviva Commercial Finance Limited which matures in July 2032. The loan is for a term of 20 years and was fully drawn on 24 July 2012 with approximately one-third repayable over the life of the loan in accordance with a scheduled amortisation profile. The Group has repaid £1.4 million in the year (2022: £1.3 million). Interest on the loan is fixed at 4.38% per annum over the life of the loan. The facility has a loan to value covenant of 65% and a debt service cover ratio of 1.4. The facility is secured over the Group's properties held by Picton No 3 Limited Partnership and Picton Property No 3 Limited, valued at £193.6 million (2022: £208.1 million).

The Group also has a £50 million revolving credit facility ("RCF") with National Westminster Bank Plc which matures in May 2025. As at 31 March there was £11.9 million drawn under the facility, interest is charged at 150 basis points over SONIA on drawn balances and there is an undrawn commitment fee of 60 basis points. The facility is secured on properties held by Picton UK Real Estate Trust (Property) Limited, valued at £143.4 million (2022: £163.2 million).

The fair value of the drawn loan facilities at 31 March 2023, estimated as the present value of future cash flows discounted at the market rate of interest at that date, was £201.7 million (2022: £225.6 million). The fair value of the drawn loan facilities is classified as Level 2 under the hierarchy of fair value measurements.

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

The weighted average interest rate on the Group's borrowings as at 31 March 2023 was 3.8% (2022: 3.7%).

Notes to the consolidated financial statements/Continued

19. Contingencies and capital commitments

The Group has entered into contracts for the refurbishment of five properties with commitments outstanding at 31 March 2023 of approximately £2.9 million (2022: £2.4 million). No further obligations to construct or develop investment property or for repairs, maintenance or enhancements were in place as at 31 March 2023 (2022: £nil).

20. Share capital and other reserves

	2023 £000	2022 £000
Authorised:		
Unlimited number of ordinary shares of no par value	-	-
Issued and fully paid:		
547,605,596 ordinary shares of no par value (31 March 2022: 547,605,596)	-	-
Share premium	164,400	164,400

The Company has 547,605,596 ordinary shares in issue of no par value (2022: 547,605,596).

No new ordinary shares were issued during the year ended 31 March 2023.

	2023 Number of shares	2022 Number of shares
Ordinary share capital	547,605,596	547,605,596
Number of shares held in Employee Benefit Trust	(2,388,694)	(1,974,253)
Number of ordinary shares	545,216,902	545,631,343

The fair value of awards made under the Long-term Incentive Plan is recognised in other reserves.

Subject to the solvency test contained in the Companies (Guernsey) Law, 2008 being satisfied, ordinary shareholders are entitled to all dividends declared by the Company and to all of the Company's assets after repayment of its borrowings and ordinary creditors. The Trustee of the Company's Employee Benefit Trust has waived its right to receive dividends on the 2,388,694 shares it holds but continues to hold the right to vote. Ordinary shareholders have the right to vote at meetings of the Company. All ordinary shares carry equal voting rights.

The Directors have authority to buy back up to 14.99% of the Company's ordinary shares in issue, subject to the annual renewal of the authority from shareholders. Any buy-back of ordinary shares will be made subject to Guernsey law, and the making and timing of any buy-backs will be at the absolute discretion of the Board.

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

	2023 £000	2022 £000
Profit on disposal of investment properties	-	(42)
Movement in investment property valuation	110,433	(129,801)
Revaluation of owner-occupied property	382	-
Share-based provisions	675	668
Depreciation of tangible assets	165	165
	111,655	(129,010)

22. Obligations under leases

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

Lease liabilities in respect of rents on leasehold properties were payable as follows:

	2023 £000	2022 £000
Future minimum payments due:		
Within one year	185	185
In the second to fifth years inclusive	740	740
After five years	8,898	9,083
	9,823	10,008
Less: finance charges allocated to future periods	(7,126)	(7,301)
Present value of minimum lease payments	2,697	2,707

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

	2023 £000	2022 £000
Current		
Within one year	114	114
	114	114
Non-current		
In the second to fifth years inclusive	405	410
After five years	2,178	2,183
	2,583	2,593
	2,697	2,707

Operating leases where the Group is lessor

The Group leases its investment properties under commercial property leases which are held as operating leases.

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

	2023 £000	2022 £000
Within one year	43,824	41,928
One to two years	39,548	39,244
Two to three years	34,806	35,416
Three to four years	29,506	29,972
Four to five years	25,454	24,748
After five years	105,675	99,788
	278,813	271,096

These properties are measured under the fair value model as the properties are held to earn rentals. Commercial property leases typically have lease terms between five and ten years and include clauses to enable periodic upward revision of the rental charge according to prevailing market conditions. Some leases contain options to break before the end of the lease term.

23. Net asset value

The net asset value per share calculation uses the number of shares in issue at the year-end and excludes the actual number of shares held by the Employee Benefit Trust at the year-end; see Note 20.

Notes to the consolidated financial statements/Continued

24. Financial instruments

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

Categories of financial instruments

	Notes	Held at fair value through profit or loss £000	Financial assets and liabilities at amortised cost £000	Total £000
31 March 2023				
Financial assets				
Debtors	15	-	4,023	4,023
Cash and cash equivalents	16	-	20,050	20,050
		-	24,073	24,073
Financial liabilities				
Loans and borrowings	18	-	222,764	222,764
Obligations under head leases	22	-	2,697	2,697
Creditors and accruals	17	-	9,035	9,035
		-	234,496	234,496
31 March 2022				
Financial assets				
Debtors	15	-	5,483	5,483
Cash and cash equivalents	16	-	38,547	38,547
		-	44,030	44,030
Financial liabilities				
Loans and borrowings	18	-	216,832	216,832
Obligations under head leases	22	-	2,707	2,707
Creditors and accruals	17	-	9,101	9,101
		-	228,640	228,640

25. Risk management

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

Capital risk management

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

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

The Group monitors capital on the basis of its gearing ratio. This ratio is calculated as the principal borrowings outstanding, as detailed under Note 18, divided by the gross assets. There is a limit of 65% as set out in the Articles of Association of the Company. Gross assets are calculated as non-current and current assets, as shown in the Consolidated Balance Sheet.

25. Risk management/Continued

At the reporting date the gearing ratios were as follows:

	2023 £000	2022 £000
Total borrowings	224,467	218,835
Gross assets	792,556	895,807
Gearing ratio (must not exceed 65%)	28.3%	24.4%

The Board of Directors monitors the return on capital as well as the level of dividends to ordinary shareholders. The Group has managed its capital risk by entering into long-term loan arrangements with different maturities, which will enable the Group to manage its borrowings in an orderly manner over the long-term. The Group also has a revolving credit facility which provides greater flexibility in managing the level of borrowings.

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

	2023 £000	2022 £000
Total liabilities	244,932	238,677
Less: cash and cash equivalents	(20,050)	(38,547)
Net debt	224,882	200,130
Total equity	547,624	657,130
Net debt to equity ratio at end of year	0.41	0.30

Credit risk

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

	Notes	Held at fair value through profit or loss £000	Financial assets and liabilities at amortised cost £000	Total £000
31 March 2023				
Financial assets				
Tenant debtors	15	-	2,855	2,855
Cash and cash equivalents	16	-	20,050	20,050
		-	22,905	22,905

	Notes	Held at fair value through profit or loss £000	Financial assets and liabilities at amortised cost £000	Total £000
31 March 2022				
Financial assets				
Tenant debtors	15	-	4,618	4,618
Cash and cash equivalents	16	-	38,547	38,547
		-	43,165	43,165

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 collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's exposure to and credit ratings of, its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Notes to the consolidated financial statements/Continued

25. Risk management/Continued

Tenant debtors consist of a large number of occupiers, spread across diverse industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of tenant debtors and, where appropriate, credit guarantees or rent deposits are acquired. As at 31 March 2023 tenant rent deposits held by the Group's managing agents in segregated bank accounts totalled £2.6 million (2022: £2.4 million). The Group does not have access to these rent deposits unless the occupier defaults under its lease obligations. Rent collection is outsourced to managing agents who report regularly on payment performance and provide the Group with intelligence on the continuing financial viability of occupiers. The Group does not have any significant concentration risk whether in terms of credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds is limited because the counterparties are banks with strong credit ratings assigned by international credit rating agencies.

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

The Group has a panel of banks with which it makes deposits, based on credit ratings assigned by international credit rating agencies and with set counterparty limits that are reviewed regularly. The Group's main cash balances are held with National Westminster Bank Plc ('NatWest'), Nationwide International Limited ('Nationwide') and Lloyds Bank Plc ('Lloyds'). Insolvency or resolution of the bank holding cash balances may cause the Group's recovery of cash held by them to be delayed or limited. The Group manages its risk by monitoring the credit quality of its bankers on an ongoing basis. NatWest, Nationwide and Lloyds are rated by all the major rating agencies. If the credit quality of any of these banks were to deteriorate, the Group would look to move the relevant short-term deposits or cash to another bank. Procedures exist to ensure that cash balances are split between banks to minimise exposure. At 31 March 2023 and at 31 March 2022, Standard & Poor's short-term credit rating for each of the Group's bankers was A-1.

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

Liquidity risk

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

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

	Less than 1 year £000	1 to 5 years £000	More than 5 years £000	Total £000
31 March 2023				
Cash and cash equivalents	20,652	-	-	20,652
Debtors	4,023	-	-	4,023
Capitalised finance costs	304	785	614	1,703
Obligations under head leases	(185)	(740)	(8,898)	(9,823)
Fixed interest rate loans	(9,262)	(37,049)	(233,629)	(279,940)
Floating interest rate loans	(690)	(12,696)	-	(13,386)
Creditors and accruals	(9,035)	-	-	(9,035)
	5,807	(49,700)	(241,913)	(285,806)
	Less than 1 year £000	1 to 5 years £000	More than 5 years £000	Total £000
31 March 2022				
Cash and cash equivalents	38,547	-	-	38,547
Debtors	5,483	-	-	5,483
Capitalised finance costs	304	934	765	2,003
Obligations under head leases	(185)	(740)	(9,083)	(10,008)
Fixed interest rate loans	(8,524)	(37,049)	(242,891)	(288,464)
Floating interest rate loans	(113)	(5,031)	-	(5,144)
Creditors and accruals	(9,101)	-	-	(9,101)
	26,411	(41,886)	(251,209)	(266,684)

The Group expects to meet its financial liabilities through the various available liquidity sources, including a secure rental income profile, asset sales, undrawn committed borrowing facilities and, in the longer-term, debt refinancing.

25. Risk management/Continued

Market risk

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

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

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

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

The valuation of the Group's property assets is subject to changes in market conditions. Such changes are taken to the Consolidated Statement of Comprehensive Income and thus impact on the Group's net result. A 5% increase or decrease in property values would increase or decrease the Group's net result by £38.3 million (2022: £42.5 million).

Interest rate risk management

Interest rate risk arises on interest payable on the revolving credit facility only. The Group's senior debt facilities have fixed interest rates over the terms of the loans. The amount drawn under the revolving credit facility makes up a small proportion of the overall debt, the Group therefore has limited exposure to interest rate risk on its borrowings and no sensitivity is presented.

Interest rate risk

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

	Less than 1 year £000	1 to 5 years £000	More than 5 years £000	Total £000
31 March 2023				
Floating				
Cash and cash equivalents	20,050	-	-	20,050
Secured loan facilities	-	(11,900)	-	(11,900)
Fixed				
Secured loan facilities	(1,433)	(6,401)	(204,733)	(212,567)
Obligations under leases	(114)	(405)	(2,178)	(2,697)
	18,503	(18,706)	(206,911)	(207,114)
31 March 2022				
Floating				
Cash and cash equivalents	38,547	-	-	38,547
Secured loan facilities	-	(4,900)	-	(4,900)
Fixed				
Secured loan facilities	(1,372)	(6,127)	(206,436)	(213,935)
Obligations under leases	(114)	(410)	(2,183)	(2,707)
	37,061	(11,437)	(208,619)	(182,995)

Notes to the consolidated financial statements/Continued

25. Risk management/Continued

Concentration risk

As discussed above, all of the Group's investments are in the UK and therefore the Group is exposed to macroeconomic changes in the UK economy. Furthermore, the Group derives its rental income from around 400 occupiers, although the largest occupier accounts for only 4.8% of the Group's annual contracted rental income.

Currency risk

The Group has no exposure to foreign currency risk.

26. Related party transactions

The total fees earned during the year by the Non-Executive Directors of the Company amounted to £275,000 (2022: £275,000). As at 31 March 2023, the Group owed £nil to the Non-Executive Directors (2022: £nil).

The remuneration of the Executive Directors is set out in note 7 and in the Annual Remuneration Report.

Picton Property Income Limited has no controlling parties.

27. Events after the Balance Sheet date

A dividend of £4,771,000 (0.875 pence per share) was approved by the Board on 25 April 2023 and will be paid on 31 May 2023.

A further £3,000,000 was drawn down under the revolving credit facility with National Westminster Bank Plc on 3 May 2023.

EPRA BPR and supplementary disclosures (unaudited)

for the year ended 31 March 2023

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

EPRA performance measures

Measure	Definition for EPRA measure	2023	2022
EPRA earnings	Recurring earnings from core operational activities.	£21.3m	£21.2m
EPRA earnings per share	EPRA earnings per weighted number of ordinary shares.	3.9p	3.9p
EPRA net reinstatement value (NRV)	Assumes assets are never sold and aims to represent the value required to rebuild the entity.	110p	131p
EPRA net tangible assets (NTA)	Assumes entities buy and sell assets, thereby crystallising certain levels of deferred tax liability.	100p	120p
EPRA net disposal value (NDV)	Represents the shareholders' value under a disposal scenario.	105p	119p
EPRA net initial yield	Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property.	5.0%	4.1%
EPRA 'topped up' net initial yield	This measure incorporates an adjustment to the EPRA NIY in respect of the expiration of rent-free periods (or other unexpired lease incentives).	5.5%	4.8%
EPRA vacancy rate	Estimated Market Rental Value (ERV) of vacant space divided by ERV of the whole portfolio.	9.5%	7.2%
EPRA cost ratio	Administrative & operating costs (including costs of direct vacancy) divided by gross rental income.	29.9%	26.0%
	Administrative & operating costs (excluding costs of direct vacancy) divided by gross rental income.	21.3%	19.9%
EPRA LTV	Debt divided by market value of the property.	27.0%	21.3%

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.

	2023 £000	2022 £000	2021 £000
(Loss)/profit for the year after taxation	(89,530)	146,986	33,801
Exclude:			
Investment property valuation movement	110,433	(129,801)	(12,861)
Gains on disposal of investment properties	-	(42)	(868)
Revaluation of owner-occupied property	382	-	-
Debt prepayment fees	-	4,045	-
EPRA earnings	21,285	21,188	20,072
Weighted average number of shares in issue (000s)	545,378	545,904	545,591
EPRA earnings per share	3.9p	3.9p	3.7p

EPRA NRV per share

The EPRA net reinstatement value measure highlights the value of net assets on a long-term basis. Assets and liabilities that are not expected to crystallise in normal circumstances such as the fair value of financial derivatives and deferred taxes on property valuation surpluses are therefore excluded. Since the aim of the metric is to also reflect what would be needed to recreate the Company through the investment market based on its current capital and financing structure, related costs such as real estate transfer taxes should be included.

	2023 £000	2022 £000	2021 £000
Balance Sheet net assets	547,624	657,130	528,197
Purchasers' costs	52,759	57,449	46,029
Fair value of debt	-	-	-
Deferred tax	-	-	-
EPRA NRV	600,383	714,579	574,226
Shares in issue (000s)	545,217	545,631	545,553
EPRA NRV per share	110p	131p	105p

EPRA BPR and supplementary disclosures (unaudited)/Continued

for the year ended 31 March 2023

EPRA NTA per share

The EPRA net tangible assets calculation assumes entities buy and sell assets, thereby crystallising certain levels of deferred tax liability. EPRA NTA is regarded as the most relevant metric for the business as this focuses on reflecting a company's tangible assets.

	2023 £000	2022 £000	2021 £000
Balance Sheet net assets	547,624	657,130	528,197
Fair value of financial instruments	-	-	-
Deferred tax	-	-	-
EPRA NTA	547,624	657,130	528,197
Shares in issue (000s)	545,217	545,631	545,553
EPRA NTA per share	100p	120p	97p

EPRA NDV per share

The EPRA net disposal value shows the impact to shareholder value if company assets are sold and/or liabilities are not held until maturity.

	2023 £000	2022 £000	2021 £000
Balance Sheet net assets	547,624	657,130	528,197
Fair value of debt	22,793	(6,766)	(21,012)
EPRA NDV	570,417	650,364	507,185
Shares in issue (000s)	545,217	545,631	545,553
EPRA NDV per share	105p	119p	93p

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.

	2023 £000	2022 £000	2021 £000
Investment property valuation	766,235	849,325	682,410
Allowance for estimated purchasers' costs	52,759	57,449	46,029
Gross up property portfolio valuation	818,994	906,774	728,439
Annualised cash passing rental income	43,336	38,676	36,504
Property outgoings	(2,125)	(1,721)	(1,860)
Annualised net rents	41,211	36,955	34,644
EPRA net initial yield	5.0%	4.1%	4.8%

EPRA 'topped-up' net initial yield

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

	2023 £000	2022 £000	2021 £000
EPRA NIY annualised net rents	41,211	36,955	34,644
Annualised cash rent that will apply at expiry of lease incentives	4,057	6,415	5,411
Topped-up annualised net rents	45,268	43,370	40,055
EPRA 'topped-up' NIY	5.5%	4.8%	5.5%

EPRA vacancy rate

The EPRA vacancy rate is the estimated rental value (ERV) of vacant space divided by the ERV of the whole property, expressed as a percentage. There are no significant distorting factors influencing the EPRA vacancy rate.

	2023 £000	2022 £000	2021 £000
Annualised potential rental value of vacant premises	5,311	3,594	3,980
Annualised potential rental value for the complete property portfolio	55,774	49,776	45,357
EPRA vacancy rate	9.5%	7.2%	8.8%

EPRA cost ratio

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

	2023 £000	2022 £000	2021 £000
Property operating costs	3,491	2,477	2,384
Property void costs	3,647	2,409	2,199
Administrative expenses	5,955	5,755	5,388
Less:			
Ground rent costs	(376)	(283)	(207)
EPRA costs (including direct vacancy costs)	12,717	10,358	9,764
Property void costs	(3,647)	(2,409)	(2,199)
EPRA costs (excluding direct vacancy costs)	9,070	7,949	7,565
Gross rental income	42,964	40,133	36,558
Less ground rent costs	(376)	(283)	(207)
Gross rental income	42,588	39,850	36,351
EPRA cost ratio (including direct vacancy costs)	29.9%	26.0%	26.9%
EPRA cost ratio (excluding direct vacancy costs)	21.3%	19.9%	20.8%

The Company has not capitalised any overhead or operating expenses in the accounting years disclosed above.

Only costs directly associated with the purchase or construction of properties as well as subsequent value-enhancing capital expenditure are capitalised.

Capital expenditure

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

	2023			2022		
	Group £000	Joint ventures £000	Total Group £000	Group £000	Joint ventures £000	Total Group £000
Acquisitions	20,613	-	20,613	25,005	-	25,005
Development	-	-	-	-	-	-
Investment properties						
Incremental lettable space	-	-	-	-	-	-
No incremental lettable space	6,135	-	6,135	9,551	-	9,551
Tenant incentives	-	-	-	-	-	-
Other material non-allocated types of expenditure	-	-	-	-	-	-
Total capital expenditure	26,748	-	26,748	34,556	-	34,556
Conversion from accrual to cash basis	-	-	-	-	-	-
Total capital expenditure on cash basis	26,748	-	26,748	34,556	-	34,556

EPRA BPR and supplementary disclosures (unaudited)/Continued

for the year ended 31 March 2023

EPRA like-for-like rental growth

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

	Rental income from like-for-like portfolio 2023 £000	Rental income from like-for-like portfolio 2022 £000	Like-for-like rental growth £000	Like-for-like rental growth %
Industrial	20,658	20,044	614	3.1
Office	16,162	15,946	216	1.4
Retail and Leisure	7,781	7,490	291	3.9
Total	44,601	43,480	1,121	2.6

The like-for-like rental growth is based on changes in rental income for those properties which have been held for the duration of both the current and prior reporting years. This represents a portfolio valuation, as assessed by the valuer, of £747.1 million (2022: £849.3 million).

EPRA LTV

EPRA loan to value's aim is to assess the gearing of the shareholder equity within a real estate company.

	2023 £000	2022 £000	2021 £000
Loans and borrowings	222,764	216,832	163,655
Less:			
Cash and cash equivalents	(20,050)	(38,547)	(23,358)
Net debt	202,714	178,285	140,297
Investment properties (excluding head lease right of use asset)	744,261	827,790	664,105
Property, plant and equipment	3,415	4,383	4,111
Net receivable ¹	3,278	3,712	779
Total property value	750,954	835,885	668,995
EPRA LTV	27.0%	21.3%	21.0%

¹ Net receivable is calculated as the net position of the following line items shown on the Balance Sheet: accounts receivable and accounts payable and accruals.

Loan to value

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

	2023 £000	2022 £000	2021 £000
Total borrowings	224,467	218,835	166,207
Less:			
Cash and cash equivalents	(20,050)	(38,547)	(23,358)
Total net borrowings	204,417	180,288	142,849
Investment property valuation	766,235	849,325	682,410
Loan to value	26.7%	21.2%	20.9%

Cost ratio

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

	2023 £000	2022 £000	2021 £000
Administrative expenses	5,955	5,755	5,388
Average net asset value over the year	602,822	598,022	514,574
Cost ratio	1.0%	1.0%	1.0%

Property portfolio

Properties valued in excess of £100 million

- Parkbury Industrial Estate, Radlett, Herts.

Properties valued between £50 million and £75 million

- River Way Industrial Estate, River Way, Harlow, Essex

Properties valued between £30 million and £50 million

- Angel Gate, City Road, London EC1
- Stanford Building, Long Acre, London WC2
- Express Business Park, Shipton Way, Rushden, Northants.

Properties valued between £20 million and £30 million

- Datapoint, Cody Road, London E16
- Lyon Business Park, Barking, Essex
- Tower Wharf, Cheese Lane, Bristol
- 50 Farringdon Road, London EC1
- Sundon Business Park, Dencora Way, Luton, Beds.
- 30 & 50 Pembroke Court, Chatham, Kent

Properties valued between £10 million and £20 million

- Grantham Book Services, Trent Road, Grantham, Lincs.
- The Business Centre, Molly Millars Lane, Wokingham, Berks.
- Colchester Business Park, The Crescent, Colchester, Essex
- Metro, Salford Quays, Manchester
- 180 West George Street, Glasgow
- B&Q, Queens Road, Sheffield
- Nonsuch Industrial Estate, Kiln Lane, Epsom, Surrey
- Parc Tawe North Retail Park, Link Road, Swansea
- Vigo 250, Birtley Road, Washington, Tyne and Wear
- Gloucester Retail Park, Eastern Avenue, Gloucester
- Madleaze Trading Estate, Bristol Road, Gloucester
- Charlotte Terrace, 99-119 Hammersmith Road, London W14
- 401 Grafton Gate East, Milton Keynes, Bucks.
- Mill Place Trading Estate, Bristol Road, Gloucester
- Swiftbox, Haynes Way, Rugby, Warwickshire
- Easter Court, Europa Boulevard, Warrington

Properties valued between £5 million and £10 million

- Units 1 & 2, Kettlestring Lane, York
- Units 1 & 2, Western Industrial Estate, Downmill Road, Bracknell, Berks.
- Angouleme Retail Park, George Street, Bury, Greater Manchester
- Queen's House, St Vincent Place, Glasgow
- Longcross, Newport Road, Cardiff
- Regency Wharf, Broad Street, Birmingham
- Trident House, Victoria Street, St Albans, Herts.
- Thistle Express, The Mall, Luton, Beds.
- 109-117 High Street, Cheltenham

Properties valued under £5 million

- Atlas House, Third Avenue, Marlow, Bucks.
- Crown & Mitre Complex, English Street, Carlisle, Cumbria
- Scots Corner, High Street, Kings Heath, Birmingham
- Sentinel House, Harvest Crescent, Fleet, Hants.
- Abbey Business Park, Mill Road, Newtownabbey, Belfast
- Waterside House, Kirkstall Road, Leeds
- 53-57 Broadmead, Bristol
- Magnet Trade Centre, 6 Kingstreet Lane, Reading
- 78-80 Briggate, Leeds
- 17-19 Fishergate, Preston, Lancs.
- 72-78 Murraygate, Dundee
- 7-9 Warren Street, Stockport
- 6-12 Parliament Row, Hanley, Staffs.

Five year financial summary

	2023	2022	2021	2020	2019
Income statements					
Net property income	36.3	35.4	33.5	33.6	38.3
Administrative expenses	(6.0)	(5.7)	(5.4)	(5.6)	(5.6)
Exceptional costs	-	-	-	-	(0.2)
	30.3	29.7	28.1	28.0	32.5
Net finance costs	(9.0)	(8.5)	(8.0)	(8.2)	(9.1)
Income profit before tax					
	21.3	21.2	20.1	19.8	23.4
Tax	-	-	-	0.1	(0.5)
Income profit					
	21.3	21.2	20.1	19.9	22.9
Property gains and losses	(110.4)	129.8	13.7	2.6	11.3
Revaluation of owner-occupied property	(0.8)	0.4	-	-	-
Debt prepayment fee	-	(4.0)	-	-	(3.2)
Profit/loss after tax					
	(89.9)	147.4	33.8	22.5	31.0
Dividends paid	19.1	18.4	15.0	19.0	18.9
Balance Sheets					
	746.3	830.0	665.4	654.5	676.1
Investment properties	(222.8)	(216.8)	(166.2)	(167.5)	(194.7)
Borrowings	24.1	43.9	29.0	22.3	18.0
Other assets and liabilities					
Net assets					
	547.6	657.1	528.2	509.3	499.4
Net asset value per share (pence)	100	120	97	93	93
EPRA net tangible asset per share (pence)	100	120	97	93	93
Earnings per share (pence)	(16.5)	27.0	6.2	4.1	5.7
Dividends per share (pence)	3.5	3.4	2.8	3.5	3.5
Dividend cover (%)	112	115	134	105	122
Share price (pence)	69.3	98.3	85.8	89.0	89.2

All figures are in £ million unless otherwise stated.

Glossary

Asset IQ	A CBRE product that monitors the use of building systems.
Better Buildings Partnership (BBP)	A collaboration of UK commercial property owners working to improve sustainability of building stock.
BMS (Building Management System)	A computer-based control system installed in buildings that control and monitor the building's mechanical and electrical equipment such as ventilation, lighting, power systems, fire systems and security systems.
BREEAM (Building Research Establishment Environmental Assessment Method)	An established sustainability rating assessment for projects, infrastructure and buildings. It assesses assets across their life cycle, from new construction to in-use and refurbishment. www.breeam.com
CO₂ (carbon dioxide)	The most abundant greenhouse gas in our planet's atmosphere. It is often the benchmark gas measured for defining a company's emissions.
Contracted rent	The contracted gross rent receivable which becomes payable after all the occupier incentives in the letting have expired.
Cost ratio	Total operating expenses, excluding one-off costs, as a percentage of the average net asset value over the period.
CRREM (Carbon Risk Real Estate Monitor)	Provides the real estate industry with transparent, science-based decarbonization pathways aligned with the Paris Climate Goals of limiting global temperature rise to 2°C, with ambition towards 1.5°C.
Dividend cover	EPRA earnings divided by dividends paid.
DTR	Disclosure and Transparency Rules, issued by the United Kingdom Listing Authority.
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)	A certificate which provides a rating based on set criteria to measure the energy efficiency of a lettable unit. The scale ranges from A-G.
EPRA	European Public Real Estate Association, the industry body representing listed companies in the real estate sector.
ESG (Environmental, Social, Governance)	A framework that socially conscious investors use to screen potential investments. Environmental criteria consider how a company performs as a steward of nature. Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates. Governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights.
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.
EUI (Energy Use Intensity)	Amount of energy used per square foot annually.
EV (electric vehicle)	A vehicle powered using a battery, solar panels, fuel cells or electric generator.
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.
GHG	Greenhouse gas.
GHG absolute	Total GHG emissions.
GHG intensity	A normalised metric set against an economic output such as number of employees, revenue or area. Allows for an emission reduction target to be set which accounts for economic growth.
GRESB (Global Real Estate Sustainability Benchmarking)	An investor-driven organisation assessing the sustainability performance of the real estate sector, through detailed analysis of ESG metrics from the corporate to the individual asset level. www.gresb.com

Glossary/Continued

Grid decarbonisation	Refers to the changing methods of grid power generation which rely less on fossil fuels and more on renewable/sustainable energy sources resulting in fewer emissions per unit of electricity generated.
Group	Picton Property Income Limited and its subsidiaries.
IASB	International Accounting Standards Board.
IFRS	International Financial Reporting Standards.
Initial yield	Annual cash rents receivable (net of head rents and the cost of vacancy), as a percentage of gross property value, as provided by the Group's external valuers. Rents receivable following the expiry of rent-free periods are not included.
ISO (International Organization for Standardization)	An independent, non-governmental international organisation with a membership of 164 national standards bodies, that develops voluntary, consensus-based, market relevant international standards that support innovation and provide solutions to global challenges.
kg/CO₂/m²	A measure of emissions intensity.
kWh (kilowatt hour)	A standard unit for measuring electricity consumption.
kWh/m²/year	A unit of measure of a property based on the annual electricity consumption by a single square metre. The aggregation of energy in this way allows for a direct comparison between properties.
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.
LED (light emitting diode)	An energy efficient type of light bulb.
MEES (Minimum Energy Efficiency Standards)	A piece of legislation set by the UK Government. From April 2018 a landlord is unable to renew or grant a new tenancy (over six months) if the property has an Energy Performance Certificate (EPC) rating of F or G.
MSCI	An organisation supplying independent market indices and portfolio benchmarks to the property industry.
MWp (megawatt peak)	A unit of measurement for the output of power from a source such as solar or wind where the output may vary.
NAV	Net asset value is the equity attributable to shareholders calculated under IFRS.
Net zero carbon	The point at which the amount of carbon being released into the atmosphere is equal to the amount removed from the atmosphere.
Offsetting	The process of removing carbon from the atmosphere to balance emissions into the atmosphere.
Over-rented	Space where the passing rent is above the ERV.
Passing rent	The annual rental income currently receivable as at the Balance Sheet date. Excludes rental income where a rent-free period is in operation.
PIR – (passive infrared sensor)	A device used to allow automatic lighting control.
PRI (Principles for Responsible Investment)	A global proponent of responsible investment that supports an international network of investors to incorporate ESG factors into their investment and ownership decisions.
Property income return	The ungeared income return of the portfolio as calculated by MSCI.
PV (photovoltaic)	Photovoltaic (PV) materials and devices that convert sunlight into electrical energy.
RCP (Representative Concentration Pathway)	Four pathways developed for the climate modelling community to assess a number of different climate scenarios.
REGO (Renewable Energy Guarantees of Origin)	A scheme which demonstrate electricity has been generated from renewable sources.
Reversionary yield	The estimated rental value as a percentage of the gross property value.
Scope 1 emissions	Direct emissions from owned or controlled sources, for example from gas and oil.

Scope 2 emissions	Scope 2 emissions are indirect emissions from the generation of purchased energy, for example from electricity.
Scope 3 emissions	All indirect emissions (not included in Scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions (e.g. occupier emissions).
TCFD (Task Force on Climate-related Financial Disclosures)	A framework to help public companies disclose climate-related risks.
tCO₂e	Tonnes of carbon dioxide equivalent, which is a measure that allows you to compare the emissions of other greenhouse gases relative to one unit of CO ₂ . It is calculated by multiplying the greenhouse gas's emissions by its 100-year global warming potential.
Total property return	Combined income and capital return from the property portfolio.
Total return	The change in the Group's net asset value, in accordance with IFRS, plus dividends paid.
Total shareholder return	Measures the change in share price over the year plus dividends paid.
UKGBC (UK Green Building Council)	A charity launched by the construction industry to promote sustainability across the built environment value chain.
Weighted average debt maturity	Each tranche of Group debt is multiplied by the remaining period to its maturity and the result is divided by total Group debt in issue at the period end.
Weighted average interest rate	The Group loan interest per annum at the period end, divided by total Group debt in issue at the period end.
Weighted average lease term	The average lease term remaining to first break, or expiry, across the portfolio weighted by contracted rental income.

Financial calendar

Annual results announced	25 May 2023
Annual results posted to shareholders	June 2023
June 2023 NAV announcement	July 2023
Annual General Meeting	September 2023
2023 half-year results to be announced	November 2023
December 2023 NAV announcement	January 2024
Dividend payment dates	August/November/February/May

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

Website

The Company has a corporate website which contains more detailed information about the Group.

www.picton.co.uk

Notes

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This product is made using recycled materials limiting the impact on our precious forest resources, helping reduce the need to harvest more trees.

100% of the inks used are HP Indigo ElectroInk which complies with RoHS legislation and meets the chemical requirements of the Nordic Ecolabel (Nordic Swan) for printing companies, 95% of press chemicals are recycled for further use and, on average 99% of any waste associated with this production will be recycled and the remaining 1% used to generate energy.

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