Full year results 2017

Shaftesbury

SHAFTESBURY 2017 FULL YEAR RESULTS
Good growth in key financials. Proven strategy delivers strong shareholder returns

Shaftesbury, the Real Estate Investment Trust and owner of an exceptional 14.5 acre property portfolio in the heart of London's West End, today announces its results for the year ended 30 September 2017.

Highlights

- **EPRA EPS[3]: 16.2p (2016: 14.0p), +15.7%, reflecting relentless management activity and the benefit of refinancing initiatives.**
- **Total dividend increased by 8.8% to 16.0p (2016: 14.7p).**
- **EPRA NAV[3]: £9.52 (2016: £8.88), +7.2%, driven by portfolio valuation surplus less exceptional refinancing charge.**
- **Occupier demand remains healthy and typical-sized space is letting well.**
- **Good progress with our three larger schemes – 46% of completed space now let or under offer.**
- **Total portfolio[3] now valued at £3.64 billion; 7% like-for-like increase reflecting continuing growth in contracted and potential income, prospects for sustained long-term growth and sharpening of demand in our locations.**
- **Investment in our exceptional portfolio[1] of £78.6 million and strategic forward purchase of 90-104 Berwick Street contracted. Disposals of non-core assets: £13.8m.**
- **Refinancing of remaining legacy debt and hedging completed. Blended cost of debt[1,3] down from 4.5% to 3.3%.**
- **Well positioned to continue to deliver on consistent and long-term proven strategy**

Brian Bickell, Chief Executive, commented:

"It is pleasing to report another year of good progress and strong results, against a backdrop of economic uncertainty.

The broad economic base of the West End, and its enduring global appeal to visitors and businesses, underpin its resilience and long-term prospects, providing a considerable degree of protection against national economic headwinds. This has been evident in the strength of our performance through different business cycles and operating environments in our 31-year history.

Underwritten by the unique features of the West End, we are confident our strategy will continue our long record of growing our exceptional portfolio's income and value, and, in turn, the returns we deliver to our shareholders."

Growth in income, earnings, dividend and NAV

Statement of Comprehensive Income		2017	2016	Change
Reported results				
Net property income	£m	**88.3**	84.1	+5.0%
Profit after tax	£m	**301.6**	99.1	+204.3%
Basic earnings per share	Pence	**108.1**	35.6	+203.7%
Final dividend per share	Pence	**8.1**	7.55	+7.3%
Total dividends for the year	Pence	**16.0**	14.7	+8.8%
EPRA results[2,3]				
Earnings	£m	**45.2**	39.0	+15.9%
Earnings per share	Pence	**16.2**	14.0	+15.7%

- Dividend fully covered by EPRA earnings per share[3] and adjusted earnings per share[3,4]

Balance Sheet		2017	2016	Change
Reported				
Net assets	£m	**2,647**	2,387	+10.9%
Net asset value per share[3]	£	**9.49**	8.57	+10.7%
EPRA[2,3]				
Net assets	£m	**2,665**	2,482	+7.4%
Net asset value per share	£	**9.52**	8.88	+7.2%
NAV return	%	**8.9%**	3.8%	

Continued growth in contracted rents, ERVs and portfolio value[1]

- Portfolio valuation[3]: £3.64 billion. Capital value growth[3,5]: +7.0% (2016: +4.0%).
- Current annualised income up to £114.1 million (2016: £109.6 million) after like-for-like growth of 3.9% (2016: 6.2%). 10-year CAGR: 4.9%.
- ERV increased by £5.8 million to £144.5 million (2016: £138.7 million). Like-for-like growth: 3.5% (2016: +5.7%). CAGR[5] over 10 years: 4.6%.
- Portfolio reversionary potential has grown by £1.3 million to £30.4 million, 26.6% above current annualised income, of which £9.6 million relates to refurbishment schemes in progress at 30 September 2017.
- Equivalent yields:
  - Wholly-owned portfolio: 11 basis points compression to 3.46% (2016: 3.57%);
  - Longmartin joint venture: broadly unchanged at 3.80% (2016: 3.79%).

Healthy demand for space. Good letting progress at larger schemes

- Commercial lettings, lease renewals and rent reviews[6] (rental value: £23.8 million) concluded at an average 6.7% above 30 September 2016 ERV.
- At our three larger schemes, 46% of completed space (by ERV) now let or under offer. Marketing of remaining space continues.
- EPRA vacancy[6] at 30 September 2017: 6.0% of ERV, including 3.5% in respect of completed larger schemes. 0.8% of EPRA vacancy was under offer. Vacancy, excluding larger schemes, in line with 10-year average.

Further investment in our portfolio

- Redevelopment and refurbishment schemes (wholly-owned portfolio) during the period across 249,400 sq. ft. (13.7% of floor space). Capital expenditure[6]: £40.3 million. Our share of capital expenditure in the Longmartin joint venture: £1.2 million.
- 57 Broadwick Street progressing well with anticipated completion early next year. Restaurant space has been let, and retail space is under offer (together, 43% of scheme ERV). Office space being marketed.
- 47 other schemes (95,300 sq. ft.) underway at 30 September 2017, representing 4.9% of ERV[6].
- Continuing to identify further asset management initiatives across the portfolio to increase rental potential and unlock value.
- Acquisitions, totalling £37.1 million, of properties offering potential for good rental and capital growth. Forward purchase agreement to acquire 90-104 Berwick Street for £38.5 million. Expected completion: late 2018.
- Disposals of non-core assets, totalling £13.8 million, at 12.6% above book value at 30 September 2016. Profit on disposal: £1.1 million.

Bond issuance to increase our resources and refinance remaining legacy debt and hedging

- £575 million of long-dated bonds issued at a blended rate of 2.417%.
- Remainder of our legacy debt and hedging refinanced.
- Loan-to-value ratio[1,3,7]: 26.7% (2016: 24.2%).
- Weighted average maturity of debt[1,3]: 10.3 years (2016: 9.2 years).
- Blended cost of debt[1,3]: 3.3% (2016: 4.5%). Marginal cost on undrawn facilities: 1.2%.

27 November 2017

For further information:

Shaftesbury PLC 020 7333 8118

Brian Bickell, Chief Executive

Chris Ward, Finance Director

RMS Partners 020 3735 6551

Simon Courtenay

MHP Communications 020 3128 8100

Andrew Leach/Reg Hoare

1. Includes 50% of the Longmartin joint venture.
2. Calculated in accordance with EPRA Best Practice Recommendations.
3. An alternative performance measure ("APM"). The Group uses a number of measures to assess and explain its performance, some of which are considered to be APMs as they are not defined under IFRS. See page 25
4. After adding back the non-cash accounting charge for share options.
5. Like-for-like.
6. Wholly-owned portfolio.
7. Based on net debt.

See Glossary of terms on pages 52 to 54.

This announcement includes inside information.

There will be a presentation to equity analysts at 10 am on Tuesday 28 November 2017, at The London Stock Exchange, 10 Paternoster Square, London EC4M 7LS.

There is a live audio webcast of the analyst presentation, which you can access via the following link: https://goo.gl/5uRrqM or from our website. A playback facility of this presentation will be available on the Group's website www.shaftesbury.co.uk by the end of the day. The presentation document is available on the Group's website.

Bondholders

For bondholders, there will be a conference call at 4:30 pm on 6 December 2017 and a portfolio tour at 1.30 pm on 14 December. If you would like to participate in either of these, please contact Gill Smith on 020 7333 8118.

About Shaftesbury

Shaftesbury PLC is a Real Estate Investment Trust, which invests exclusively in the liveliest parts of London's West End. Our objective is to deliver long-term growth in rental income, capital values and shareholder returns. Focussed on restaurants, leisure and retail, our exceptional portfolio extends to 14.5 acres, clustered mainly in Carnaby, Seven Dials and Chinatown, with substantial ownerships in east and west Covent Garden, Soho and Fitzrovia.

In addition, we have a 50% interest in the Longmartin joint venture with The Mercers' Company, which has a long leasehold interest, extending to 1.9 acres, in St Martin's Courtyard in Covent Garden.

Our proven management strategy is to create and foster distinctive, attractive and prosperous locations. It is implemented by an experienced management team with an innovative approach to long-term, sustainable income and value creation, and a focus on shareholder returns. We have a strong balance sheet with conservative leverage.

Forward-looking statements

This document may contain certain 'forward-looking' statements. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Actual outcomes and results may differ materially from any outcomes or results expressed or implied by such forward-looking statements.

Any forward-looking statements made by, or on behalf of, Shaftesbury PLC speak only as of the date they are made and no representation or warranty is given in relation to them, including as to their completeness or accuracy or the basis on which they were prepared. Shaftesbury PLC does not undertake to update forward-looking statements to reflect any changes in its expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based.

Information contained in this document relating to Shaftesbury PLC or its share price, or the yield on its shares, should not be relied upon as an indicator of future performance.

Ends.

Chief Executive's Statement

It is pleasing to report another year of good progress and strong results, against a backdrop of economic uncertainty.

+15.9%	+8.8%	+7.2%
£45.2m	**16.0p**	**£9.52**
EPRA earnings[1]	Dividends per share	EPRA NAV per share[1]

Growing earnings

Continued demand for space in our popular and busy locations, together with our proven management strategy, has resulted in an increase in net property income of 5.0% to £88.3 million. We are now reaping the benefits of the important refinancing initiatives we completed in October last year, which significantly reduced our finance costs. Together, these factors have contributed to an increase in EPRA earnings[1] of £6.2 million to £45.2 million, which equates to an increase in EPRA earnings per share[1] of 15.7%.

Uplift in NAV

Our exceptional portfolio has delivered underlying capital value growth of 7.0% over the year, adding 83 pence (9.3%) to EPRA net asset value per share. The increase in value reflects the combined impact of growing current income and the prospect of sustained future income growth, particularly in locations which are expected to benefit from Crossrail-related footfall in the coming years. Limited opportunities to buy the type of buildings we own, and continuing strong investor demand, have led to a reduction in investment yields in the West End market, particularly in the second half of the year.

This valuation uplift has been offset partly by the cost of terminating our remaining legacy interest rate swaps, which amounted to 20 pence per share. At 30 September 2017, EPRA NAV per share[1] stood at £9.52, an increase of 64 pence, or 7.2%.

A unique portfolio in an exceptional location

Our portfolio extends to some 600 buildings across 14½ acres of London's West End.

Our investment strategy is focussed on restaurants, leisure and retail, uses which, in the West End, have a long record of resilience and growth. Our long-term management strategy of assembling clusters of ownerships enables us to curate and promote distinctive destinations which offer a wide variety of innovative, mid-market choices in dining, leisure and retail.

London is the largest city in western Europe and most visited city in the western world, with an estimated 19.1 million international visitors in 2016. Current forecasts point to a growth in tourist numbers of around 3.5% per annum through to 2025.

Located at its heart is the West End, with its exceptional variety of visitor attractions, from cultural and historic to dining and shopping. The exceptional numbers of domestic and international visitors, together with a large local working population, mean that the West End is busy seven-days-a-week, throughout the year. It offers a prosperous trading environment for our occupiers, attracting demand for space and sustaining growth in our rental values and income.

Within the West End, the availability of space, particularly for restaurant, leisure and retail uses, is constrained by local planning and other policies. This structural imbalance between demand for, and availability of, space is fundamental to our portfolio's rental and capital value prospects.

1 Alternative performance measures (APMs). See page 25.

The West End economy

In our long experience, the breadth of the West End's economy provides considerable protection from the cyclicality and headwinds experienced by the UK national economy.

Over the year, business and consumer confidence has begun to come under pressure, and growth in the national economy is slowing. However, conditions in the West End have so far largely been unaffected. In particular, weakness in sterling has provided a boost to the spending power of international visitors as well as increasing visitor numbers. Our restaurants, cafés, bars and shops are reporting resilient trading growth, better enabling them to absorb upward pressures on operating costs currently faced by all businesses.

Demand for the smaller accommodation that traditionally we offer is healthy. Lettings, lease renewals and rent reviews are being concluded on terms in line with our expectations, and vacancy levels have remained in line with our long-term trend of 3%, or less, of portfolio ERV.

We are making good progress at our three larger schemes. 46% by ERV of the completed space is now either let or under offer and marketing of the remaining space continues. This larger space we are offering requires occupiers to invest significant sums in fit-out and take on substantial rental commitments and we expect letting periods to be longer than for smaller space. Macro-economic uncertainties are now showing signs of slowing potential occupiers' decision–making processes. We shall be patient in selecting occupiers which match our long-term aspirations.

The widely reported increase in national business rates took effect in April 2017. As we anticipated, average increases for our occupiers were in the range of 30% to 40%, with a large number of our smaller tenants able to benefit from a four-year transition period. Occupiers of large space on streets where rental levels are above our average have seen greater increases, and only limited transition provisions. Despite these unwelcome increases in operating costs for our tenants, we have not seen any direct impact on occupancy levels or interest in leasing space.

During the year, we concluded £31.1 million of leasing transactions, achieving rents for commercial space 6.7% above ERV at the previous year end. This is not only converting an element of our reversionary potential in to contracted income, but it also provides valuable evidence to increase rental tones and grow income from our adjacent and nearby buildings.

West End connectivity and infrastructure

The completion of Crossrail 1 is now a year away, with the first services on the Elizabeth line expected in December 2018. Once fully operational, this important addition to London's transport network will add 10% to its capacity, and materially improve accessibility to the West End. Over the medium term, we expect the new transport hubs at Tottenham Court Road and Bond Street will result in significant changes to traditional footfall patterns throughout the West End. With all our portfolio in close proximity to these hubs, we anticipate being a major beneficiary of these changes, with a number of our streets expected to see much increased footfall and profile, enhancing their long-term rental growth prospects.

Continuing investment across the transport network is improving reliability and increasing capacity, encouraging travel by public transport to the West End. Last year's introduction of 24-hour running at weekends on certain underground lines has been well-received, and initial passenger numbers have exceeded forecasts.

Elsewhere, we are seeing a number of Crossrail-related public realm schemes progressing. Of great importance to the West End is the initiative announced, earlier this year, to pedestrianise much of Oxford Street. This will bring significant benefits, including a much-improved pedestrian environment and a reduction in traffic-generated air pollution. Currently, it is expected that the first stage of pedestrianisation, west of Oxford Circus, will be operational by mid-2018. Planning for the eastern end of Oxford Street is underway.

Investing in our portfolio

Our strategy is to adapt our buildings to meet the expectations of today's occupiers, and improve energy performance, through reconfiguration and refurbishment, rather than redevelopment. We focus on uses where we provide space in shell form only, with tenants taking responsibility for what are often substantial fit-out costs. This significantly reduces our exposure to obsolescence costs across the portfolio. Consequently, despite

continuing high levels of activity across our holdings, capital expenditure remains modest. This year, our outlay was £40.3 million, slightly above our long-term average of around 1% of portfolio value. Additionally, our share of capital expenditure in the Longmartin joint venture was £1.2 million.

We continue to identify schemes across our portfolio, and are prepared to intervene to negotiate early vacant possession of space to accelerate our plans. We balance the costs of these initiatives against the valuable long-term benefits to income and capital values, which frequently compound across our extensive adjacent ownerships.

Adding to our portfolio

We have assembled our portfolio over a period of 31 years, through acquiring single buildings, small portfolios, or occasionally large blocks, which were in single ownership. We apply strict investment criteria to every purchase, and focus on the prospects for long-term income growth potential through harnessing our forensic market knowledge, our particular skills in improving older building stock and capturing synergies with our other ownerships.

The buildings we seek to acquire in our chosen locations are frequently in long-term private ownership. Their availability is always limited, as existing owners are reluctant to sell in our sought-after areas. Understandably, competition to purchase is intense, as other investors appreciate the long-term prospects and security they offer.

This year, additions to our portfolio totalled £37.1 million. In addition, in August 2017, we announced the forward purchase of a strategically important block on Berwick Street in Soho, for £38.5 million. Currently, it is undergoing a major redevelopment, which is expected to finish in late 2018, at which point we will complete the acquisition.

Refinancing legacy debt and hedging

Taking advantage of low long-term interest rates, over the year, we have taken important steps to refinance the remainder of our legacy debt and hedging, whilst adding to our financial resources.

We have issued £575 million of long-dated bonds, comprising £285 million for 15 years at 2.487% and £290 million for 10 years at 2.348%. The proceeds were used, in part, to fund the early repayment of our historical debenture stock and a bank facility. In addition, we have terminated our remaining £180 million of interest rate swaps.

Together, these transactions reduced the cost of our debt significantly, benefiting earnings and dividends, as well as adding around £310 million to our financial resources. In a competitive investment market, the ready availability of funding to secure acquisitions gives us a valuable advantage.

Long-term rewards of a long-term strategy

October 2017 marked the 30th anniversary of the listing of Shaftesbury's shares on the London Stock Exchange. In our early years, whilst we owned a block of 26 restaurants in the centre of Chinatown, our assets comprised mainly offices in London and several UK locations. From mid-1993, we refocussed the business, concentrating on restaurant, leisure and retail in London's West End.

Our long-term approach to assembling and managing this exceptional portfolio has delivered sustainable growth in income, which is the ultimate driver of long-term value. The success of this strategy is evident in our performance. Since we floated in 1987, our share price has risen 460%, compared with the FTSE 350 Real Estate Index of 94%, and since our focus switched to the West End, the increase has been 1,431% against 119% for the sector.

Looking ahead

The uncertainties created by last year's EU referendum decision have increased during 2017. It may be some time before the UK's future trading and other arrangements with the EU become clear, and there could be further challenges as their ramifications become apparent. Inevitably, business and consumer confidence is being affected, slowing economic growth and business investment.

The broad economic base of the West End, and its enduring global appeal to visitors and businesses, underpin its resilience and long-term prospects, providing a considerable degree of protection against national economic

headwinds. This has been evident in the strength of our performance through different business cycles and operating environments in our 31-year history.

The successful implementation of our distinctive strategy is due to our committed, experienced and enthusiastic team, supported by the wide range of external advisors who are invaluable in delivering our strategy. Together, they bring flair and innovation to the management of our portfolio, ensuring it evolves and adapts to meet the ever-changing tastes and expectations of all those who visit, work or establish businesses in the West End.

Underwritten by the unique features of the West End, we are confident our strategy will continue our long record of growing our exceptional portfolio's income and value, and, in turn, the returns we deliver to our shareholders.

Brian Bickell
Chief Executive

27 November 2017

Portfolio valuation

Strong capital value performance; further increases in contracted and prospective rents, expectation of continued rental growth, and sustained investor demand for secure assets with growth potential in the West End.

£3.64bn	7.0%	3.5%
Portfolio valuation[1,3]	Valuation growth[1,2]	ERV growth[1,2]

Strong valuation performance

At 30 September 2017, the valuation of our portfolio, including our 50% share of the Longmartin joint venture, increased to £3.64 billion, following a revaluation surplus for the year of £233.2 million. Like-for-like valuation growth was 7.0%, bringing the compound annual growth rate over five years to 11.7%.

This year's valuation performance reflects sustained occupier demand, intensive asset management activity across our portfolio, and continued growth in contracted income and rental values. Also, it takes into account expectations of further rental growth, good occupancy levels, and low capital expenditure.

Sustained investor demand yet limited supply of assets to acquire

The equivalent yield attributed by our valuers to our wholly-owned portfolio was 3.46%, an eleven basis points reduction over the year. During the year, we have seen a sharpening of investor appetite, especially for freehold properties in our locations, which offer investment security, growing returns and limited exposure to obsolescence. This heightening of demand is particularly evident for properties close to prime streets, where lower rental levels offer better growth prospects.

The availability of buildings to purchase remains as limited as ever, largely because they are typically in long-term private ownership and existing owners are reluctant to sell. Consequently, when assets do become available, competition is fierce.

In the Longmartin joint venture, ERV reflects the conclusion of the first round of rent reviews, following scheme completion in 2011, where we have seen significant increases in rents. The equivalent yield for this geared long leasehold interest was broadly unchanged at 3.8%.

Potential for greater value

Cushman & Wakefield, independent valuer of our wholly-owned portfolio, has continued to note that:

- our portfolio is unusual in its substantial number of predominantly restaurant, leisure and retail properties in adjacent, or adjoining, locations in London's West End; and
- there is a long record of strong occupier demand for these uses in this location and, as a result, high occupancy levels, which underpins the long-term prospects for rental growth.

Consequently, they have reiterated to the Board that some prospective purchasers may recognise the rare and compelling opportunity to acquire, in a single transaction, substantial parts of the portfolio, or the portfolio in its entirety. Such parties may consider a combination of some, or all, parts of the portfolio to have a greater value than currently reflected in the valuation included in these financial statements, which has been prepared in accordance with RICS guidelines.

1. Including our 50% share of the Longmartin joint venture. See presentation of financial information on page 18
2. Like-for-like. See Glossary for definition
3. Portfolio excluding a non-core asset acquired as part of a portfolio

	Fair value £m	% of portfolio	Annualised current income £m	ERV £m	Topped-up net initial yield %	Equivalent yield %
Carnaby	1,265.5	35%	39.7	51.2	3.04%	3.56%
Covent Garden	947.2	26%	28.2	36.4	2.76%	3.36%
Chinatown	791.5	22%	23.8	30.3	2.75%	3.42%
Soho	272.1	7%	8.9	10.7	2.96%	3.49%
Fitzrovia	140.2	4%	4.7	5.5	2.93%	3.36%
Wholly-owned portfolio	**3,416.5**	**94%**	**105.3**	**134.1**	**2.89%**	**3.46%**
Longmartin joint venture[3]	227.8	6%	8.8	10.4	3.25%	3.80%
Total portfolio[1,4]	**3,644.3**	**100%**	**114.1**	**144.5**		

Village	2017 Valuation growth[2]	5-year CAGR[2]
Carnaby	7.1%	13.5%
Covent Garden	7.5%	10.5%
Chinatown	6.0%	10.1%
Soho	11.3%	12.6%
Fitzrovia	11.4%	12.0%
Wholly-owned portfolio	**7.5%**	**11.7%**
Longmartin joint venture[3]	1.0%	11.2%
Total portfolio[1,4]	**7.0%**	**11.7%**

1 Including our 50% share of the Longmartin joint venture. See presentation of financial information on page 18
2 Like-for-like. See Glossary for definition
3 Our 50% share
4 Portfolio excluding non-core asset acquired as part of a portfolio

Continuing growth in contracted rents and ERVs

Demand for space in our carefully-curated locations has been good throughout the year, which, together with extensive asset management across the portfolio, has continued to drive growth in contracted and potential future income.

At 30 September 2017, annualised current income stood at £114.1 million, following a like-for-like increase of 3.9% during the year. The ERV of our portfolio, which is based on current rental tones and largely reflects rental evidence we have established through our leasing transactions, was assessed by our valuers at £144.5 million, £30.4 million or 26.6% above current income. Like-for-like ERV growth over the year was 3.5%.

Rental growth	Annualised current income[1] £m	ERV[1] £m	Reversionary potential[1] £m
At 30 September 2016	109.6	138.7	29.1
Acquisitions	0.5	1.3	0.8
Disposals	(0.3)	(0.4)	(0.1)
Like-for-like growth[2]	4.3	4.9	0.6
At 30 September 2017	**114.1**	**144.5**	**30.4**
Like-for-like growth[2]	**3.9%**	**3.5%**	

1 Including our 50% share of the Longmartin joint venture. See presentation of financial information on page 18
2 Like-for-like. See Glossary for definition

The components of the portfolio reversionary potential are shown below. Of the total uncontracted reversion, 67% is accounted for by restaurants, leisure and retail. In our locations, these uses have a long history of sustained demand, which, together with a restricted availability of space, underpins their growth prospects. We remain confident that, with our proven long-term management strategy, we shall continue to convert this rental potential into cash flow, whilst delivering further long-term growth in rental values.

Components of the reversion[1]

	£m	Expected term to realisation	How it will be realised
Contracted income	2.4	Near term	On expiry of rent-free periods
EPRA vacancy	8.3	Near term	Upon letting of available space at 30 September 2017
Scheme vacancy	9.6	Near to medium term	On completion of and letting of schemes at 30 September 2017
Under-rented leases	10.1	Near to medium term	Through the normal cycle of rent reviews, lease renewals and lettings. Typically, this is converted to income over a 3 – 5 year period.
	30.4		

1 Including our 50% share of the Longmartin joint venture. See presentation of financial information on page 18

Leasing and occupancy

Sustained demand across our portfolio helped deliver strong leasing results. Our Thomas Neal's Warehouse and Central Cross schemes completed in the year and letting is underway.

Leasing

During the year, we concluded leasing transactions in the wholly-owned portfolio with a rental value of £31.1 million (2016: £27.8 million). Of this, commercial transactions totalled £23.8 million (2016: £21.6 million) and residential lettings and renewals amounted to £7.3 million (2016: £6.2 million). Rents for commercial uses were, on average, 6.7% above ERV at 30 September 2016.

Leasing activity during the year[1]

	£m	
Commercial		
Lettings and renewals	13.4	+7.7% vs 30 September 2016 ERV
Rent reviews	10.4	+22.6% vs previous rent (equivalent to 4.2% CAGR over five years)
	23.8	+6.7% vs 30 September 2016 ERV
Residential		
Lettings and renewals	7.3	-1.6% vs prior rent
Total	**31.1**	

1 Wholly-owned portfolio

Our share of lettings, lease renewals and rent reviews in the Longmartin joint venture was £3.9 million (2016: £2.7 million), with commercial rents achieved broadly in line with ERV at 30 September 2016. Accounting for £3.2 million, rent reviews delivered average increases of 36.4% compared with previous rental levels, an equivalent 5-year CAGR of 6.4%. We have now concluded the majority of this first round of rent reviews following scheme completion in 2011.

EPRA vacancy

At 30 September 2017, EPRA vacancy was 6.0% of ERV, an increase of 4.4% over the year. The total includes 3.5% in respect of Thomas Neal's Warehouse and Central Cross. Excluding these larger schemes, EPRA vacancy was 2.5%, in-line with our long-term average.

Completed larger schemes

We have created large, prominent retail and restaurant units at our Thomas Neal's Warehouse and Central Cross schemes, of which 34% by ERV is now let or under offer. Larger space requires occupiers to commit to significant investment in fit-out and substantial rental obligations and we expect letting periods to be longer for these units than for the smaller space typically we have to offer. Current macro-economic uncertainties are showing signs of slowing potential tenants' decision–making processes. We will be patient in selecting occupiers which meet our objective of delivering long-term rental growth.

Thomas Neal's Warehouse

In the heart of Seven Dials, our scheme created a unique 22,800 sq. ft. flagship retail unit. At 30 September 2017, it accounted for 0.7% of available-to-let ERV. The space is now under offer to a single occupier.

Central Cross

Located at the eastern gateway to Chinatown, next to Leicester Square Underground station and a few minutes' walk from Tottenham Court Road station, our scheme is well-positioned to benefit from high and growing footfall.

We have created exceptional, double-height accommodation with five shops, totalling 34,500 sq. ft., on Charing Cross Road and seven restaurants, fronting Newport Place and Newport Court, extending to 13,300 sq. ft.

At 30 September 2017, all four of the smaller restaurants (ERV: £0.4 million) were let or under offer. Subsequently, we have placed one large restaurant under offer (ERV: £0.3 million). We have ongoing discussions with a number of parties for the remaining space.

Other vacancy

Available-to-let vacancy, excluding larger schemes, comprised two cafés (ERV: £0.1 million), six shops (ERV: £1.2 million), 13,100 sq. ft. of office space (ERV: £0.8 million) and one apartment.

Space under offer included two restaurants, five shops, 2,100 sq. ft. of offices and five apartments.

In the Longmartin joint venture, two shops were available to let. The ERV of our 50% share of this space was £0.2 million.

EPRA vacancy[1] at 30 September 2017

						% of total ERV	
	Restaurants, cafés and leisure £m	**Shops £m**	**Offices £m**	**Residential £m**	**Total £m**	**2017 %**	2016 %
Larger schemes[2]	1.4	3.4	-	-	**4.8**	**3.5%**	-
Other vacancy:							
- available-to-let	0.1	1.2	0.8	0.1	**2.2**	**1.7%**	0.5%
- under offer	0.2	0.6	0.2	0.1	**1.1**	**0.8%**	1.1%
EPRA vacancy	**1.7**	**5.2**	**1.0**	**0.2**	**8.1**	**6.0%**	1.6%
Area ('000 sq. ft.)	19	72	15	4	110		31

1 Wholly-owned portfolio

2 Thomas Neal's Warehouse and Central Cross

Restaurants, cafés and leisure

	Wholly-owned
Restaurants, cafés and leisure – 37% of our portfolio[1,2]	
Number	282
Area (sq. ft.)	605,000

1 % of annualised current income
2 Wholly-owned portfolio

Largest provider of dining and leisure space in the West End

With increasing numbers of visitors to the West End, and the widely-recognised growth in interest and spending on leisure activities, our 282 restaurants, cafés and pubs are important drivers of footfall and trading in our locations. We are the largest single provider of dining and leisure space in the West End, curating high-profile and busy destinations such as Chinatown, Kingly Court, Neal's Yard and the Opera Quarter. The majority of our restaurants provide casual dining, with a focus on atmosphere, quality and experience, increasingly with an all-day offer.

Operators are attracted to the West End as it provides access to exceptional daily footfall throughout the year, a discerning, affluent customer base of domestic and international visitors and a large working population. The independent sector is particularly active, reflecting the interest from diners to experience high quality, creative and accessible new food concepts, often then sharing their experiences on social media.

Demand outstrips availability of space

Availability of restaurant and leisure accommodation remains constrained by local planning policies, which restrict large-scale increases in these uses, whether by development, extension of existing space, or conversion from other uses. The barriers to entry are high, with existing operators reluctant to relinquish their valuable sites, other than for significant premiums. Generally, tenants ensure they preserve their valuable occupation rights and our bad debt history is negligible.

Demand for the smaller space typically we have to offer is healthy, particularly from independent operators, established street-food concepts and start-ups seeking their first site.

At 30 September 2017, EPRA vacancy for these uses was 3.7%, and included 3.1% in respect of the recently completed Central Cross scheme. Other vacancy was 0.6%, of which 0.4% was under offer. Our ten-year average EPRA vacancy for restaurants, cafés and leisure is 1.6%.

Newer leases provide us with more flexibility

Tenants invest considerable sums fitting out their space, sometimes spending the equivalent of 3-5 years' rent and, therefore, we grant longer leases than for shops, to provide an extended period over which occupiers can amortise this cost.

Until recently, leases were granted over whole buildings and provided tenants with renewal rights on expiry. We find that upper floors often are now under-utilised and, where opportunities arise, we seek to negotiate the surrender of these leases to secure vacant possession. This allows us to improve the configuration of space on the lower floors, attract new operators on more beneficial terms, and often release valuable upper floors for other uses.

Reflecting the strength of demand for our restaurant space, in recent years we have reduced the term of leases we grant and introduced more flexibility at expiry. Also, we include turnover-related rental top-ups, giving us the higher of market rent and a percentage of annual turnover. This provides a useful contribution to both income and earnings.

Retail

	Wholly-owned
Retail – 33% of our portfolio[1,2]	
Number	302
Area (sq. ft.)	474,000

1 % of annualised current income
2 Wholly-owned portfolio

Contribution to the West End as a leading shopping destination

Providing 77% of our current annualised retail income, our large clusters of shops in Carnaby and Seven Dials make an important contribution to the West End's reputation as a leading global retail destination.

Wide range of shop sizes and rents

An important element of the character of our destinations is the wide range of shop sizes and rental levels across our buildings and streets.

Of our 302 shops, 209 are small (ERV < £150,000 p.a.), providing 37% of our current annualised income, and 93 are large (63% of current annualised income). This allows us to provide a variety of retail formats, from start-ups to more established operators, whilst offering retailers flexibility to expand or introduce new concepts.

Importantly, rental levels in our high-footfall and spending locations are competitive compared with nearby streets.

Responding to ever-changing shopper tastes

The majority of our space is let to fashion and lifestyle retailers.

Tenant selection is a key aspect of our strategy to create and maintain distinctive retail locations. Shoppers' behaviour is changing rapidly with an emphasis on innovation, experience, fulfilment and the ability to find something different from that commonly found in shopping centres and on high streets. To attract visitors, we seek out new, interesting concepts from across the world, to maintain a fresh retail mix. Additionally, we maintain flexibility in our leasing so we are able to respond to shoppers' ever-changing tastes and retailers' requirements.

Interest remains good

With high footfall, we continue to have good demand for space, both from domestic and overseas retailers, often opening new concept stores or flagships.

Despite well-publicised challenges being faced by the retail sector, leasing activity during the year has been good with lettings, renewals and rent reviews being concluded ahead of ERVs assessed by our valuers. Importantly, currently we have a number of tenants renewing leases early or upsizing, demonstrating their confidence in continued profitable trading in our locations.

EPRA vacancy at 30 September 2017 was 11.1% of retail ERV, of which vacant space at Thomas Neal's Warehouse and Central Cross accounted for 7.2%. Of other available space, 1.3% was under offer. Average retail vacancy over the past ten years has been 4.3%.

Offices

	Wholly-owned
Offices – 17% of our portfolio[1,2]	
Area (sq. ft.)	403,000

1 % of annualised current income
2 Wholly-owned portfolio

Large provider of small, flexible office space

With 403,000 sq. ft. of office space, let to 243 tenants, we are an important provider of small office accommodation in the core West End. Our average letting is 1,380 sq. ft. at £55 per sq. ft. (2016: £51 per sq. ft.) and average ERV is £61 per sq. ft. (2016: £61 per sq. ft.).

Whilst we already provide flexible terms and space, we are working to ensure we remain competitive with other SME space providers.

Limited availability of space

Demand for our office space remains good, particularly from the media, creative and tech sectors, which often find their natural home in Soho and Covent Garden.

Availability of smaller office space remains low across our locations. Whilst we have seen a modest increase in lease incentive packages during the year, occupancy levels have been high. Retention rates have been good, with 30 leases being renewed.

Office vacancy at 30 September 2017 was 4.0% of total office ERV.

Residential

	Wholly-owned
Residential – 13% of our portfolio[1,2]	
Number	562
Area (sq. ft.)	336,000

1 % of annualised current income
2 Wholly-owned portfolio

Popular area to live

The West End is a popular place to live and we continue to see sustained demand to rent our mid-market apartments. Our flats are mainly studios and one or two-bedroom apartments, many of which have been created from the conversion of small office accommodation back to its original residential use. We have a number of further planning consents for residential conversion, which we could implement in the future.

High occupancy and reliable cash flow

Demand for our mid-market apartments remains good, resulting in high occupancy levels and a stable cash flow. Normally, we have less than ten apartments available at any one time. At 30 September 2017 we had six apartments available, of which five were under offer.

During the year, we have seen a slight softening in rental levels, owing to increased availability of newly-built buy-to-let flats across central London. We continue our rolling programme to upgrade our apartments, in order to ensure their specification remains competitive and maintain our high occupancy rates.

Preference to lease, not sell, our apartments

Most of the value of our buildings is in the commercial uses on the lower floors. We prefer to lease, rather than sell, our apartments in order to retain control over whole buildings to realise the long-term potential in those valuable lower floors. During the year, we identified, and sold, nine apartments which we considered did not compromise long-term management flexibility.

Portfolio investment

Considerable activity continues, adding to income, increasing rental tones and unlocking value. Important acquisitions secured during the year.

Investing across our portfolio

Continuing the trend over recent years, high levels of asset management and refurbishment activity continue across our portfolio, improving our buildings, increasing income and rental potential, and unlocking value.

Capital expenditure during the year totalled £40.3 million, representing 1.29% of wholly-owned portfolio value, with schemes extending to 249,400 sq. ft. (13.7% of wholly-owned floor space). This included £14.5 million in respect of our three larger schemes: Thomas Neal's Warehouse, Central Cross and 57 Broadwick Street.

During the year, we secured 62 planning consents, an important part of maintaining a pipeline of projects. At year end, we had 22 planning applications awaiting decision.

We continue to identify opportunities to implement further asset management initiatives. This often involves negotiations to secure vacant possession of space to enable us to accelerate the implementation of our ideas.

Projects in hand at year end

At 30 September 2017, we had schemes extending to 124,000 sq. ft. and representing 6.6% of ERV, down from 11.0% a year ago. This decrease was largely due to the completion of our Thomas Neal's Warehouse and Central Cross schemes.

Vacant space[1] held for, or under, refurbishment at 30 September 2017

						% of total ERV	
	Restaurants, cafés and leisure £m	**Shops £m**	**Offices £m**	**Residential £m**	**Total £m**	**2017 %**	2016 %
Larger schemes[2]	0.4	0.6	1.2	0.1	**2.3**	**1.7%**	5.7%
Other schemes	1.5	1.9	2.1	1.1	**6.6**	**4.9%**	5.3%
	1.9	**2.5**	**3.3**	**1.2**	**8.9**	**6.6%**	11.0%
Area ('000 sq. ft.)	21	31	47	25	124		202

1 Wholly-owned portfolio

2 2017: 57 Broadwick Street. 2016: Central Cross, Thomas Neal's Warehouse and 57 Broadwick Street

57 Broadwick Street, Carnaby

Construction at our mixed-use project at 57 Broadwick Street, at the eastern entrance to Carnaby, is progressing well. Located within a few minutes' walk of the new western entrance to Tottenham Court Road station, on Dean Street, the scheme will provide:

- 11,800 sq. ft. of flagship retail and restaurant space over the lower floors;
- 15,000 sq. ft. of new grade A office accommodation across the upper floors; and
- two apartments totalling 1,900 sq. ft.

The scheme is expected to cost £14.9 million, of which £10.2 million had been incurred by 30 September 2017. Construction of the retail and restaurant accommodation (ERV: £1.0 million) has now completed and the space either is let or under offer. Marketing of the office accommodation, which is planned to complete early in 2018, has commenced.

Other schemes

During the year, schemes with an ERV of £4.6 million completed and are largely now income-producing. New schemes, with an ERV of £4.1 million, commenced.

We had 47 schemes underway at 30 September 2017, extending to 95,300 sq. ft. and representing 4.9% of ERV. These included 17,600 sq. ft. of restaurants and cafés (ERV: £1.5 million), 22,500 sq. ft. of shops (ERV: £1.9 million), 32,300 sq. ft. of office space (ERV: £2.1 million), and 38 apartments either being created or up-graded (ERV: £1.1 million). Of this, space with an ERV of £0.9 million was under offer.

In the Longmartin joint venture, our share of capital expenditure during the year was £1.2 million. At 30 September 2017, the ERV of our 50% share of space held for refurbishment was £0.7 million. This includes the redevelopment of the prominent 13,000 sq. ft. mixed-use building on the corner of Long Acre and Upper St Martin's Lane. Expected to complete in late 2018, our share of the cost of this scheme is expected to be £4.6 million.

Improving the public realm

Improving the public realm is a key part of our management strategy.

Public realm improvements both to Cambridge Circus and the western section of Earlham Street are now close to completion. We expect that these schemes, together with the opening of the Elizabeth Line, will, over time, materially improve footfall throughout Seven Dials, bringing benefits particularly to those streets where rental values are currently materially below their long-term potential.

At our Central Cross holding, Westminster City Council's improvement scheme for Newport Place and Newport Court, which we are funding, has commenced recently. It is scheduled for completion in phases from spring 2018. This new public space will be traffic-free each day, other than for servicing between 7am and noon, providing the opportunity, subject to planning and licensing approvals, for al fresco dining.

As part of the plans to improve pedestrian capacity, in advance of the opening of the Elizabeth Line, Westminster City Council have designated Broadwick Street as a priority pedestrian route. There have already been improvements to the public realm at the eastern end of the street and we are now working with the City Council on plans to improve the streetscape around 57 Broadwick Street and the eastern entrance to Carnaby.

Acquisitions with good rental growth prospects

During the year, we acquired seven properties at a total cost of £37.1 million. These comprised four restaurants, two shops, one pub and 3,700 sq. ft. of office space, of which 2,300 sq. ft. has planning consent for residential use. Three of these buildings were acquired with vacant possession. Through short and medium-term asset management initiatives, these additions each offer the potential for good rental and capital growth, either individually or in combination with our existing ownerships.

We continue to identify and investigate opportunities to acquire assets in, and around, our areas, which offer the opportunity for future rental growth.

90-104 Berwick Street

In August 2017, we entered in to a contract to forward purchase a long-leasehold interest in 90-104 Berwick Street, Soho, at a price of £38.5 million.

Located at the southern end of Berwick Street, the property is currently being redeveloped to provide 12,500 sq. ft. of retail, a 5,500 sq. ft. supermarket, a 2,000 sq. ft. restaurant and a 110-bedroom hotel. Both the hotel and supermarket have been pre-let. The redevelopment is expected to complete in late 2018, which will, subject to satisfying various contractual conditions, trigger the completion of the acquisition.

This strategic acquisition increases our ownership of Berwick Street frontages to 50%. Once completed, it will enable us to accelerate our long-term strategy on this important north-south route in the heart of Soho, which we consider to have good medium to long-term prospects. We expect Berwick Street, which is currently in the final phase of major public realm improvements, to benefit from a significant increase in footfall from the opening of the Elizabeth Line and Tottenham Court Road's new ticket hall on Dean Street in December 2018.

Financial results

Reported results

+10.7%	+5.0%	+203.7%	+8.8%
£9.49	**£88.3m**	**108.1p**	**16.0p**
NAV[1]	Net property income	Basic EPS	Dividends per share

EPRA[1] results

+7.2%		+15.9%	+15.7%
£9.52	**+8.9%**	**£45.2m**	**16.2p**
EPRA NAV	NAV return	EPRA earnings	EPRA EPS

1 An alternative performance measure ("APM"). See page 25

This year's results show further growth in income, earnings and dividends, resulting from continued crystallisation of our portfolio's reversionary potential and the benefit of lower financing costs. Net asset value growth was driven by a strong portfolio valuation performance.

Presentation of financial information

Our property portfolio is a combination of properties which are wholly owned by the Group and a 50% share of property held in joint venture.

The financial statements, prepared under IFRS, includes the Group's interest in its joint venture as one-line items in the Income Statement and Balance Sheet. The analysis below is based on the IFRS financial statements.

Internally, management consider the valuation of properties and our debt position on a proportionally consolidated basis, including our 50% share of the joint venture. Consequently, the analysis of the valuation on pages 9 to 11 and the finance review on pages 23 to 25 are presented on this proportionally consolidated basis.

We consider that this presentation better explains to stakeholders the Group's activities and financial position. Measures presented on a proportional consolidation basis are alternative performance measures as they are not defined under IFRS. Further details are set out on page 25.

Income statement	**2017 £m**	**2016 £m**
Net property income	**88.3**	84.1
Administrative expenses	**(14.1)**	(14.1)
Valuation gains[1]	**231.7**	108.3
Operating profit	**305.9**	178.3
Net finance costs	**(32.7)**	(33.6)
Debt and interest rate swaps fair value movements[2]	**22.0**	(64.1)
Share of Longmartin post-tax results	**6.4**	18.5
Profit before tax	**301.6**	99.1
Tax	**-**	-
Reported earnings for the year	**301.6**	99.1
Basic earnings per share	**108.1p**	35.6p

1 Profit on disposal and surplus on revaluation of investment properties

2 Change in fair value of interest rate swaps and, in 2016, recognition of fair value of Debenture Stock

Reported earnings

Profit after tax for the year amounted to £301.6 million (2016: £99.1 million). Basic earnings per share increased to 108.1p (2016: 35.6p), largely due to:

- the portfolio revaluation surplus, which contributed 82.7p (2016: 38.9p).
- net property income which added 31.7p (2016: 30.2p).
- the decrease in the fair value deficit of our interest rate swaps added 7.9p, compared with an increase in this deficit, which reduced earnings per share by 12.5p last year.
- net finance costs, excluding fair value movements, reduced earnings per share by 11.7p (2016: 12.1p).
- a decrease in our share of the post-tax profits from our joint venture, which contributed 2.3p (2016: 6.6p), largely driven by a lower revaluation surplus.

Additionally, last year's earnings per share were reduced by 10.5p as a result of a one-off charge to recognise the fair value of our 8.5% Debenture Stock.

EPRA earnings[1]

As is usual practice in our sector, we produce alternative measures for certain indicators, including earnings, making adjustments set out by EPRA in its Best Practice and Policy Recommendations. EPRA earnings are a measure of the level of underlying operating results and an indication of the extent to which current dividend payments are supported by recurring earnings. In our case, EPRA earnings exclude valuation movements in respect of our properties and interest rate swaps, profits on disposal of investment properties and deferred tax arising in our Longmartin joint venture. In 2016, it also excluded the charge for recognising the fair value of our Debenture Stock. EPRA earnings are reconciled below.

EPRA earnings[1]	**2017 £m**	2016 £m
IFRS profit after tax	**301.6**	99.1
Adjusted for:		
- Change in value of investment properties	**(230.6)**	(108.3)
- Change in fair value of financial instruments	**(22.0)**	34.9
- Profit on disposal of investment properties	**(1.1)**	-
- Recognition of fair value of Debenture Stock	**-**	29.2
Adjustments in respect of the Longmartin joint venture:		
- Change in value of investment properties	**(2.6)**	(11.3)
- Deferred tax	**(0.1)**	(4.6)
EPRA earnings	**45.2**	39.0
EPRA EPS	**16.2p**	14.0p

1 An alternative performance measure ("APM"). See page 25

EPRA earnings increased by 15.9% to £45.2 million (2016: £39.0 million) and EPRA EPS grew 15.7% to 16.2p (2016: 14.0p). This increase was principally driven by growth in net property income as we continue to capture our portfolio's reversionary potential, lower finance costs following our refinancing in October 2016 (see pages 23 to 24), and increased profits from our Longmartin joint venture, having concluded a number of rent reviews during the year.

EPRA earnings[1]	£m
2016	39.0
Net property income	4.2
Finance costs	0.9
Longmartin	1.1
2017	**45.2**

1 An alternative performance measure ("APM"). See page 25

Net property income

Rents receivable increased by £5.0 million to £103.4 million (2016: £98.4 million). Like-for-like growth was 5.0%, as we continue to convert our portfolio's reversionary potential into contracted cash flow. Acquisitions contributed £1.3 million to the increase, whilst vacancy arising from our larger schemes and disposals reduced rents receivable compared with last year by £0.8 million and £0.2 million, respectively.

Irrecoverable property charges were £15.1 million (2016: £14.3 million), representing 14.6% of rents receivable (2016: 14.5%). After these costs, net property income was £88.3 million, up 5.0% (2016: £84.1 million).

Administrative expenses

Administrative expenses totalled £14.1 million (2016: £14.1 million). This included charges for annual bonuses of £2.7 million (2016: £3.0 million) and share options of £1.8 million (2016: £2.5 million). Administrative costs, excluding these charges, increased by £1.0 million to £9.6 million (2016: £8.6 million), reflecting growing activity within our business, increased employment costs and additional headcount. We do not capitalise administrative costs.

Valuation gains and disposal profits

The surplus arising on the revaluation of our wholly-owned portfolio amounted to £230.6 million (2016: £108.3 million). This represented a like-for-like increase of 7.5%, principally driven by like-for-like ERV growth of 3.4%, together with yield compression of 11 basis points. Further details are provided on pages 9 to 11.

Disposals of non-core assets in the period totalled £13.8 million, 12.6% above book value at 30 September 2016. These included nine apartments, a small mixed-use building in Covent Garden and 1,500 sq. ft. of ancillary commercial basement space, which was sold to an adjoining owner. After costs, these disposals generated a profit in the year of £1.1 million.

Net finance costs

Net finance costs (excluding the change in fair value of interest rate swaps) decreased by £0.9 million to £32.7 million (2016: £33.6 million) largely as a result of the benefits of reduced borrowing costs following our refinancing in October 2016. This was partly offset by:

- higher net debt as a result of acquisitions and further investment in our portfolio; and
- an accelerated write-off of unamortised deferred loan issue costs of £0.3 million, following our refinancing in September 2017.

Debt and interest rate swaps fair value movements

Following increases in long-term interest rates during the year, the fair value deficit in respect of our interest rate swaps decreased, leading to a credit to the Income Statement of £22.0 million. We have now terminated these swap contracts.

Share of Longmartin post-tax results

Our share of post-tax profit from the Longmartin joint venture decreased by £12.1 million to £6.4 million (2016: £18.5 million), largely due to a lower revaluation surplus of £2.6 million (2016: £11.3 million). Our share of net property income increased by £1.3 million, following the successful conclusion of a number of rent reviews which contributed to a like-for-like increase in rents receivable of 17.2%.

Tax

As a REIT, the Group's activities are largely exempt from corporation tax and, as a result, there is no tax charge in the year (2016: £Nil).

In common with most businesses, we do collect and pay other taxes and levies eg payroll taxes, VAT, Stamp Duty Land Tax, Business Rates, and withholding tax on Property Income Distributions. During the year, the total amount paid in respect of these taxes amounted to £18.1 million (2016: £22.2 million). In addition, our share of corporation tax incurred by the Longmartin joint venture was £0.9 million (2016: £0.6 million).

The group's tax strategy is to account for tax on an accurate and timely basis. Our appetite for tax risk is low and we structure our affairs based on sound commercial principles, rather than engaging in aggressive tax planning. We maintain an open dialogue with HMRC with a view to identifying and solving issues promptly. HMRC have designated us as a 'low risk' taxpayer, a status we aim to maintain. Our detailed tax strategy is available on our website.

Dividends

As a REIT, we are required to distribute a minimum of 90% of qualifying REIT income, calculated by reference to tax rather than accounting rules, as a PID. This is treated as income for investors, and is taxed according to their own tax status. PIDs are subject to withholding tax at basic rate income tax, except for certain classes of investors who can register to receive their distributions gross, rather than net.

Notwithstanding this distribution requirement, our dividend policy is to maintain steady growth in dividends, reflecting the long-term trend in our income and EPRA earnings, adjusted to add back the non-cash accounting charge for equity-settled remuneration. To the extent that dividends exceed the amount available to distribute as a PID, we pay the balance as ordinary dividends.

The Board has recommended a final dividend of 8.1p per share, up 7.3% on last year's final dividend (7.55p per share). Together with the interim dividend of 7.9p per share, this brings the total for the year to 16.0p per share, an increase of 8.8% on 2016 (14.7p per share).

This increase reflects growth in net property income and earnings enhancements from the refinancing reported last year and is covered 1.01 times by EPRA earnings per share and 1.04 times by adjusted earnings per share[1], after adding back the non-cash accounting share option charge of £1.4 million.

If approved at the 2018 AGM, the final dividend will be paid on 16 February 2018. The exceptional charges associated with our refinancing activities during the year are charged against our current year qualifying REIT income. Since these charges outweigh qualifying income in the year, the final dividend will be paid as an ordinary dividend. It is likely that PID distributions will resume in 2018.

The Board monitors the Group's ability to pay dividends out of available resources and distributable reserves. Prospective dividend payments are estimated in our forecasts, which also take into consideration future liquidity requirements.

At 30 September 2017, we had distributable reserves of £218.0 million. It is our policy, where possible, for subsidiary companies to distribute the majority of their distributable profits to PLC annually. Currently, there are no restrictions on subsidiaries' ability to distribute profits.

1 EPRA EPS, adjusted to add back the non-cash accounting charge for equity-settled remuneration. This is an Alternative Performance Measure.

Balance Sheet	2017 £m	2016 £m
Investment properties	**3,407.3**	3,111.6
Investment in joint venture	**148.0**	146.4
Net debt	**(914.2)**	(752.1)
Fair value of financial instruments	**-**	(114.1)
Other net assets/(liabilities)	**5.8**	(4.7)
Net assets	**2,646.9**	2,387.1
Net asset value per share[1]	**£9.49**	£8.57

1 An alternative performance measure ("APM"). See page 25

Net asset value per share[1]

Net asset value per share increased by 10.7% to £9.49 (2016: £8.57), largely due to the revaluation surplus on our investment properties, which contributed 82p. Operating profit, excluding the revaluation surplus, added 27p. Net finance costs reduced net asset value per share by 4p, after a credit for the decrease in the fair value deficit attributable to our interest rate swaps, prior to their termination in September 2017, of 8p. Our share of the Longmartin joint venture contributed 2p and dividends paid during the year totalled 15.45p.

EPRA NAV[1]

EPRA NAV is a sector-recognised benchmark, which makes adjustments to reported NAV to provide a measure of the fair value of net assets on a long-term basis. Assets and liabilities which are not expected to crystallise in normal circumstances are excluded. In our case, the calculation excludes deferred tax related to property valuation surpluses in the Longmartin joint venture and the fair value of interest rate swaps. Having terminated our remaining interest rate swaps during the year, there is now no adjustment to EPRA NAV in respect of these.

EPRA NAV per share increased by 64p (7.2%) to £9.52 (2016: £8.88). EPRA earnings of 16.2p per share were offset largely by dividends paid in the year (15.45p per share). The revaluation surpluses from the wholly-owned portfolio and the Longmartin joint venture added 83p. The cancellation of our remaining interest rate swaps reduced EPRA NAV by 20p. Growth over the year, excluding these exceptional refinancing costs, was 9.5%.

Net asset value return[1] measures shareholder value creation, taking into account the growth in EPRA NAV together with dividends paid in the period. Net asset value return in 2017 was 8.9% (2016: 3.8%).

EPRA NAV[1]	2017 £m	2016 £m
IFRS net assets	**2,646.9**	2,387.1
Effect of exercise of options	**0.5**	0.5
Diluted net assets	**2,647.4**	2,387.6
Adjusted for:		
- Fair value of financial instruments	**-**	76.1
Adjustments in respect of the Longmartin joint venture:		
- Deferred tax	**17.9**	18.0
EPRA NAV	**2,665.3**	2,481.7
EPRA NAV per share	**£9.52**	£8.88
EPRA NAV growth	**7.2%**	2.2%
Net asset value return[1]	**8.9%**	3.8%

1 An alternative performance measure ("APM"). See page 25

EPRA NAV[1]	Pence per share
2016	888
EPRA earnings	16
Dividends	(15)
Revaluation	83
Swap cancellation	(20)
2017	**952**

1 An alternative performance measure ("APM"). See page 25

Cash flows and net debt

Net debt increased by £162.1 million to £914.2 million (2016: £752.1 million). The major cash flows were:

- Operating cash inflow totalling £44.0 million.
- Dividends paid amounting to £44.5 million.
- Net capital investment in our portfolio of £68.2 million.
- Termination of interest rate swaps at a cost of £92.1 million.

Financial management

Important refinancing activity has increased our financial resources, diversified our sources of finance, and significantly reduced financing costs.

Sources of capital

Under REIT rules, we are required to distribute the majority of our recurring earnings. Furthermore, the importance of our ownership clusters in long-term value creation means that opportunities to recycle capital are limited.

Therefore, investment in our portfolio is funded through a combination of equity and debt, with equity providing the permanent capital to support our long-term strategy. We use debt to enhance, not drive, returns.

Low-risk debt structure

Consistent with the long-term nature of our portfolio and secure income streams, our core debt finance is provided by long-term arrangements with covenant structures which do not restrict the active management of our assets. Medium-term revolving facilities provide us with flexibility in managing our resources and capacity to invest further in our existing portfolio, in particular allowing us to act swiftly when acquiring properties.

Over the long term, we would expect debt to represent around one third of our invested capital, although we consider other metrics, such as interest cover, when considering gearing levels.

Financing activity during the year

We have concluded important initiatives during the year to strengthen further the Group's financing arrangements, taking advantage of the current interest rate environment and lenders' appetite to provide secure long-term finance.

During the year we issued £575 million of secured bonds:

Date of issue	Amount £m	Rate	Maturity
October 2016	285.0	2.487%	2031
September 2017	290.0	2.348%	2027

The proceeds of the first issue, in October 2016, were used to redeem our £61 million 8.5% Debenture Stock, including a prepayment cost of £31.1 million, and to terminate interest rate swaps with a notional principal of £55 million, at a cost of £34.1 million. The balance was used to reduce drawings against our revolving credit facilities.

Following the second issue, in September 2017, we repaid bank facilities totalling £75 million, reduced drawings against our revolving credit facilities, with the balance being retained as cash. Subsequently, we cancelled our remaining interest rate swaps at a cost of £57.9 million.

Together, these transactions increased our financial resources, diversified our sources of debt, reduced the blended cost and extended the average maturity.

We are in advanced discussions currently to extend both of our bank facilities from 2018 and 2020 to 2022.

At 30 September, our cash and undrawn revolving credit facilities totalled £321 million and our blended cost of debt had fallen over the year by 1.2% to 3.3%. The marginal cost of our undrawn facilities was just 1.2%. As we continue to fund net investment in our portfolio through further drawings against these facilities, our weighted average cost of debt will fall further.

Debt summary	**2017** **£m**	2016 £m
Debt excluding Longmartin JV		
- Fixed/hedged debt	**959.8**	657.0
- Drawn unhedged bank debt	**-**	110.7
Wholly-owned	**959.8**	767.7
Longmartin non-recourse debt (50% share)	**60.0**	60.0
Total debt[1,5]	**1,019.8**	827.7
Cash and cash equivalents		
- Wholly-owned	**(45.6)**	(15.6)
- Longmartin (50% share)	**(0.6)**	(2.0)
Net debt (including our 50% share of Longmartin)[5]	**973.6**	810.1
Less: our share of Longmartin net debt	**(59.4)**	(58.0)
Reported net debt	**914.2**	752.1
Debt metrics[1]		
Undrawn floating rate facilities (£m)	**275.0**	59.3
Loan-to-value[4,5]	**26.7%**	24.2%
Gearing[3,4,5]	**36.5%**	32.6%
Interest cover[5]	**2.3x**	2.1x
% debt fixed	**100%**	87%
Blended cost of debt[2,5]	**3.3%**	4.5%
Marginal cost of undrawn floating rate facilities	**1.2%**	1.3%
Weighted average maturity (years)	**10.3**	9.2

1 Including our 50% share of Longmartin debt. See presentation of financial information on page 18.
2 Including non-utilisation fees on undrawn bank facilities.
3 Based on EPRA net assets.
4 Based on net debt.
5 An Alternative Performance Measure (APM). See page 25.

Debt maturity profile

Year of maturity	Facility type	Total facility £m
2018	Bank facility (variable)	150
2020	Bank facility (variable)	125
2026	Term loan (Longmartin joint venture, fixed)	60[1]
2027	Bonds (fixed)	290
2029	Term loan (fixed)	135
2030	Term loan (fixed)	130
2031	Bonds (fixed)	285
2035	Term loan (fixed)	120

1 Shaftesbury Group's 50% share. This loan is without recourse to Shaftesbury.

Alternative Performance Measures (APMs)

The Group has applied the European Securities and Markets Authority (ESMA) guidelines on alternative performance measures in these annual results. An APM is a financial measure of historical or future financial performance, position or cash flows of the Group which is not a measure defined or specified in IFRS.

Set out below is a summary of APMs used in this preliminary announcement – some of which are EPRA performance measures, which are a set of standard disclosures for the property industry, as defined by EPRA in its Best Practices Recommendations.

APM	Nearest IFRS measure	Explanation and reconciliation
EPRA earnings and earnings per share	Profit and total comprehensive income for the year Basic earnings per share	Note 20 and Financial results (page 19)
Adjusted earnings per share	Basic earnings per share	Financial results (page 21)
Net asset value per share	Net assets attributable to shareholders	Note 20
Diluted net asset value per share	Net assets attributable to shareholders	Note 20
EPRA net assets and NAV	Net assets	Note 20 and Financial results (page 22)
Net asset value return	N/A	Note 20 and Financial results (page 22)
Total portfolio	Investment properties	Portfolio valuation (page 10) and Financial results (page 18)
Valuation growth	Net surplus on revaluation of investment properties	Portfolio valuation (page 10) and Financial results (page 18)
Portfolio net investment	N/A	Glossary
Total debt	Borrowings	Note 20 and Financial results (pages 18 and 24)
Net debt	Borrowings less cash and cash equivalents	Note 20 and Financial results (pages 18 and 24)
Group LTV	N/A	Note 20 and Financial results (page 18)
Gearing	N/A	Note 20 and Financial results (page 18)
Blended cost of debt	N/A	Note 20 and Financial results (page 18)
Interest cover	N/A	Note 20 and Financial results (page 18)

Where this report uses like-for-like comparisons, these are defined within the Glossary.

Portfolio analysis

At 30 September 2017		Note	Carnaby	Covent Garden	Chinatown	Soho	Fitzrovia	Wholly owned portfolio	Longmartin	Total portfolio
Portfolio	Fair value (£m)	**1,14**	1,265.5	947.2	791.5	272.1	140.2	3,416.5	227.8	3,644.3
	% of total fair value		35%	26%	22%	7%	4%	94%	6%	100%
	Current income (£m)	**2,14**	39.7	28.2	23.8	8.9	4.7	105.3	8.8	114.1
	ERV (£m)	**3,14**	51.2	36.4	30.3	10.7	5.5	134.1	10.4	144.5
Restaurants, cafés and leisure	Number		58	90	79	31	24	282	9	
	Area – sq. ft.		109,000	176,000	211,000	59,000	50,000	605,000	39,000	
	% of current income	**4**	16%	39%	62%	41%	54%	37%	15%	
	% of ERV	**4**	17%	34%	59%	39%	54%	34%	13%	
	Average unexpired lease length – years	**5**	10	9	11	9	8	10	14	
Shops	Number		99	95	60	39	9	302	22	
	Area – sq. ft.		182,000	143,000	92,000	43,000	14,000	474,000	73,000	
	% of current income	**4**	49%	28%	21%	25%	13%	33%	36%	
	% of ERV	**4**	46%	32%	25%	28%	13%	35%	41%	
	Average unexpired lease length – years	**5**	4	4	5	4	6	4	3	
Offices	Area – sq. ft.		244,000	85,000	28,000	36,000	10,000	403,000	102,000	
	% of current income	**4**	28%	12%	4%	15%	8%	17%	34%	
	% of ERV	**4**	31%	15%	4%	17%	8%	19%	34%	
	Average unexpired lease length – years	**5**	5	4	4	3	3	4	6	
Residential	Number		97	216	130	68	51	562	75	
	Area – sq. ft.		56,000	133,000	86,000	36,000	25,000	336,000	55,000	
	% of current passing rent	**4**	7%	21%	13%	19%	25%	13%	15%	
	% of ERV	**4**	6%	19%	12%	16%	25%	12%	12%	

1 Shaftesbury Group's 50% share.

Basis of valuation

At 30 September 2017	Note	Carnaby	Covent Garden	Chinatown	Soho	Fitzrovia	Wholly owned portfolio	Longmartin
Overall initial yield	**7**	2.90%	2.64%	2.65%	2.92%	2.86%	2.77%	3.31%
Topped-up initial yield	**8**	3.04%	2.76%	2.75%	2.96%	2.93%	2.89%	3.25%
Overall equivalent yield	**9**	3.56%	3.36%	3.42%	3.49%	3.36%	3.46%	3.80%
Tone of restaurant equivalent yields	**10**	3.40% - 3.90%	3.35% - 3.90%	3.50% - 3.75%	3.50% - 3.85%	3.35% - 4.00%		3.75% - 4.00%
Tone of restaurant ERVs - £ per sq. ft.	**10**	£110 - £145	£55 - £178	£270 - £405 ITZA	£110 - £135	£93 - £120		£90 - £138
Tone of retail equivalent yields	**10**	3.35% - 3.95%	3.35% - 4.00%	3.50% - 4.25%	3.50% - 4.25%	3.40% - 4.50%		3.40% - 4.15%
Tone of retail ERVs – ITZA £ per sq. ft.	**10**	£125 - £525	£100 - £480	£140 - £355	£165 - £280	£100 - £215		£94 - £710
Tone of office equivalent yields	**10**	4.00% - 4.50%	4.00% - 4.25%	4.25%	4.25% - 4.60%	4.00% - 4.50%		4.00% - 4.50%
Tone of office ERVs - £ per sq. ft.	**10**	£58 - £83	£50 - £75	£43 - £60	£50 - £73	£48 - £60		£63 - £78
Average residential ERVs - £ per sq. ft. per annum	**10**	£52	£49	£41	£48	£54		£49

Notes

1. The fair values at 30 September 2017 (the "valuation date") shown in respect of the individual villages are, in each case, the aggregate of the fair values of several different property interests located within close proximity which, for the purpose of this analysis, are combined to create each village. The different interests within each village were not valued as a single lot.
2. Current income includes total annualised actual and 'estimated income' reserved by leases. No rent is attributed to leases which were subject to rent-free periods at the valuation date. Current income does not reflect any ground rents, head rents nor rent charges and estimated irrecoverable outgoings at the valuation date. 'Estimated income' refers to gross estimated rental values in respect of rent reviews outstanding at the valuation date and, where appropriate, ERV in respect of lease renewals outstanding at the valuation date where the fair value reflects terms for a renewed lease.
3. ERV is the respective valuers' opinion of the rental value of the properties, or parts thereof, reflecting the terms of the relevant leases or, if appropriate, reflecting the fact that certain of the properties, or parts thereof, have been valued on the basis of vacant possession and the assumed grant of a new lease. Where appropriate, ERV assumes completion of developments which are reflected in the valuations. ERV does not reflect any ground rents, head rents nor rent charges and estimated irrecoverable outgoings.
4. The percentage of current income and the percentage of ERV in each of the use sectors are expressed as a percentage of total income and total ERV for each village.
5. Average unexpired lease length has been calculated by weighting the leases in terms of current rent reserved under the relevant leases and, where relevant, by reference to tenants' options to determine leases in advance of expiry through effluxion of time.
6. Where mixed uses occur within single leases, for the purpose of this analysis, the majority use by rental value has been adopted.
7. The initial yield is the net initial income at the valuation date expressed as a percentage of the gross valuation. Yields reflect net income after deduction of any ground rents, head rents and rent charges and estimated irrecoverable outgoings at the valuation date.
8. The topped-up initial yield, ignoring contractual rent free periods, has been calculated as if the contracted rent is payable from the valuation date and as if any future stepped rental uplifts under leases had occurred.
9. Equivalent yield is the internal rate of return, being the discount rate which needs to be applied to the expected flow of income so that the total amount of income so discounted at this rate equals the capital outlay at values current as of the valuation date. The equivalent yield shown for each village has been calculated by merging together the cash flows and fair values of each of the different interests within each village and represents the average equivalent yield attributable to each village from this approach.
10. The tone of rental values and yields is the range of rental values or yields attributed to the majority of the properties.
11. All commercial floor areas are net lettable. All residential floor areas are gross internal.
12. For presentation purposes some percentages have been rounded to the nearest integer.
13. The analysis includes accommodation which is awaiting, or undergoing, refurbishment or development and is not available for occupation at the date of valuation.
14. The analysis excludes a non-core asset, acquired as part of a portfolio during the year.

Group statement of comprehensive income

For the year ended 30 September 2017

	Notes	**2017 £m**	2016 £m
Revenue	2	**111.5**	106.2
Property charges	3	**(23.2)**	(22.1)
Net property income		**88.3**	84.1
Administrative expenses		**(9.6)**	(8.6)
Annual bonuses		**(2.7)**	(3.0)
Equity-settled remuneration	4	**(1.8)**	(2.5)
Total administrative expenses		**(14.1)**	(14.1)
Operating profit before investment property disposals and valuation movements		**74.2**	70.0
Profit on disposal of investment properties	5	**1.1**	-
Net surplus on revaluation of investment properties	8	**230.6**	108.3
Operating profit		**305.9**	178.3
Finance income		**0.1**	0.1
Finance costs	6	**(32.8)**	(33.7)
Recognition of fair value of Debenture Stock	14	**-**	(29.2)
Change in fair value of derivative financial instruments	15	**22.0**	(34.9)
Net finance costs		**(10.7)**	(97.7)
Share of post-tax profit from joint venture	10	**6.4**	18.5
Profit before tax		**301.6**	99.1
Tax charge for the year	7	**-**	-
Profit and total comprehensive income for the year		**301.6**	99.1
Earnings per share:	20		
Basic		**108.1p**	35.6p
Diluted		**107.9p**	35.5p
EPRA		**16.2p**	14.0p

Please see pages 52 to 54 for an explanation of the EPRA measures used in these financial statements.

Group balance sheet

As at 30 September 2017

	Notes	**2017 £m**	2016 £m
Non-current assets			
Investment properties	8	**3,407.3**	3,111.6
Accrued income	9	**9.5**	9.8
Investment in joint venture	10	**148.0**	146.4
Property, plant and equipment		**1.2**	1.4
Other receivables	12	**3.7**	3.7
		3,569.7	3,272.9
Current assets			
Trade and other receivables	11	**22.0**	19.3
Cash and cash equivalents	12	**45.6**	15.6
Total assets		**3,637.3**	3,307.8
Current liabilities			
Trade and other payables	13	**41.6**	45.3
Borrowings	14	**-**	92.2
Non-current liabilities			
Borrowings	14	**948.8**	669.1
Derivative financial instruments	15	**-**	114.1
Total liabilities		**990.4**	920.7
Net assets		**2,646.9**	2,387.1
Equity			
Share capital	16	**69.8**	69.7
Share premium		**124.9**	124.8
Share-based payments reserve		**3.0**	3.6
Retained earnings		**2,449.2**	2,189.0
Total equity		**2,646.9**	2,387.1
Net asset value per share:	20		
Basic		**£9.49**	£8.57
Diluted		**£9.46**	£8.54
EPRA		**£9.52**	£8.88

On behalf of the Board who approved and authorised for issue the financial statements on pages 28 to 45 on 27 November 2017.

Brian Bickell
Chief Executive

Chris Ward
Finance Director

Group cash flow statement

For the year ended 30 September 2017

	Notes	**2017 £m**	As restated 2016 £m
Cash flows from operating activities			
Cash generated from operating activities	18	**76.7**	74.6
Interest received		**0.1**	0.1
Interest paid		**(32.8)**	(32.7)
Net cash generated from operating activities		**44.0**	42.0
Cash flows from investing activities			
Investment property acquisitions		**(40.1)**	(59.7)
Investment property disposals	5	**13.4**	-
Capital expenditure on investment properties		**(41.5)**	(29.2)
Purchase of property, plant and equipment		**(0.1)**	(0.3)
Dividends received from joint venture		**4.8**	1.7
Decrease in loans to joint venture		**-**	0.5
Net cash used in investing activities		**(63.5)**	(87.0)
Cash flows from financing activities			
Proceeds from exercise of share options		**0.1**	0.1
Proceeds from borrowings		**146.5**	114.5
Repayment of borrowings		**(437.2)**	(23.5)
Proceeds from issue of mortgage bonds	14	**493.2**	-
Repayment of debenture stock	14	**(10.4)**	-
Mortgage bond issue costs		**(6.1)**	-
Termination of derivative financial instruments	15	**(92.1)**	-
Equity dividends paid	17	**(44.5)**	(38.2)
Net cash from financing activities		**49.5**	52.9
Net change in cash and cash equivalents		**30.0**	7.9
Cash and cash equivalents at 1 October	12	**15.6**	7.7
Cash and cash equivalents at 30 September	12	**45.6**	15.6

The prior year comparatives have been restated to reclassify £2.3 million between cash generated from operating activities and cash used for investment property acquisitions. The directors consider the restatement more fairly presents the cash flows. This change has no impact on the net change in cash and cash equivalents, net assets nor reported results in either of the years presented.

Group statement of changes in equity

For the year ended 30 September 2017

	Notes	Share capital £m	Share premium £m	Share-based payments reserve £m	Retained earnings £m	Total equity £m
Group						
At 1 October 2015		69.6	124.7	4.0	2,127.1	2,325.4
Profit and total comprehensive income for the year		-	-	-	99.1	99.1
Transactions with owners:						
Dividends paid	17	-	-	-	(39.4)	(39.4)
Exercise of share options	16	0.1	0.1	-	(0.1)	0.1
Fair value of share-based payments	4	-	-	1.9	-	1.9
Release on exercise of share options		-	-	(2.3)	2.3	-
At 30 September 2016		**69.7**	**124.8**	**3.6**	**2,189.0**	**2,387.1**
Profit and total comprehensive income for the year		**-**	**-**	**-**	**301.6**	**301.6**
Transactions with owners:						
Dividends paid	17	**-**	**-**	**-**	**(43.3)**	**(43.3)**
Exercise of share options	16	**0.1**	**0.1**	**-**	**(0.1)**	**0.1**
Fair value of share-based payments	4	**-**	**-**	**1.4**	**-**	**1.4**
Release on exercise of share options		**-**	**-**	**(2.0)**	**2.0**	**-**
At 30 September 2017		**69.8**	**124.9**	**3.0**	**2,449.2**	**2,646.9**

Notes to the financial statements

For the year ended 30 September 2017

1. Accounting policies

Basis of preparation

The preliminary announcement does not constitute full financial statements.

The results for the year ended 30 September 2017 included in this preliminary announcement are extracted from the audited financial statements for the year ended 30 September 2017 which were approved by the directors on 27 November 2017. The auditor's report on those financial statements was unqualified and did not include a statement under Section 498(2) or 498(3) of the 2006 Companies Act.

The 2017 Annual Report is expected to be posted to shareholders and available on the Group's website in December 2017. It will be considered at the Annual General Meeting to be held on 9 February 2018. The financial statements for the year ended 30 September 2017 have not yet been delivered to the Registrar of Companies.

The auditor's report on the financial statements for the year ended 30 September 2016 was unqualified and did not include a statement under Section 498(2) or 498(3) of the 2006 Companies Act. The financial statements for the year ended 30 September 2016 have been delivered to the Registrar of Companies.

Going concern

The Group's business activities, together with the factors affecting performance, financial position and future development are set out on pages 5 to 25. The financial position of the Group including cash flow, liquidity, borrowings, undrawn facilities and debt maturity analysis is set out on pages 23 to 25. The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least 12 months from the date these financial statements were approved. Therefore, they continue to adopt the going concern basis in preparing the financial statements.

Critical judgements, assumptions and estimates

The preparation of these financial statements requires the Board to make judgements, assumptions and estimates that affect amounts reported in the Statement of Comprehensive Income and Balance Sheet. Such decisions are made at the time the financial statements are prepared and adopted based on the best information available. Actual outcomes may be different from initial estimates and are reflected in the financial statements as soon as they become apparent.

The directors consider the valuation of investment properties to be critical because of the level of complexity, judgement or estimation involved and its impact on the financial statements.

The Group's wholly-owned portfolio is valued by its external valuers, Cushman & Wakefield. Knight Frank LLP value the investment properties owned by the Longmartin joint venture. The valuations are used as the basis for the fair value of investment properties.

The valuation of the Group's property portfolio is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rental income. As a result, the valuations the Group places on its property portfolio are subject to a degree of uncertainty and are made on the basis of assumptions which may not prove to be accurate, particularly in periods of volatility or low transaction flow in the commercial property market. Cushman & Wakefield and Knight Frank LLP make a number of assumptions in forming their opinion on the valuation of our investment properties, which are detailed in the Basis of Valuation on pages 26 to 27. These assumptions are in accordance with the RICS Valuation – Global Standards. However, if any assumptions made by the external valuers prove to be incorrect, this may mean that the value of the Group's properties differs from their valuation reported in the financial statements, which could have a material effect on the Group's financial position. See note 8 for further information.

New accounting standards and interpretations

a) The following amendments to existing Standards and Interpretations were relevant to the Group and mandatory for the first time for the financial year ended 30 September 2017:

Standard or Interpretation	Effective from
Annual Improvements 2012-2014	1 January 2016
Amendments to IFRS 11 Joint arrangements on acquisition of an interest in a joint operation	1 January 2016
Amendments to IAS 16 and IAS 38 on depreciation and amortisation	1 January 2016
Amendments to IAS 27 Separate financial statements on equity accounting	1 January 2016
Amendments to IFRS 10, 12 and IAS 28 on consolidation for investment entities	1 January 2016
Amendments to IAS 1 Presentation of financial statements disclosure initiative	1 January 2016

No material changes to accounting policies arose as a result of these amendments.

b) The following new Standards and amendments to existing Standards are relevant to the Group, are not yet effective in the year ended 30 September 2017 and are not expected to have a significant impact on the Group's financial statements:

Standard or Interpretation	Effective from
Amendments to IAS 7 Statement of cash flows - disclosure initiative	1 January 2017
Amendments to IFRS 2 Classification of share-based payment transactions	1 January 2018
IFRS 9 Financial instruments	1 January 2018
IFRS 15 Revenue from contracts with customers	1 January 2018
IFRS 16 Leases	1 January 2019

IFRS 9 – Financial Instruments

This standard deals with, amongst other things, the classification and measurement of financial instruments. Having carried out an assessment of the standard, the Group believes the main impact will be the measurement and presentation of trade receivables in the Group financial statements, and balances due from subsidiaries in the Company financial statements. Having considered expected credit losses and sources of forward-looking data, we do not currently expect any impact will be material.

IFRS 15 – Revenue from contracts with customers

This standard is based on the principle that revenue is recognised when control passes to a customer. In our case, the standard is most applicable to the recognition point for service charge income and disposals of investment properties. As the standard excludes rental income, which falls within the scope of IFRS 16 – Leases, it is not expected that IFRS 15 will have a significant impact on the Group's financial statements. There may be changes to presentation and disclosure.

IFRS 16 - Leases

For operating leases in excess of one year, this standard requires lessees to recognise a right-of-use asset and a related lease liability representing the obligation to make lease payments. The right-of-use asset is assessed for impairment annually and is amortised on a straight-line basis. The lease liability is amortised using the effective interest method. Lessor accounting is substantially unchanged from current accounting. Therefore, since the Group is primarily a lessor, this standard does not significantly impact the Group's financial statements. However, for the Company, it will result in the recognition of a right-to-use asset and corresponding lease liability, which we estimate at approximately £3 million, in the year when the standard becomes effective.

c) There are no other Standards or Interpretations that are not yet effective that would be expected to have a material impact on the Group.

Segmental information

The Group's properties, which are all located in London's West End, are managed as a single portfolio. Its properties, which are of a similar type, are combined into villages. All of the villages are geographically close to each other and have similar economic features and risks. In view of the similar characteristics and the reporting of all investment, income and expenditure to the Board at an overall Group level, the aggregation criteria set out in IFRS 8 have been applied to give one reportable segment.

The Board assesses the performance of the reportable segment based on net property income and investment property valuation. Financial information provided to the Board is prepared on a basis consistent with these financial statements.

2. Revenue

	2017 £m	2016 £m
Rents receivable	**103.4**	98.4
Recoverable property expenses	**8.1**	7.8
	111.5	106.2

Rents receivable includes a charge of £0.5 million from amortisation of accrued income in respect of lease incentives (2016: credit of £0.5 million).

3. Property charges

	2017 £m	2016 £m
Property operating costs	**7.1**	6.5
Fees payable to managing agents	**2.4**	2.3
Letting, rent review, and lease renewal costs	**3.4**	3.3
Village promotion costs	**2.2**	2.2
Property outgoings	**15.1**	14.3
Recoverable property expenses	**8.1**	7.8
	23.2	22.1

4. Equity-settled remuneration

	2017 £m	2016 £m
Charge for share-based remuneration	**1.4**	1.9
Employer's national insurance in respect of share awards	**0.4**	0.6
	1.8	2.5

5. Profit on disposal of investment properties

	2017 £m	2016 £m
Net sale proceeds	**13.4**	-
Book value at date of sale	**(12.3)**	-
	1.1	-

6. Finance costs

	2017 £m	2016 £m
Debenture stock interest and amortisation	**0.1**	5.0
Mortgage bond interest	**7.4**	-
Bank and other interest	**23.8**	27.7
Issue cost amortisation	**1.5**	1.0
	32.8	33.7

7. Tax charge for the year

The Group's wholly-owned business is subject to taxation as a REIT. Under the REIT regime, income from its rental business (calculated by reference to tax rather than accounting rules) and chargeable gains from the sale of its investment properties are exempt from corporation tax.

8. Investment properties

	2017 £m	2016 £m
At 1 October	**3,111.6**	2,908.0
Acquisitions	**37.1**	62.7
Disposals	**(12.3)**	-
Refurbishment and other capital expenditure	**40.3**	32.6
Net surplus on revaluation of investment properties	**230.6**	108.3
Book value at 30 September	**3,407.3**	3,111.6
Fair value at 30 September:		
Core properties valued by Cushman & Wakefield	**3,416.5**	3,123.6
Non-core properties valued by Cushman & Wakefield	**2.4**	-
Less: unamortised lease incentives (note 9)	**(11.6)**	(12.0)
Book value at 30 September	**3,407.3**	3,111.6

The investment properties valuation comprises:

	2017 £m	2016 £m
Freehold properties	**3,133.0**	2,864.8
Leasehold properties	**285.9**	258.8
	3,418.9	3,123.6

Investment properties were valued at 30 September 2017 by qualified professional valuers, being members of the Royal Institution of Chartered Surveyors (RICS), working for Cushman & Wakefield, Chartered Surveyors, acting in the capacity of external valuers.

All properties were valued on the basis of fair value and highest and best use, in accordance with the RICS Valuation – Global Standards, which incorporate, the International Valuation Standards and the RICS UK Valuation Standards edition current at the valuation date and IFRS 13. When considering a property's highest and best use, the valuer considers its actual and potential uses which are physically, legally and financially viable. Where the highest and best use differs from the existing use, the valuer considers the use a market participant would have in mind when formulating the price it would bid and reflects the cost and likelihood of achieving that use.

The fair value of the Group's investment properties has primarily been determined using a market approach, which provides an indication of value by comparing the subject asset with similar assets for which price information is available. The external valuer uses information provided by the Group, such as tenancy information and capital expenditure expectations. In deriving fair value, the valuer also makes a series of assumptions, using professional judgement and market observations. These assumptions include equivalent yields and rental values (ERVs) applicable to the properties. Equivalent yields are based on current market prices, depending on, inter alia, the location and use of the properties. ERVs are calculated using a number of factors which include current rental income, market comparatives and occupancy levels. Whilst there is market evidence for these inputs, and recent transaction prices for similar properties, there is still a significant element of estimation and judgement.

As a result of adjustments made to market observable data, these significant inputs are deemed unobservable. Since the key inputs to the valuation are unobservable, the Group considers all its investment properties fall within Level 3 of the fair value hierarchy in IFRS 13. The Group's policy is to recognise transfers between hierarchy levels as at the date of the event or change in circumstances that caused the transfer. There have been no transfers during the year (2016: none).

The key assumptions made by the valuers are set out in the Basis of Valuation on pages 26 to 27.

The major inputs to the external valuation are reviewed by the senior management team. In addition, the valuer meets with external auditors and the Audit Committee.

Fees were agreed at fixed amounts in advance of the valuations being carried out. It is noted that Cushman & Wakefield acted as letting agents for Shaftesbury Carnaby PLC and Shaftesbury Soho Limited in the year. The fees payable by the Group to Cushman & Wakefield do not constitute a significant part of their fee income.

Sensitivity analysis

As noted in the critical judgements, assumptions and estimates section on page 32, the valuation of the Group's property portfolio is inherently subjective. As a result, the valuations the Group places on its property portfolio are subject to a degree of uncertainty and are made on the basis of assumptions which may not prove to be accurate, particularly in periods of volatility or low transaction flow in the commercial property market.

The Group's properties are all located in London's West End and are virtually all multi-use buildings, usually configured with commercial uses on the lower floors and office and/or residential uses on the upper floors. Cushman & Wakefield value properties in their entirety and not by use, consequently the sensitivity analysis below has been performed on the Group's portfolio as a whole.

	Change in ERV		**Change in equivalent yields**	
	+5.0% **£m**	**-5.0%** **£m**	**+0.25%** **£m**	**-0.25%** **£m**
Increase/(decrease) in the fair value of investment properties	**153.7**	**(154.4)**	**(241.9)**	**275.8**

These key unobservable inputs are inter-dependent. All other factors being equal, a higher equivalent yield would lead to a decrease in the valuation of a property, and an increase in the ERV would increase the capital value, and vice versa.

At 30 September 2017, the Group had capital commitments of £13.6 million (2016: £31.3 million). See pages 16 to 17 for a discussion of the Group's property activity during the year.

9. Accrued income

	2017 **£m**	2016 £m
Accrued income in respect of lease incentives	**11.6**	12.0
Less: included in trade and other receivables (note 11)	**(2.1)**	(2.2)
	9.5	9.8

Lease incentives are allocated between amounts to be charged against rental income within one year of the Balance Sheet date and amounts which will be charged against rental income in subsequent years.

10. Investment in joint venture

	2017 **£m**	2016 £m
Group		
At 1 October	**146.4**	129.6
Share of profits	**6.4**	18.5
Dividends received	**(4.8)**	(1.7)
Book value 30 September	**148.0**	146.4

The summarised Statement of Comprehensive Income and Balance Sheet used for consolidation purposes are presented below:

	2017 £m	2016 £m
Statement of Comprehensive Income		
Rents receivable	**17.7**	15.1
Recoverable property expenses	**1.5**	1.4
Revenue from properties	**19.2**	16.5
Property outgoings	**(1.7)**	(1.6)
Recoverable property expenses	**(1.5)**	(1.4)
Property charges	**(3.2)**	(3.0)
Net property income	**16.0**	13.5
Administrative expenses	**(0.2)**	(0.4)
Operating profit before investment property valuation movements	**15.8**	13.1
Net surplus on revaluation of investment properties	**5.3**	22.5
Operating profit	**21.1**	35.6
Net finance costs	**(6.8)**	(6.6)
Profit before tax	**14.3**	29.0
Current tax	**(1.7)**	(1.2)
Deferred tax	**0.2**	9.1
Tax (charge)/credit for the year	**(1.5)**	7.9
Profit and total comprehensive income for the year	**12.8**	36.9
Profit attributable to the Group	**6.4**	18.5

	2017 £m	2016 £m
Balance Sheet		
Non-current assets		
Investment properties at book value	**462.6**	455.0
Accrued income	**3.1**	4.0
Other receivables	**1.3**	1.3
	467.0	460.3
Cash and cash equivalents	**1.2**	4.1
Current assets	**3.9**	4.0
Total assets	**472.1**	468.4
Current liabilities	**10.1**	9.4
Non-current liabilities		
Secured term loan	**120.0**	120.0
Other non-current liabilities	**46.1**	46.3
Total liabilities	**176.2**	175.7
Net assets	**295.9**	292.7
Net assets attributable to the Group	**148.0**	146.4

11. Trade and other receivables

	2017 **£m**	2016 £m
Amounts due from tenants	**12.0**	10.5
Provision for doubtful debts	**(0.5)**	(0.5)
	11.5	10.0
Accrued income in respect of lease incentives (note 9)	**2.1**	2.2
Amounts due from joint venture	**0.9**	0.9
Prepayments	**7.1**	4.4
Other receivables	**0.4**	1.8
	22.0	19.3

Amounts due from tenants at each year end included amounts contractually due and invoiced on 29 September in respect of rents and service charge contributions in advance for the period 29 September to 24 December. As at 30 September 2017, amounts due from tenants which were more than 90 days overdue totalled £1.1 million (2016: £1.5 million) and are considered to be past due. Provisions against these overdue amounts totalled £0.4 million (2016: £0.4 million). The remaining balance is not considered to be impaired.

At 30 September 2017, cash deposits totalling £18.5 million (2016: £18.0 million) were held against tenants' rent payment obligations. The deposits are held in bank accounts administered by the Group's managing agents.

12. Cash and cash equivalents

Cash and cash equivalents at 30 September 2017, comprising cash at bank, were £45.6 million (2016: £15.6 million).

Non-current other receivables include £3.7 million at 30 September 2017 (2016: £3.7 million) which relate to cash held on deposit as security for certain secured term loans, and where there are certain conditions restricting their use.

13. Trade and other payables

	2017 **£m**	2016 £m
Rents and service charges invoiced in advance	**22.8**	21.3
Amounts due in respect of property acquisitions	**-**	0.7
Trade payables and accruals in respect of capital expenditure	**4.0**	5.2
Other taxation and social security	**5.2**	6.1
Other payables and accruals	**9.6**	12.0
	41.6	45.3

14. Borrowings

	2017			2016		
	Nominal value £m	**Unamortised issue cost £m**	**Book value £m**	Nominal value £m	Unamortised issue costs £m	Book value £m
Current borrowings						
Debenture Stock	**-**	**-**	**-**	92.2	-	92.2
Non-current borrowings						
Mortgage bonds	**575.0**	**(5.8)**	**569.2**	-	-	-
Secured bank facilities	**-**	**(0.8)**	**(0.8)**	290.7	(1.7)	289.0
Secured term loans	**384.8**	**(4.4)**	**380.4**	384.8	(4.7)	380.1
Total non-current borrowings	**959.8**	**(11.0)**	**948.8**	675.5	(6.4)	669.1
Total borrowings	**959.8**	**(11.0)**	**948.8**	767.7	(6.4)	761.3

At 30 September 2017, there were no drawings against the secured bank facilities (2016: £290.7 million). The Group is still able to benefit from these committed revolving credit facilities, and as such, unamortised issue costs of £0.8 million continue to be carried in the Balance Sheet.

Net debt	**2017 £m**	2016 £m
Nominal borrowings – gross	**959.8**	767.7
Cash and cash equivalents (note 12)	**(45.6)**	(15.6)
	914.2	752.1

On 7 October 2016, Shaftesbury Carnaby PLC, a subsidiary of Shaftesbury PLC (the Company), issued £285 million of Guaranteed First Mortgage Bonds (mortgage bonds 2031) with a coupon of 2.487% and maturity in September 2031. The bonds are secured by fixed charges over the properties held by Shaftesbury Carnaby PLC and a floating charge over Shaftesbury Carnaby PLC's assets. They also benefit from an unsecured guarantee from the Company.

On the same day, the Company's existing £61.0 million Debenture Stock (the stock) was redeemed in full, being satisfied by existing holders of the stock exchanging their stock for new bonds, or taking cash. Of the £285 million proceeds raised by the issue of the new bonds, £92.2 million was used to redeem the existing stock. This was satisfied by £10.4 million of cash and £81.8 million of new bonds. The fixed and floating charges relating to the stock were released.

On 7 September 2017, Shaftesbury Chinatown PLC, a subsidiary of the Company, issued £290 million of Guaranteed First Mortgage Bonds (mortgage bonds 2027) with a coupon of 2.348% and maturity in September 2027. The bonds are secured by fixed charges over the properties held by Shaftesbury Chinatown PLC and a floating charge over Shaftesbury Chinatown PLC's assets. They also benefit from an unsecured guarantee from the Company.

The Group's borrowings are secured by fixed charges over certain investment properties held by subsidiaries, with a carrying value of £3,015.4 million (2016: £2,436.9 million), and by floating charges over the assets of the Company and/or certain subsidiaries.

Availability and maturity of borrowings

	2017 Facilities			2016 Facilities		
	Committed £m	**Drawn £m**	**Undrawn £m**	Committed £m	Drawn £m	Undrawn £m
Repayable within 1 year	**-**	**-**	**-**	92.2	92.2	-
Repayable between 2 and 5 years	**275.0**	**-**	**275.0**	350.0	290.7	59.3
Repayable between 5 and 10 years	**290.0**	**290.0**	**-**	-	-	-
Repayable after 10 years	**669.8**	**669.8**	**-**	384.8	384.8	-
	1,234.8	**959.8**	**275.0**	827.0	767.7	59.3

Interest rate profile of interest bearing borrowings

	2017		2016	
	Debt £m	**Interest rate**	Debt £m	Interest rate
Floating rate borrowings				
LIBOR-linked facilities (including margin)	**-**	**-**	110.7	1.75%
Hedged borrowings				
Interest rate swaps (including margin)	**-**	**-**	180.0	6.17%
Total bank borrowings	**-**	**-**	290.7	4.49%
Fixed rate borrowings				
Secured term loans	**384.8**	**3.85%**	384.8	3.85%
Mortgage bonds 2027	**290.0**	**2.35%**	-	-
Mortgage bonds 2031	**285.0**	**2.49%**	-	-
8.5% First Mortgage Debenture Stock - book value	**-**	**-**	92.2	7.93%
Weighted average cost of drawn borrowings		**2.99%**		4.45%

The Group also incurs non-utilisation fees on undrawn facilities. At 30 September 2017, the weighted average charge on the undrawn facilities of £275.0 million (2016: £59.3 million) was 0.69% (2016: 0.70%).

The weighted average credit margin on the Group's current bank facilities was:

	2017	2016
Drawn facilities	**-**	1.33%
If facilities were fully drawn	**1.51%**	1.37%

Details of the Group's current financial position are discussed on pages 23 to 25.

15. Financial instruments

Fair value of derivative financial instruments	**2017 £m**	2016 £m
Interest rate swaps		
At 1 October – deficit	**(114.1)**	(79.2)
Swap contracts terminated	**92.1**	-
Fair value movement credited/(charged) to the Statement of Comprehensive Income	**22.0**	(34.9)
At 30 September – deficit	**-**	(114.1)

During the year the Group terminated interest rate swap contracts with a notional principal of £180.0 million at a cost of £92.1 million.

Other financial instruments
The Group's mortgage bonds and secured term loans are held at amortised cost in the Balance Sheet. The fair value of these financial instruments is in excess of book value. This excess, which is not recognised in the reported results for the year, is £16.2 million (2016: £52.5 million). The fair values have been calculated based on a discounted cash flow model using the relevant reference gilt and appropriate market spread. The valuation technique falls within Level 2 of the fair value hierarchy in IFRS 13.

The fair values of the Group's cash and cash equivalents, and those financial instruments included within trade and other receivables, interest bearing borrowings (excluding the mortgage bonds and the secured term loans), and trade and other payables are not materially different from the values at which they are carried in the financial statements.

16. Share capital

	2017 Number Million	2016 Number Million	**2017 £m**	2016 £m
Allotted and fully paid (ordinary 25p shares)				
At 1 October	**278.6**	278.2	**69.7**	69.6
Exercise of share options	**0.4**	0.4	**0.1**	0.1
At 30 September	**279.0**	278.6	**69.8**	69.7

During the year, 451,000 ordinary 25p shares were issued in connection with the exercise of nil cost options granted under the 2006 LTIP and 26,247 shares were issued in connection with the exercise of Sharesave scheme options with a weighted average exercise price of £4.83.

17. Dividends

	2017 £m	2016 £m
Final dividend for:		
Year ended 30 September 2016 at 7.55p per share	**21.3**	-
Year ended 30 September 2015 at 6.925p per share	**-**	19.5
Interim dividend for:		
Year ended 30 September 2017 at 7.9p per share	**22.0**	-
Year ended 30 September 2016 at 7.15p per share	**-**	19.9
Dividends for the year	**43.3**	39.4
Timing difference on payment of withholding tax	**1.2**	(1.2)
Dividends cash paid	**44.5**	38.2

A final dividend of 8.1p per share was recommended by the Board on 27 November 2017. Subject to approval by shareholders at the 2018 AGM, the final dividend will be paid as an ordinary dividend on 16 February 2018 to shareholders on the register at 19 January 2018. The dividend totalling £22.6 million will be accounted for as an appropriation of revenue reserves in the year ending 30 September 2018. See page 21 for commentary on dividends.

18. Cash flows from operating activities

Operating activities	2017 £m	As restated 2016 £m
Profit before tax	**301.6**	99.1
Adjusted for:		
Lease incentives recognised (note 2)	**0.5**	(0.5)
Charge for share-based remuneration (note 4)	**1.4**	1.9
Depreciation	**0.3**	0.4
Investment property valuation movements (note 8)	**(230.6)**	(108.3)
Profit on disposal of investment properties (note 5)	**(1.1)**	-
Net finance costs	**10.7**	97.7
Share of profit from joint venture (note 10)	**(6.4)**	(18.5)
Cash flows from operations before changes in working capital	**76.4**	71.8
Changes in working capital:		
Change in trade and other receivables	**(0.5)**	(0.2)
Change in trade and other payables	**0.8**	3.0
Cash generated from operating activities	**76.7**	74.6

19. Movement in borrowings

	1.10.2016 £m	Cash flows £m	Non-cash items £m	30.9.2017 £m
Group				
Mortgage bonds	**-**	**(493.2)**	**(81.8)**	**(575.0)**
8.5% First Mortgage Debenture Stock 2024	**(92.2)**	**10.4**	**81.8**	**-**
Secured bank facilities	**(290.7)**	**290.7**	**-**	**-**
Secured term loans	**(384.8)**	**-**	**-**	**(384.8)**
Issue costs	**6.4**	**6.1**	**(1.5)**	**11.0**
	(761.3)	**(186.0)**	**(1.5)**	**(948.8)**
Year ended 30 September 2016	(640.3)	(91.0)	(30.0)	(761.3)

20. Performance measures

Earnings per share

	2017			2016		
	Profit after tax **£m**	**Number of shares** **Million**	**Earnings per share** **Pence**	Profit after tax £m	Number of shares Million	Earnings per share Pence
Basic	**301.6**	**278.9**	**108.1**	99.1	278.4	35.6
Dilutive effect of share options	**-**	**0.7**	**(0.2)**	-	1.0	(0.1)
Diluted	**301.6**	**279.6**	**107.9**	99.1	279.4	35.5

EPRA earnings per share
The calculations below are in accordance with the EPRA Best Practice Recommendations.

	2017			2016		
	Profit after tax £m	**Number of shares Million**	**Earnings per share Pence**	Profit after tax £m	Number of shares Million	Earnings per share Pence
Basic	**301.6**	**278.9**	**108.1**	99.1	278.4	35.6
EPRA adjustments:						
Investment property valuation surplus (note 8)	**(230.6)**		**(82.7)**	(108.3)		(38.9)
Profit on disposal of investment properties (note 5)	**(1.1)**		**(0.4)**	-		-
Movement in fair value of derivatives (note 15)	**(22.0)**		**(7.9)**	34.9		12.5
Recognition of fair value of Debenture Stock	**-**		**-**	29.2		10.5
Adjustments in respect of the joint venture:						
Investment property valuation surplus	**(2.6)**		**(0.9)**	(11.3)		(4.1)
Deferred tax	**(0.1)**		**-**	(4.6)		(1.6)
EPRA earnings	**45.2**	**278.9**	**16.2**	39.0	278.4	14.0

Net asset value per share
The calculations below are in accordance with the EPRA Best Practice Recommendations.

	2017			2016		
	Net assets £m	**Number of ordinary shares Million**	**Net asset value per share £**	Net assets £m	Number of ordinary shares Million	Net asset value per share £
Basic	**2,646.9**	**279.0**	**9.49**	2,387.1	278.6	8.57
Dilutive effect of share options	**0.5**	**0.8**		0.5	1.0	
Diluted	**2,647.4**	**279.8**	**9.46**	2,387.6	279.6	8.54
Fair value of derivatives	**-**		**-**	76.1		0.27
Deferred tax*	**17.9**		**0.06**	18.0		0.07
EPRA NAV	**2,665.3**	**279.8**	**9.52**	2,481.7	279.6	8.88
Fair value of derivatives	**-**		**-**	(76.1)		(0.27)
Deferred tax*	**(17.9)**		**(0.06)**	(18.0)		(0.07)
Excess of fair value over carrying value of debt:						
Secured term loans*	**(40.0)**		**(0.14)**	(64.9)		(0.23)
Mortgage bonds	**15.5**		**0.05**	-		-
EPRA NNNAV	**2,622.9**	**279.8**	**9.37**	2,322.7	279.6	8.31

* Includes our 50% share of deferred tax and fair value of secured term loans in the Longmartin joint venture.

The calculations of diluted net asset value per share show the potentially dilutive effect of share options outstanding at the Balance Sheet date and include the increase in shareholders' equity which would arise on the exercise of those options.

In accordance with EPRA recommendations, the adjustment for the fair value of derivatives at 30 September 2016 excludes those interest rate swaps which were cancelled in October 2016.

Net asset value return

	2017 Pence	2016 Pence
EPRA NAV at 1 October (A)	**888.00**	869.00
EPRA NAV at 30 September	**952.00**	888.00
Increase during the year	**64.00**	19.00
Dividends paid during the year	**15.45**	14.08
NAV return (B)	**79.45**	33.08
NAV return % (B/A)	**8.9%**	3.8%

Financing ratios

	2017			2016		
	Wholly-owned business £m	**Share of joint venture £m**	**Total £m**	Wholly-owned business £m	Share of joint venture £m	Total £m
Loan to value and gearing						
Nominal value of debt	**959.8**	**60.0**	**1,019.8**	767.7	60.0	827.7
Cash and cash equivalents	**(45.6)**	**(0.6)**	**(46.2)**	(15.6)	(2.0)	(17.6)
Net debt (A)	**914.2**	**59.4**	**973.6**	752.1	58.0	810.1
Fair value of investment properties (B)	**3,418.9**	**227.8**	**3,646.7**	3,123.6	224.4	3,348.0
Loan to value (A/B)	**26.7%**	**26.1%**	**26.7%**	24.1%	25.8%	24.2%
EPRA net assets (C)			**2,665.3**			2,481.7
Gearing (A/C)			**36.5%**			32.6%
Interest cover						
Operating profit before investment property disposals and valuation movements (A)	**74.2**	**7.9**	**82.1**	70.0	6.6	76.6
Finance costs	**32.8**	**2.7**	**35.5**	33.7	2.7	36.4
Finance income	**(0.1)**	**-**	**(0.1)**	(0.1)	-	(0.1)
Net finance costs (B)	**32.7**	**2.7**	**35.4**	33.6	2.7	36.3
Interest cover (A/B)	**2.3x**	**2.9x**	**2.3x**	2.1x	2.4x	2.1x

For the wholly-owned group, the blended cost of debt is 3.19% (2016: 4.47%). This is calculated using the drawn cost of borrowings of 2.99% (2016: 4.45%) plus the cost of commitment fees on undrawn bank facilities of 0.69% (2016: 0.70%). At 30 September 2017, the undrawn bank facilities totalled £275.0 million (2016: £59.3 million). For total debt, the blended cost of debt is 3.26% (2016: 4.52%) and includes the impact of our share of debt in our joint venture of £60 million (2016: £60 million), upon which interest is charged at 4.43% (2016: 4.43%).

See also pages 18 to 22 for explanations of why we use these performance measures.

21. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Transactions and balances between the Company and its joint venture, which have not been eliminated on consolidation are summarised below:

	2017 **£m**	2016 £m
Transactions with joint venture:		
Administrative fees receivable	**0.1**	0.2
Dividends receivable	**4.8**	1.7
Interest receivable	**-**	0.1
Amount due from joint venture	**0.9**	0.9

22. Annual General Meeting

The 2018 Annual General Meeting will be held at The Ham Yard Hotel, 1 Ham Yard, London W1D 7DT on 9 February 2018 at 11.00 am.

Directors' responsibilities

The directors are responsible for preparing the Annual Report, the Remuneration 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 the directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies in accordance with IAS 8 'accounting policies, changes in accounting estimates and errors' and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state that the Group and Company has complied with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to do so.

Directors' responsibility statement under the Disclosure and Transparency Rules

Each of the directors, confirm that, to the best of their knowledge:

- the Group and Company financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

Directors' statement under the UK Corporate Governance Code

The Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the directors confirm that to the best of their knowledge the Annual Report:

- presents information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provides additional disclosures when compliance with the specific requirements of IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's and Company's financial position and performance.

A copy of the financial statements of the Group is placed on the Company's website. Information published on the internet is accessible in many countries with different legal requirements. This responsibility statement was approved by the Board and signed on its behalf by:

Brian Bickell	**Chris Ward**
Chief Executive	Finance Director
27 November 2017	27 November 2017

Risk management

The Board's attitude to risk management is consistent with its low overall appetite for risk.

Overview

The Board structures the Group's operations to minimise exposure to investment, operational and financial risks, and to ensure that there is a rigorous, regular review of risks and mitigation across its activities.

Important factors contributing to the relatively low risk of our business include:

- The Group invests only in London's West End, where there is a long history of resilience, stability and sustained occupier demand for restaurant, leisure and retail space, which are the principal sources of our rental income and portfolio value
- With a diverse tenant base, there is limited exposure to any single tenant
- The nature of our portfolio does not expose us to risks inherent in material speculative development schemes
- We have an established and experienced management team, based in one location, close to all our holdings
- We manage our balance sheet on a conservative basis with moderate leverage, long-term finance, a spread of loan maturities, good interest cover and with the majority of interest costs fixed.

Management structure

As a foundation to effective day-to-day risk management, we have a culture which encourages open dialogue within the management team and with the wide range of external advisors we employ in running the business. Our team, based in one office, within fifteen minutes' walk of all our holdings, comprises four executive directors and 25 staff. The executive management team, with an average tenure of over 16 years, has an in-depth knowledge of our business and the West End property market.

The Board's attitude to risk is embedded in the business, with executive directors closely involved in all aspects of operations and significant decisions. Non-executive directors approve capital, debt and non-routine transactions over a specified level.

Senior management, below Board level, is incentivised in the same way as executive directors to achieve the Group's strategic goals of delivering long-term growth in rental income, capital values and shareholder returns. Decisions are made for long-term benefit, rather than short-term gain. Succession planning across the management team is continually monitored by the Board.

Responsibilities

Board	Overall responsibility for risk management. Reviews principal risks and uncertainties regularly, along with actions taken, where practical, to mitigate them.
Audit Committee	Assurance over the internal controls and risk management process.
Executive management	Day-to-day management of risk. Design and implementation of appropriate and effective systems of internal control.

Risk management and internal control

The Board reviews the nature and extent of the Group's principal risks and uncertainties, and monitors the risk management framework and internal control systems. Such systems are designed to manage, rather than eliminate, the risks faced by the business and can provide only reasonable, not absolute, assurance against material misstatement or loss. Their adequacy and effectiveness are monitored through the risk management and audit processes which include financial and property management audits.

The Group has established processes and procedures to identify, assess, and manage the principal risks and uncertainties we face. These processes and procedures were in place throughout the year and remained in place up to the date of the approval of the Annual Report and accord with the Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting (2014).

The key elements of the Group's procedures and internal financial control framework are:

- Close involvement of the executive directors in all aspects of day-to-day operations, including regular meetings with employees to review risks and controls.
- Clearly defined responsibilities and limits of authority.
- Defined schedule of matters for decision by the Board including significant acquisitions, disposals, major contracts, material refurbishment/development proposals and any other transaction outside the normal course of business.
- A comprehensive system of financial reporting and forecasting, which includes forecast liquidity requirements and loan covenant compliance.
- The day-to-day management of the Group's portfolio is outsourced to two managing agents. The Group monitors the performance of each managing agent and has established extensive financial and operational controls to ensure that each maintains an acceptable level of service and provides reliable financial and operational information. The managing agents share with the Group their internal control assessments. The Group periodically uses the services of an external consultant to review the managing agents' operational processes and controls.

Risk assessment

Operational and financial risks facing the Group are monitored through a process of regular assessment by the executive team. The aim of this assessment is to:

- Provide reasonable assurance that material risks are identified.
- Ensure appropriate mitigation action is taken at an early stage.

Risks are considered in terms of their impact and likelihood from operational, financial and reputational perspectives. Risks, and the controls in place to mitigate them, are formally reported, discussed and challenged, at meetings of the Audit Committee and the Board. To the extent that significant risks, failings or control weaknesses arise during the year, these are reported to the Board and appropriate action is taken to rectify the issue and implement controls to mitigate further occurrences.

The Audit Committee has monitored the Group's risk management and internal control system, and having reviewed the effectiveness of material controls, has not identified any significant failings or weaknesses in the Group's controls during the year.

Principal risks and uncertainties

The Board has carried out a robust assessment of the principal risks and uncertainties which might prevent the Group achieving its goal of long-term growth in rental income, capital values and shareholder returns. These risks and uncertainties are consistent with those reported in 2016.

The performance of the UK economy has been relatively resilient since the EU referendum in June 2016. Whilst national consumer spending trends are unclear, trading in our locations continues to be buoyant, benefiting from increasing numbers of international visitors, whose spending power has been enhanced by the strength of their local currencies against Sterling since the referendum.

Looking ahead, the UK faces a period of uncertainty as it negotiates its exit from the EU, which brings a risk of lower business and consumer confidence. Whilst it is not possible to conclude as to any long-term impact this may have on our business, we expect the West End, underpinned by its wide appeal and dynamic economy, will maintain its long record of resilience.

Geographic concentration risk

Risk	Potential impact	Mitigation	Commentary
Events which discourage visitors to the West End e.g. • **Threats to security or public safety due to terrorism** • **Health concerns (e.g. pandemics)**	• Reduced visitor numbers, spending and occupier demand • Reduced rental income and/or capital values • Potential increased vacancy and declining profitability • Damage to property	• Inherent risk given the geographic concentration of our investments in a high profile location • Insurance cover maintained for terrorism and loss-of-rent • Close liaison with statutory authorities to maximise safety of visitors • Detailed emergency response plans	London has a growing population, is the most visited city destination for international tourists in the western world, and current forecasts are for further growth in visitor numbers. Across the West End, spending and occupier demand continue to be healthy The UK's terrorism threat level currently is "severe" after briefly being raised to "critical" earlier this year
Competing destinations lead to long-term decline in footfall in our villages	• Reduced visitor numbers and occupier demand • Reduced rental income and/or capital values • Potential increased vacancy and declining profitability	• Ensure our villages maintain a distinct identity • Management strategies to create prosperous destinations within which tenants can operate • Seek out new concepts, brands and ideas to keep our villages vibrant and appealing • Consistent strategy on tenant mix, which evolves over time • Marketing and promotion of our villages • KPI to deliver sustainable rental growth • Regular board monitoring of performance and prospects	Footfall and occupier demand across our villages remains good. We continue to see rental growth and low underlying vacancy

Regulatory risk

Risk	Potential impact	Mitigation	Commentary
All our properties are in the boroughs of Westminster and Camden. Changes to national or local policies, particularly planning and licensing, could have a significant impact on our ability to maximise the long-term potential of our assets	• Limit our ability to optimise revenues • Reduced profitability • Reduced capital values	• Ensure our properties are operated in compliance with local regulations • Make representations on proposed policy changes, to ensure our views and experience are considered • Mix of uses in our portfolio means we are not reliant on income from one particular use	There are no current indications that the evolution of planning and licensing frameworks, either as a result of national or local legislation, will have a material impact on the Group's business for the foreseeable future

Economic risk

Risk	Potential impact	Mitigation	Commentary
Economic uncertainty and lower confidence could reduce consumer spending. Together with upward cost pressures, this could reduce tenant profitability and occupier demand	• Pressure on rents • Declining profitability • Reduced capital values	• Focus on assets, locations and uses which have historically proved to be economically resilient • Tourism and retail/leisure spending in the West End are not reliant on the wider-UK economy • Promoting our areas • Diverse tenant base with limited exposure to any one tenant • Tenant deposits held against unpaid rent obligations at 30 September 2017: £18.5m	Restaurant, leisure and retail tenants provide 70% of our annualised current income In our areas, trading, footfall and spending have been resilient since the EU referendum and we continue to benefit from healthy demand and rental growth. However, uncertainty will remain until the UK's future arrangements with the EU are negotiated
Decline in the UK real estate market due to macro-economic factors e.g. global political landscape, currency expectations, bond yields, interest rate expectations, availability and cost of finance, relative attractiveness of property compared with other asset classes	• Reduced capital values • Decrease in NAV, amplified by gearing • Loan covenant defaults	• Focus on assets, locations and uses where: - there is a structural imbalance between availability of space and demand - which have historically proved to be economically resilient and have demonstrated much lower valuation volatility than the wider market • Regular review of investment market conditions including bi-annual external valuations • Conservative levels of leverage, with the majority at fixed rates • Spread of sources of finance and loan maturities • Quarterly forecasts including covenant headroom review • Pool of uncharged assets available to top up security held by lenders	Interest rates have continued at historically low levels Present market sentiment is that increases will be moderate and gradual, although the current political and economic backdrop increases uncertainty

Shareholder Information

Corporate Timetable

Financial Calendar

Annual General Meeting and AGM statement	9 February 2018
2018 half year results	May 2018

Dividends and bond interest

Proposed 2017 final dividend:	
Ex-dividend	18 January 2018
Record date	19 January 2018
Payment date	16 February 2018
2018 interim dividend to be paid	July 2018
Bond interest	31 March and 30 September 2018

Effect of REIT status on payment of dividends

As a REIT, we do not pay UK corporation tax in respect of rental profits and chargeable gains relating to our property rental business. However, we are required to distribute at least 90% of the qualifying income (broadly calculated using the UK tax rules) as a PID.

Certain categories of shareholder may be able to receive the PID element of their dividends gross, without deduction of withholding tax. Categories which may claim this exemption include: UK companies, charities, local authorities, UK pension schemes and managers of PEPs, ISAs and Child Trust Funds.

Further information and the forms for completion to apply for PIDs to be paid gross are available on the Group's website or from the registrar.

Where the Group pays an ordinary dividend this will be treated in the same way as dividends from non-REIT companies. The 2017 final dividend is being paid entirely as an ordinary dividend.

Registrar

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex, BN99 6DA

Telephone 0371 384 2294 (International +44 121 415 7047). Lines open 8.30am to 5.30pm, Monday to Friday.

Shareholder accounts may be accessed online through www.shareview.co.uk. This gives secure access to account information instructions. There is also a Shareview dealing service which is a simple and convenient way to buy or sell shares in the Group.

Glossary of terms

Annualised current income
Total annualised actual and 'estimated income' reserved by leases at a valuation date. No rent is attributed to leases which were subject to rent-free periods at that date. It does not reflect any ground rents, head rents nor rent charges and estimated irrecoverable outgoings at the valuation date. 'Estimated income' refers to gross ERVs in respect of rent reviews outstanding at the valuation date and, where appropriate, ERV in respect of lease renewals outstanding at the valuation date where the fair value reflects terms for a renewed lease. Like-for-like growth in annualised current income is the change during a period, adjusted to remove the impact of acquisitions and disposals, expressed as a percentage of annualised current income at the start of the period.

Alternative Performance Measure (APM)
A financial measure of historical or future financial performance, position or cash flows of the Group which is not a measure defined or specified in IFRS.

Best Practices Recommendations (BPR)
Standards set out by EPRA to provide comparable reporting between investment property companies

Blended cost of debt
Weighted average cost of drawn borrowings, plus non-utilisation fees on undrawn borrowings

Compound Annual Growth Rate (CAGR)
The year-on-year growth rate of an investment over a specified period of time.

Diluted net asset value per share
Net asset value per share taking into account the dilutive effect of potential vesting of share options.

EPRA
European Public Real Estate Association.

EPRA adjustments
Standard adjustments to calculate EPRA measures, in accordance with its BPR

EPRA cost ratio
Total costs as a percentage of gross rental income.

EPRA earnings
The level of recurring income arising from core operational activities. It excludes all items which are not relevant to the underlying and recurring portfolio performance.

EPRA EPS
EPRA earnings divided by the weighted average number of shares in issue during a reporting period.

EPRA net assets
Net assets adjusted for items that are not expected to crystallise in normal circumstances, such as the fair value of derivative financial instruments and deferred tax on property valuation surpluses. It includes additional equity if all vested share options were exercised.

EPRA NAV
EPRA net assets per share, including the potentially dilutive effect of outstanding options granted over ordinary shares.

EPRA triple net assets
EPRA net assets amended to include the fair value of financial instruments and debt.

EPRA NNNAV
EPRA NAV amended to include the fair value of financial instruments and debt.

EPRA vacancy
The rental value of vacant property available expressed as a percentage of ERV of the total portfolio.

Equivalent yield
Equivalent yield is the internal rate of return from an investment property, based on the gross outlays for the purchase of a property (including purchase costs), reflecting reversions to current market rent, and such items as voids and non-recoverable expenditure but disregarding potential changes in market rents.

European Public Real Estate Association (EPRA)
EPRA develops policies for standards of reporting disclosure, ethics and industry practices.

Estimated rental value (ERV)
ERV is the market rental value of properties owned by the Group, estimated by the Group's valuers.
Like-for-like ERV growth is the change in ERV during a period, adjusted to remove the impact of acquisitions and disposals, expressed as a percentage of ERV at the start of the period.

Fair value
The amount at which an asset or liability could be exchanged between two knowledgeable, willing and unconnected parties in an arm's length transaction at the valuation date.

Gearing
Nominal value of Group borrowings expressed as a percentage of EPRA net assets.

Interest cover
Operating profit before investment property disposals and valuation movements, divided by finance costs net of finance income.

Like-for-like growth in rents receivable
The increase in rents receivable during an accounting period, adjusted to remove the impact of acquisitions, disposals and changes as a result of larger refurbishment schemes, expressed as a percentage of rents receivable in the corresponding previous accounting period.

Loan-to-value (LTV)
Nominal value of borrowings expressed as a percentage of the fair value of property assets.

Long Term Incentive Plan (LTIP)
An arrangement under which an employee is awarded options in the Company at nil cost, subject to a period of continued employment and the attainment of NAV and TSR targets over a three-year vesting period.

Net asset value (NAV)
Equity shareholders' funds divided by the number of ordinary shares at the balance sheet date.

Net asset value return
The change in EPRA NAV per ordinary share plus dividends paid per ordinary share during the period of calculation, expressed as a percentage of the EPRA NAV per share at the beginning of the period.

Net initial yield
Net initial income at the date of valuation expressed as a percentage of the gross valuation. Yields reflect net income after deduction of any ground rents, head rents, rent charges and estimated irrecoverable outgoings.

Net investment
Acquisitions, plus capital expenditure less disposals in a period

Portfolio reversionary potential
The amount by which the ERV exceeds current income, measured at a valuation date.

Property Income Distribution (PID)
A PID is a distribution by a REIT to its shareholders paid out of qualifying profits. A REIT is required to distribute at least 90% of its qualifying profits as a PID to its shareholders.

Real Estate Investment Trust (REIT)
A REIT is a tax designation for an entity or group investing in real estate that reduces or eliminates corporation tax on rental profits and chargeable gains relating to the rental business, providing certain criteria obligations set out in tax legislation are met.

Topped-up net initial yield
Net initial yield adjusted to assume rent free periods or other unexpired lease incentives, such as discounted rent periods and stepped rents, have expired.

Total Shareholder Return (TSR)
The change in the market price of an ordinary share plus dividends reinvested expressed as a percentage of the share price at the beginning of the period.

Valuation growth
The valuation movement and realised surpluses or deficits arising from the Group's investment property portfolio expressed as a percentage return on the valuation at the beginning of the period adjusted, on a time weighted basis, for acquisitions, disposals and capital expenditure. When measured on a like-for-like basis, the calculation excludes those properties acquired or sold during the period.