capco

Capital & Counties Properties PLC

Annual Report & Accounts 2018

CREATING LONG-TERM VALUE

Capital & Counties Properties PLC (Capco) is one of the largest listed property companies in central London. Our key assets are the Covent Garden and Earls Court estates. We create and grow value through a combination of asset management, strategic investment and selective development.

For more information visit:
www.capitalandcounties.com

Competitive strengths

PRIME ASSETS *See p.4*

- A focus on prime central London, concentrated in large estates

CLEAR AND FOCUSED STRATEGY *See p.14*

- Active asset management, strategic investments and selective development
- Driving rental growth and capital value appreciation

STRONG CAPITAL STRUCTURE *See p.34*

- Conservative leverage and substantial liquidity

EXPERIENCED MANAGEMENT *See p.50*

- Strong track record

EFFECTIVE GOVERNANCE *See p.52*

- Strong commitment to effective corporate governance

In this report

Peloton, Covent Garden

Floral Court, Covent Garden

Phase 1, Lillie Square

Cover image: East Piazza, Covent Garden

Strategic report

Governance

Financial statements

PROPERTY PORTFOLIO[1]

COVENT GARDEN

£2,610m
80% +1.6% lfl

See page 20

EARLS COURT

£658m -15.6% lfl

ECPL & other	£499m	15%
Lillie Square	£159m	5%

See page 30

1. Market value on Group share basis


Royal Opera House Arcade, Covent Garden


Market Building, Covent Garden


East Piazza, Covent Garden


Earls Court Land

BUSINESS MODEL AND STRATEGY

Capco is a property company with a strong emphasis on distinctive placemaking. It unlocks, creates and grows value to deliver sustainable growth and deliver long-term market-leading returns for shareholders.

BUSINESS MODEL

GROUP STRATEGY

ESTATE STRATEGIES

COVENT GARDEN

EARLS COURT

See page 14

EFFECTIVE GOVERNANCE

The framework of oversight, controls and reporting provided by Capco's governance structure supports the business and allows Capco to operate with transparency to achieve its objectives.

THE BOARD

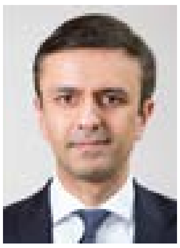
Audit Committee | Remuneration Committee | Nomination Committee

See page 52

EXPERIENCED MANAGEMENT


Ian Hawksworth


Gary Yardley


Situl Jobanputra

Capco's experienced management team leads the Group in delivering its strategy. The Executive Directors aim to deliver strong returns for shareholders and are supported by a senior management team which leads the Group's business units. The Non-executive Directors bring extensive knowledge to the Board's discussions.

See page 50

FINANCIAL RESULTS

Equity attributable to owners
£2.7bn

EPRA net asset value per share
326p

Total shareholder return
-27.3%

Total return
-2.0%

Loan to value (LTV)
18%

Total dividend per share
1.5p

Total property return
-0.4%

Property valuation movement on a like-for-like basis
-2.4%

See page 136 where we discuss our Alternative Performance Measures

OUR ASSETS

Our assets are concentrated around two prime estates in central London with a combined value of £3.3 billion

Covent Garden

100% Capco owned

Earls Court Properties

1

Earls Court Partnership Limited. An investment vehicle with TfL; Capco share 63%

2

Lillie Square.
A 50:50 joint venture with KFI

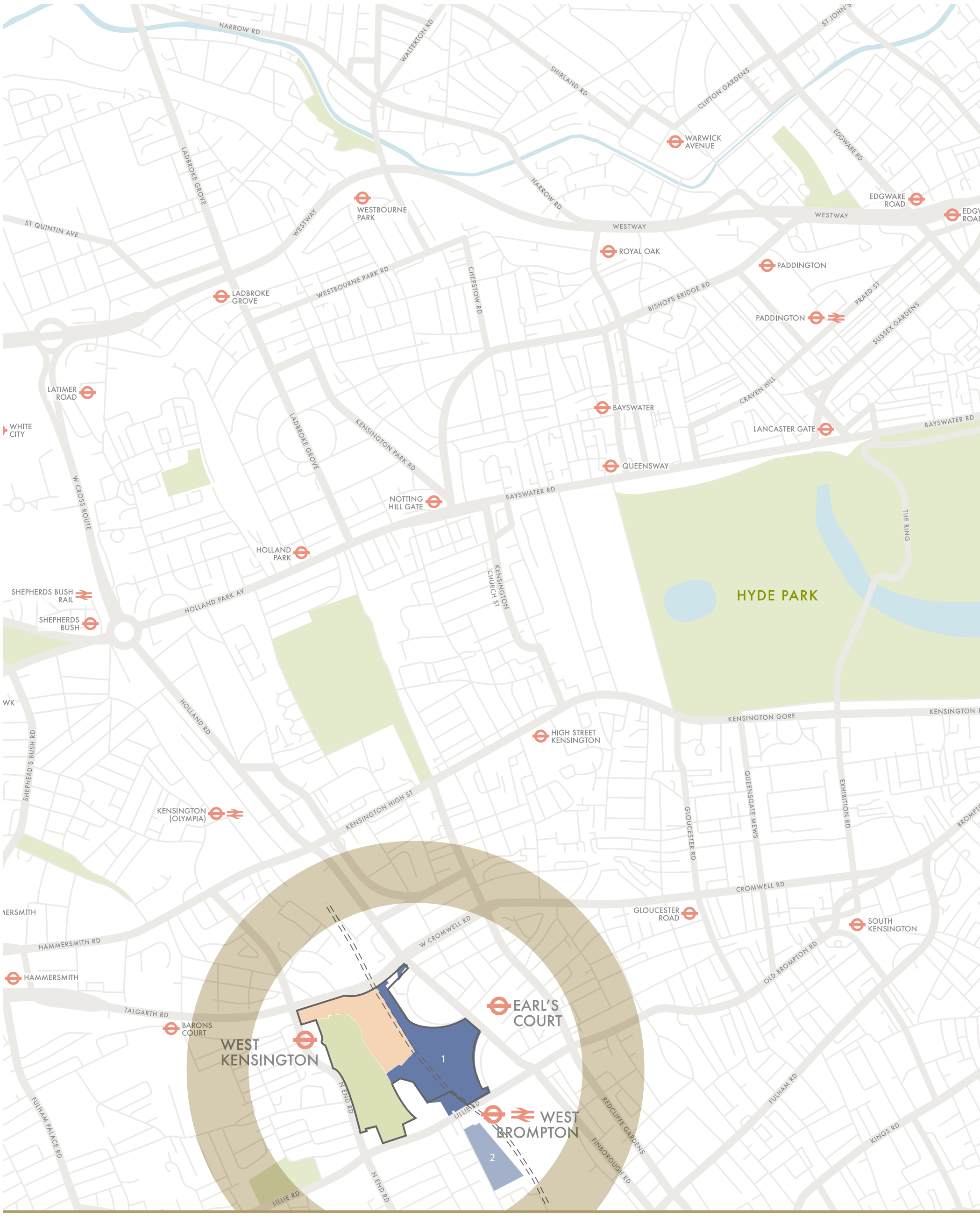
LBHF

Capco has exercised its option under the CLSA relating to this land

TfL

Lillie Bridge Depot.
100% TfL owned

Consented
Earls Court Masterplan



The Earls Court landowners' map above is indicative
The Covent Garden area has been magnified x 1.95


RUSSELL SQUARE
THEOBALDS RD
GOODGE ST
HIGH HOLBORN
HOLBORN
NEW OXFORD ST
TOTTENHAM COURT ROAD
OXFORD ST
OXFORD CIRCUS
KINGSWAY
COVENT GARDEN
LONG ACRE
CHARING CROSS RD
ALDWYCH
FLEET ST
SHAFTESBURY AV
REGENT ST
TEMPLE
PICCADILLY CIRCUS
LEICESTER SQUARE
STRAND
WATERLOO BRIDGE
PICCADILLY
CHARING CROSS
EMBANKMENT
PALL MALL
VICTORIA EMBANKMENT
YORK RD
WATERLOO
WESTMINSTER
BAKER STREET
MARYLEBONE
OLD STREET
KNIGHTSBRIDGE
SLOANE SQUARE
PIMLICO
VAUXHALL BRIDGE
VAUXHALL
KENNINGTON
ELEPHANT & CASTLE
LONDON BRIDGE
CHELSEA BRIDGE

AN ACTIVE YEAR

Covent Garden

Estate Animation

An active consumer-focused calendar of events and activations throughout the year from Anya Hindmarch's Chubby Hearts to Royal Wedding celebrations and a programme of pop-up events on the Piazza

Covent Garden

Floral Courtyard al fresco dining

The Petersham and La Goccia restaurants from Petersham Nurseries bring Floral Courtyard to life and reveal new public space and pedestrian passageway from Floral Street to King Street

Covent Garden

Greening the estate

Consistently referencing the heritage of Covent Garden in an authentic way with continued initiatives to introduce and enhance estate-wide greening. The "Covent Garden In Bloom" marketing campaign continues to go from strength to strength annually in collaboration with our brands

Covent Garden

The Shop at Bluebird

Multi-brand retail concept store relocates from Chelsea to Floral Street, bringing an influential edit of the best in fashion, accessories, art and homewares to Grade II listed Carriage Hall

Covent Garden

Tiffany & Co. open flagship on James Street

Iconic New York jewellery brand chooses Covent Garden to showcase its innovative retail approach with a new flagship concept store on James Street

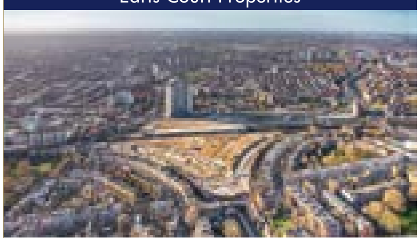
Covent Garden

Record year for openings

2018 saw a record number of 21 openings across the estate including The Alkemistry, Mariage Frères, Cora Pearl, The Petersham and Avobar broadening the offer with world-class British and global brands, in many cases opening their first London location

FEBRUARY 2018 | MARCH | APRIL | MAY | JUNE | JULY

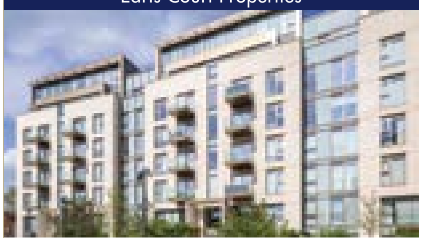
Earls Court Properties



Land available for development

Demolition works complete in preparation for future development. Certain enabling works ongoing

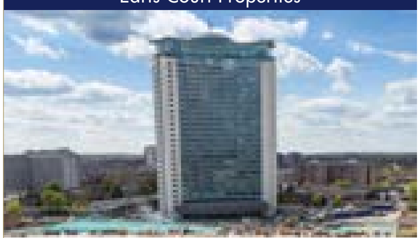
Earls Court Properties



Contracts exchanged on 49 apartments at Lillie Square

Capco exchanges contracts with an international investor for the sale of all 49 apartments and 31 parking spaces at '9 Lillie Square', the fourth block within Phase 2 of the Lillie Square development. Total consideration is approximately £66 million

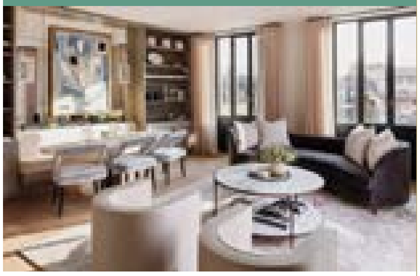
Earls Court Properties



Sale of Empress State Building

Capco sells the Empress State Building for £250 million to The Mayor's Office for Policing and Crime

Covent Garden



The Floral Court Collection

The heritage component of The Floral Court Collection (16 apartments) has been leased and there is strong buyer demand for the 29 new build apartments

Covent Garden

Digital

A year of digital landmarks that sees Covent Garden outperform in audience growth and engagement with over four million page views to the Covent Garden website, reaching a total social audience of approximately 400,000 and celebrating one million pictures shared to #CoventGarden

Covent Garden

Covent Garden Christmas

The Christmas campaign was kick-started by a lights switch-on which played host to The Kingdom Choir, cast of Matilda and Paloma Faith in partnership with charity Crisis. A dedicated shopping campaign and series of events reaffirms Covent Garden as one of London's greatest Christmas experiences

Covent Garden

Cutting edge fitness

Peloton, the leading US fitness sensation, opens temporary immersive brand experience on Floral Street ahead of the launch of their first flagship outside the US; a studio spread over four floors will live stream classes globally as well as offering the full cycling and retail experience

Covent Garden

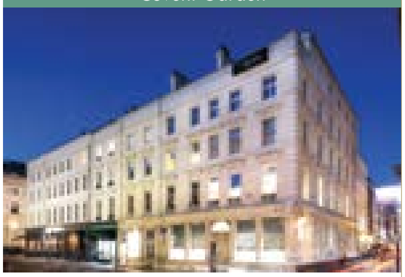
Dining goes from strength to strength

Covent Garden goes from strength to strength as a dining destination with ten new locations open in 2018, including SushiSamba, RedFarm and Buns & Buns

Upsizing and expansion

Henrietta Street tenants Oystermen and Henrietta Hotel have expanded their offering into neighbouring units on the estate

Covent Garden

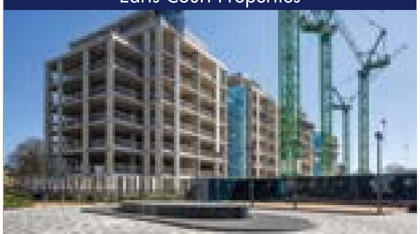


Positive momentum into 2019

Lacoste and ba&sh sign to James Street and King Street respectively. Strategic acquisition of 39-40 Bedford Street, an important gateway to the estate

AUGUST OCTOBER NOVEMBER DECEMBER Q1 2019

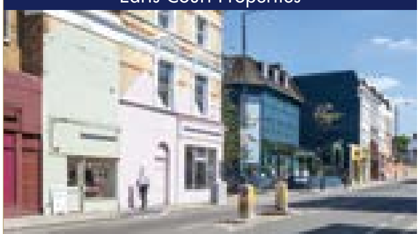
Earls Court Properties



Phase 2 Lillie Square

Construction of Lillie Square Phase 2 underway with 154 of 186 units reserved or exchanged (66 in 2018). Completion and handover of sold units expected in 2020

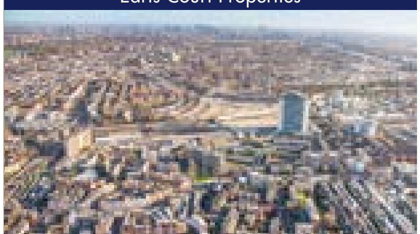
Earls Court Properties



Next phase of West Brompton Crossing opens

This summer saw the opening of the next phase of the new pop-up high street West Brompton Crossing

Earls Court Properties



Reserved Matters Application within consented Earls Court Masterplan

Submission of a Reserved Matters Application within the consented Earls Court Masterplan

Henry Staunton, Chairman

CREATING LONG-TERM VALUE, WITH RESPONSIBLE OVERSIGHT

Total return

-2.0%

Dividend per share

1.5p

Overview

I am delighted to have been appointed as Chairman of Capital & Counties Properties PLC during the year. This year the external environment has been challenging, yet against this backdrop management has delivered encouraging operational progress across our prime central London portfolio. Covent Garden, which represents 80 per cent of the Group's portfolio by gross value, continues to deliver positive performance. However, the ongoing political and macro-economic uncertainty continues to impact the London residential market resulting in a decline in the value of our investments at Earls Court.

Update on possible demerger

The changing income profile and scale of Covent Garden, together with the readiness of the Earls Court land for development and successful disposals of the Empress State Building and Venues, means that it is an appropriate time for the Board to consider the structure of the Group.

During the course of 2018, Capco advanced its preparations for a possible demerger which could result in two separately-listed businesses based around its prime central London estates. Covent Garden could be launched as an independent, prime central London retail-focused REIT and Earls Court a land enablement and development company centred around the Earls Court Masterplan. Preparations for a possible demerger are well-advanced and could be implemented promptly.

The Company has received a number of proposals in relation to the sale of certain of Capco's interests in Earls Court. Capco has held discussions with a number of parties to establish the likely value and deliverability of the proposals. The Company will evaluate the merits of various options, having regard to market conditions, long-term shareholder value and prudent capital management.

Backed by a strong balance sheet, low leverage, high liquidity and modest capital commitments, Capco is in a position of financial strength to navigate market uncertainty and remains focused on creating long-term value for shareholders.

Performance

2018 was another active year for Covent Garden, delivering positive performance, generating further rental growth and capturing income. The challenges to the broader retail market are well documented, but the quality of our assets and our approach to management of the estate continues to drive positive leasing demand creating a highly attractive destination for Londoners and visitors to the Capital. The estate had a record year for openings with brands such as SushiSamba, Tiffany & Co. and Cora Pearl further strengthening Covent Garden's attractiveness as a leading global retail and dining destination. The completion of the Floral Court development, which is the largest undertaken at Covent Garden to date, was an important milestone and demand for the residential accommodation has been encouraging.

Economic and political uncertainty continue to impact the London residential market contributing to a further decline in the valuation of our investments at Earls Court. However the consented Masterplan is located amongst central London's most valued postcodes with the potential to deliver a new district for the Capital. With the Earls Court Partnership Limited ("ECPL"), our investment vehicle with Transport for London ("TfL") land available for development, ECPL has received interest from potential occupiers and investors. The disposal of the Empress State Building for £250 million enabled Capco to realise significant cash proceeds. The Lillie Square development continues to progress with Phase 1 now complete and Phase 2 construction progressing with over 80 per cent of units pre-sold.

Despite good operational performance, Capco's total shareholder return for the year, which comprises share price performance plus the dividends paid during the year, was negative 27.3 per cent. Total return for the year, which represents the change in net assets plus the dividends paid during the year, was negative 2.0 per cent. The total value of Capco's property portfolio fell by 2.4 per cent on a like-for-like basis to £3.3 billion.

Financial position and dividends

Capco maintains a strong balance sheet, with low leverage, high liquidity and modest capital commitments. Responsible capital management and funding from diversified sources ensure Capco maintains a strong financial position. During the year, Capco's liquidity was strengthened through the successful execution of the sale of the Empress State Building for £250 million, a premium to the 31 December 2017 valuation. Capco is well-positioned to support the current capital requirements of both estates as well as take advantage of opportunities as they arise.

The Directors are proposing a final dividend of 1.0 pence per share, which brings the total dividend for 2018 to 1.5 pence per share.

The Board and employees

Following Ian Durant's decision to retire from the Board during the year, I was delighted to be appointed as Chairman of the Company. Ian led the Board as Chairman for eight years from Capco's inception, and the Company benefited greatly from his judgement and experience. The Board is grateful for his significant contribution over this time.

At the same time, Gerry Murphy became Chair of the Audit Committee and Senior Independent Director, and Charlotte Boyle became Chair of the Remuneration Committee. I am pleased to report that they are already making a positive contribution in their new roles, and the Board continues to operate effectively.

The Board has continued to consider its current composition. Recognising the need to maintain significant property experience on the Board, we are delighted to announce the appointment of Jonathan Lane as a Non-executive Director with effect from 1 March 2019. A former Chief Executive and Chairman of Shaftesbury, Jonathan brings a wealth of West End property experience to the Board, and we look forward to his contribution as we unlock the potential of Capco and its assets. On appointment, Jonathan will also become a member of the Audit and Nomination Committees. Andrew Strang has decided to stand down from the Audit, Nomination and Remuneration Committees with effect from 1 March 2019. Anthony Steains will join the Remuneration Committee with effect from 1 March 2019. Graeme Gordon has informed the Board that he will not be seeking re-election at the Company's forthcoming AGM. The Directors and I thank Graeme for his long and supportive service to the Company, and his wise counsel.

Given the current market conditions and options under consideration, 2018 was undoubtedly a challenging year for our employees, and the Board would like to thank each of them and management for their continued work and commitment.

Shareholders

Capco is listed in London and Johannesburg, and a significant amount of the Company's shares are held by South African investors. At times there are different market expectations in the UK and South Africa, and one example of this is the level of authority to issue new shares that shareholders expect to grant to Boards. The Board continues to feel that, to preserve flexibility, it is appropriate to seek the conventional level of authorities expected by shareholders in UK listed companies where possible. This has again resulted in significant votes against two of our AGM resolutions and Capco's inclusion in The Investment Association's public register of shareholder dissent. The Board always seeks shareholder views before deciding the levels of authority to be sought, and will continue to maintain regular dialogue with our South African shareholders on this topic.

Along with the Executive team's comprehensive programme of investor briefings, I continue to be willing to engage with shareholders as appropriate.

Board oversight

The Directors receive updates on performance of the Company's assets from Executive Directors and senior management at each of our formal Board meetings and the more informal Board updates. We also visit our assets in Covent Garden and Earls Court and meet operational management regularly, which ensures that we are well-aware of the business' opportunities and challenges, as well as the views of a range of stakeholders including shareholders, local communities, partners, lenders, government and employees.

This year the Board and management devoted a significant amount of time to evaluating the merits of the options available to the Company and ensuring that the business will be well-positioned across a range of scenarios.

The Board has also spent time considering the new 2018 UK Corporate Governance Code to ensure that we are ready to operate under its principles over the course of the coming year. This includes an emphasis on culture, trust and consideration of stakeholder views.

Looking ahead

The macro-economic and political environment remains uncertain, however we are confident in London's status as a truly global city with the ability to attract investment, visitors and talent from around the world. Our strategy is to deliver long-term value creation for shareholders with an increased focus on Covent Garden and realisation of value from Earls Court. The Company will evaluate the merits of various options, having regard to the market and political environment as well as prudent capital management. Backed by a strong balance sheet Capco is very well-positioned to deliver long-term value for shareholders.

Henry Staunton
Chairman

26 February 2019

Ian Hawksworth, Chief Executive

FOCUSED STRATEGY TO DRIVE LONG-TERM VALUE CREATION

Update on possible demerger

During 2018 the Board has been considering the most appropriate structure for the Group. Preparations for a possible demerger are well-advanced and could be implemented promptly. Capco will consider the merits of all options, having regard to market conditions, long-term value creation for shareholders and prudent capital management. Capco is in a position of financial strength and in an uncertain economic and political environment the Board intends to decide carefully on the most appropriate outcome.

Prime central London portfolio

Although the uncertainty surrounding the implications of the UK leaving the EU is having an adverse impact on business and consumer confidence, London continues to attract investment as well as talent and visitors from around the world. Retail conditions have been challenging in the broader market, nevertheless the West End is very attractive to the international and domestic consumer and Covent Garden has continued to attract good demand, securing high quality brands.

Representing 80 per cent of the property portfolio by gross value, Capco continues to focus on Covent Garden as we implement our strategy of creating a highly attractive destination. This continues to be achieved by managing the estate creatively and investing strategically. Having carefully assembled an exceptional portfolio of properties around the Piazza, Covent Garden provides a fantastic environment for retailers and visitors. 2018 represents a record year for retail and restaurant openings across the estate with 21 new brands introduced. Covent Garden stores continue to trade well with footfall across the estate up. Rents and values recorded an increase and there has been continued income growth as we secure embedded reversion from the portfolio.

The West End and Covent Garden have demonstrated resilience, however economic and political uncertainty have continued to impact the London residential market, resulting in a further decline in the valuation of our investments at Earls Court. As a result, EPRA net asset value fell by 2.4 per cent over the year to 326 pence per share.

At Earls Court, we continue to implement our strategy of realising value over time as evidenced by the sale of the Empress State Building and completion of Phase 1 of Lillie Square. The ECPL land is available for development and continues to attract interest from potential investors and occupiers for various parts of the site. While political sentiment around large-scale residential development is challenging, ECPL's implemented planning consent, high quality location and connectivity provide a strong basis for future value realisation.

Capco maintains a prudent approach to its balance sheet, with a strong financial position, low leverage and access to significant liquidity. Capco is disciplined in its investment approach, with a weighting towards Covent Garden as we continue to expand our ownership on the estate. Capco continues to manage capital commitments prudently, drive income generation at Covent Garden

The Piazza, Covent Garden

and realise value at Earls Court. The business is well-positioned to support its future activities, navigate market uncertainties, and take advantage of opportunities as they arise.

Valuations

The total property value of the Group declined by 2.4 per cent (like-for-like) in the year to 31 December 2018 to £3.3 billion. The valuation of Covent Garden has risen by 1.6 per cent (like-for-like) to £2.6 billion, driven by ERV growth of 3.0 per cent, like-for-like, achieved over the year. The equivalent yield remains broadly unchanged, reflecting the valuer's current view of the strength of demand for prime central London real estate. Capco's investment in Earls Court Properties declined by 15.6 per cent (like-for-like) to £658 million at 31 December 2018. A number of adjustments have been made to the component parts of the valuation of ECPL. The valuer's more conservative view on gross development value and delivery costs, together with an increased developer's margin have resulted in a net decline of 12.1 per cent (like-for-like) for ECPL in the second half of the year. Similarly the valuation of our other interests at Earls Court has declined, reflecting changes in valuation assumptions.

Covent Garden – a world-class retail and dining destination

Although Central London retail is not immune to the challenged environment experienced at a national level; Covent Garden has performed well delivering income and value growth. Our ambition to create a highly attractive destination supported by our creative asset management strategy has driven positive leasing momentum with good demand for all uses across the estate. Visitors to Covent Garden are offered a differentiated experience, which is fundamental to Capco's vision for the district.

	Market Value 2018 £m	Market Value 2017 £m	Valuation Change Like-for-Like[1]
Covent Garden	2,610	2,545	1.6%
Earls Court Properties			
Earls Court Partnership Limited ("ECPL")[2]	461	561	(20.0%)
Lillie Square[3]	159	156	(2.3%)
Empress State	–	220	–
Other	38	42	(8.9%)
Group share of Earls Court Properties	658	979	(15.6%)
Group share of total property[4]	3,268	3,524	(2.4%)

1. *Valuation change takes account of amortisation of tenant lease incentives, capital expenditure, fixed head leases and unrecognised trading surplus.*
2. *Represents the Group's 63 per cent interest in ECPL.*
3. *Represents the Group's 50 per cent share of the Lillie Square joint venture.*
4. *A reconciliation of carrying value of investment, development and trading property to the market value is shown in note 15 'Property Portfolio' within the consolidated financial statements.*

Covent Garden's global positioning continues to appeal to brands. Attracting the best brands and new concepts ensures that Covent Garden is able to meet evolving consumer demand, secure rental value growth and continue to capture its reversionary income potential. The completion of significant capital initiatives, including Floral Court, has resulted in a record number of openings across the estate contributing to overall growth in net rental income of 17.5 per cent or 9.6 per cent like-for-like against December 2017.

The estate is valued at £2.6 billion as at 31 December 2018, a like-for-like increase of 1.6 per cent. As a result of positive demand across all uses, 103 new lettings and renewals were agreed, securing £12.9 million of rental income at 7.5 per cent above December 2017 ERV. The ERV of the estate is £108 million, up 3.0 per cent on a like-for-like basis. Contracted income of the estate is £83 million now representing 77 per cent of current ERV. Occupancy on the estate remains high at 97 per cent.

We continue to strengthen our core categories which include jewellery, luxury gifting and accessories and health and well-being. The repositioning of the Royal Opera House Arcade continues with the addition of leading travel brand Tumi and contemporary jewellery brand APM Monaco. There has been strong demand for the Market Building this year, and introductions include Olivia Burton, Africology and For Art's Sake. Lettings to Peloton and The Alkemistry continue the repositioning of Floral Street as a lifestyle and fashion destination.

The range of dining concepts on the estate continues to expand, with the opening of 10 new high quality and differentiated concepts including SushiSamba, RedFarm, The Petersham and Cora Pearl. The latest additions further enhance Covent Garden's attractiveness as one of London's most desirable dining destinations.

The Floral Court development completed successfully during the year. Anchored by a high quality restaurant offering, the courtyard, which connects King Street to Floral Street opened in May 2018, and has facilitated a significantly enhanced pattern of pedestrian flow across this part of the estate. The residential component has been well received with all 16 heritage apartments let successfully and strong buyer demand for the new build collection with £19 million of sales proceeds having been received by year end with a further £12 million secured since 31 December 2018.

We have continued to invest in the estate through acquisitions which offer value creation opportunities. £19 million was invested in acquisitions during the year and a further £13 million subsequent to year end as we continue to expand the footprint of the estate.

Earls Court Properties – prime central London development opportunity

We continue to implement our strategy of realising value at Earls Court over time, most notably in 2018 through the successful sale of the Empress State Building to the long-term occupier of the building. The disposal, which was at a premium to valuation, reflects Capco's disciplined approach to investment and capital management. Over the past 24 months in excess of £670 million of gross proceeds have been generated through the sale of Venues and the Empress State Building as well as handover of Lillie Square Phase 1.

Floral Courtyard, Covent Garden

ECPL continues to focus on enabling development of the consented Masterplan through the introduction of third-party capital. However, the current political and economic environment presents challenges. We note the hardening political tone towards large-scale residential development activity in London. As we are a counterparty to a number of public sector stakeholders it is possible that our objectives diverge. The London Borough of Hammersmith & Fulham ("LBHF") has suggested publicly that it would like to terminate the Conditional Land Sale Agreement ("CLSA") and also recently suggested it is considering the use of Compulsory Purchase Orders.

The Lillie Square joint venture continues to make positive progress. 90 per cent of the committed project (Phase 1 & 2) has now been reserved, exchanged or completed. Handover of Phase 1 sold units is substantially complete and hand over of sold units in Phase 2 is expected in 2020.

Outlook

Economic uncertainty resulting from the UK's decision to leave the EU could impact the property market further. Covent Garden is firmly established as a world-class retail and dining destination in the heart of central London and is well-positioned to continue to deliver rental growth, and capture embedded reversionary income. We will continue to enhance the customer environment and invest strategically in assets which offer value creation opportunities.

Earls Court is one of the most important mixed-use development opportunities in London. The ECPL land, which represents the majority of Capco's investment in Earls Court is available for development. While the environment for large-scale residential development remains challenging, Earls Court's in place planning consent, high-quality location and connectivity underpin its desirability and prospects for future value realisation.

Preparations for a possible demerger are well-advanced and Capco will consider the merits of various options, having regard to market conditions, long-term value creation for shareholders and prudent capital management. Our disciplined investment approach, with a weighting towards Covent Garden positions Capco to continue driving income generation at Covent Garden and realising value at Earls Court. The business is well-positioned to support its future activities, navigate market uncertainties, and take advantage of opportunities as they arise.

Ian Hawksworth
Chief Executive

26 February 2019

Site progress at Earls Court

DEFINING PERFORMANCE

Our unique business model underpins our strategy to drive value creation.

BUSINESS MODEL

Capco is a property company with a strong emphasis on distinctive placemaking.
It unlocks, creates and grows value to deliver sustainable growth and long-term market-leading returns for shareholders.

GROUP STRATEGY

To create, grow and deliver value in its assets and estates, through a combination of active asset management, strategic investments and maximising development opportunities.

1. STRONG CAPITAL STRUCTURE
2. STRATEGIC INVESTMENTS AND PARTNERSHIPS
3. ACTIVE ASSET MANAGEMENT
4. LAND ASSEMBLY AND PLANNING
5. SELECTIVE DEVELOPMENTS
6. ENGAGEMENT WITH STAKEHOLDERS AND PARTICIPATION IN COMMUNITIES

Allocation of capital based on assessment of risk-adjusted returns

ESTATE STRATEGIES

COVENT GARDEN

Continue to drive rental growth through asset management, acquisitions and selective development. Attract new tenants to grow ERV and NRI, and enhance the customer environment.

Read more on page 20

EARLS | COURT

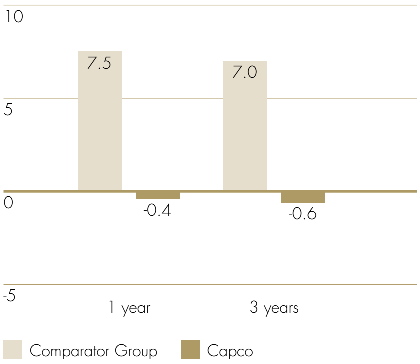
Continue to drive value creation through planning, land assembly, land enablement and selective development. Realise value through introduction of third-party capital.

Read more on page 30

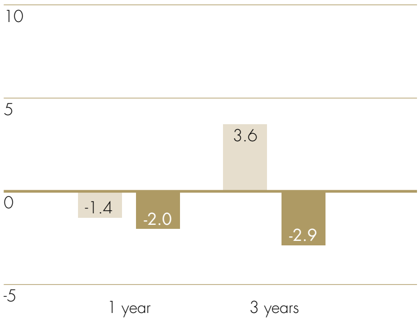
MEASURING PERFORMANCE

The Group's key performance indicators are selected to ensure clear alignment between its strategy, shareholder interests and remuneration of its employees.

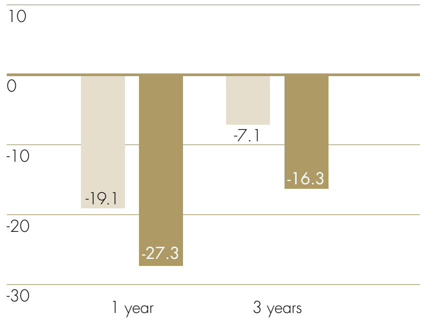
TOTAL PROPERTY RETURN
-0.4%



TOTAL RETURN
-2.0%



TOTAL SHAREHOLDER RETURN
-27.3%



DESCRIPTION
Total property return is calculated as capital growth including gains and losses on disposal plus rents received less associated costs, including ground rent.

This metric allows comparability with the MSCI Total Return All Property Index[1].

★ ONE OF THE PERFORMANCE MEASURES FOR THE EXECUTIVE DIRECTORS' 2018 ANNUAL BONUS

2018 TARGET
1.5 percentage points per annum outperformance

PERFORMANCE
During the year the Group has underperformed by 7.9 per cent

DESCRIPTION
Total return is the growth in EPRA NAV per share plus dividends per share during the year.

Outperformance over a three-year period, versus the median of a comparator group of the nine largest constituents of the FTSE 350 Real Estate Index, is identified as a key measure of the success of Capco's strategy.

★ PART OF EXECUTIVE DIRECTORS' LONG-TERM INCENTIVE, TOGETHER WITH SPECIFIC ANNUAL NAV TARGETS RELATING TO 2018 BONUS

2018 TARGET
2.0 percentage points per annum outperformance on a rolling three-year basis

PERFORMANCE
The Group has generated a total return of -2.9 per cent per annum on a rolling three-year basis, underperforming the comparator group by 6.5 per cent[2]

DESCRIPTION
Total shareholder return is the movement in the price of an ordinary share plus dividends during the year.

The Group's total shareholder return is benchmarked against the median total shareholder return of a comparator group of the nine largest constituents of the FTSE 350 Real Estate Index.

As a key metric for the long-term equity-based compensation for the Group's employees, total shareholder return aligns incentives with shareholder interest.

★ PART OF EXECUTIVE DIRECTORS' LONG-TERM INCENTIVE

2018 TARGET
4.0 percentage points per annum outperformance on a rolling three-year basis

PERFORMANCE
The Group generated a total shareholder return of -16.3 per cent per annum on a rolling three-year basis, underperforming the comparator group by 9.2 per cent

1. *In December 2018 MSCI rebranded the IPD real estate indexes to MSCI.*
2. *Based on consensus estimates at 26 February 2019 for comparator group where results are unavailable.*

The three-year total property return is calculated assuming annual reinvestment. Annualised three-year total return and total shareholder return are calculated on a basis consistent with the Group's long-term incentive plans. A number of other indicators of performance are considered by the Board either at a Group level (including underlying earnings per share) or specifically relevant to each estate, for example ERV at Covent Garden. These are discussed further in the asset-specific operating reviews in the Strategic Report.

All three key performance indicators are directly linked to Executive Directors' remuneration. These three indicators are carefully aligned with the Group's strategy of creating and growing value and delivering market-leading total returns over the longer-term. Total property return, underlying earnings per share and net asset value are linked to annual bonuses available to certain of the Group's employees.

EFFECTIVE RISK MANAGEMENT

Through risk management and internal control systems the Group is able to identify, assess and prioritise risks within the business and seeks to minimise, control and monitor their impact on profitability whilst maximising the opportunities they present.

Risk management

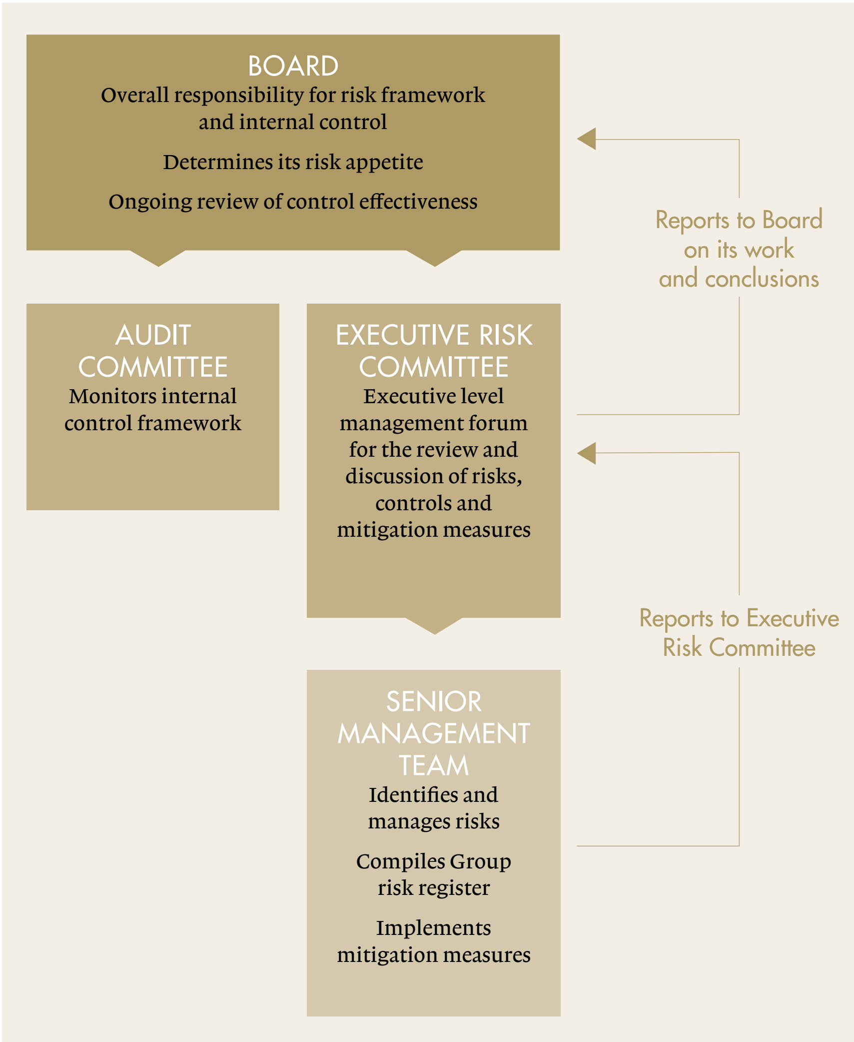
The Board has overall responsibility for Group risk management. It determines its risk appetite and reviews principal risks and uncertainties regularly, together with the actions taken to mitigate them. The Board has delegated responsibility for the review of the adequacy and effectiveness of the Group's internal control framework to the Audit Committee.

Risk is a standing agenda item at management meetings. This gives rise to a more risk aware culture and consistency in decision making across the organisation in line with the corporate strategy and risk appetite. All corporate decision making takes risk into account, in a measured way, while continuing to drive an entrepreneurial culture.

The Executive Directors are responsible for the day-to-day operational and commercial activity across the Group and are therefore responsible for the management of business risk. The Executive Risk Committee, comprising of the Executive Directors, the General Counsel & Director of Corporate Services and the Group Financial Controller, is the executive level management forum for the review and discussion of risks, controls and mitigation measures. The corporate and business division risks are reviewed on a quarterly basis by the Executive Risk Committee so that trends and emerging risks can be identified and reported to the Board.

Senior management from each division and corporate function of the business identify and manage the risks for their division or function and complete and maintain a risk register. The severity of each risk is assessed through a combination of each risk's likelihood of an adverse outcome and its impact. In assessing impact, consideration is given to financial, reputational and regulatory factors, and risk mitigation plans are established.

RISK MANAGEMENT STRUCTURE



A full risk review is undertaken annually in which the risk registers are aggregated and reviewed by the Executive Risk Committee. The Directors confirm that they have completed a robust assessment of the principal risks faced by the business, assisted by the work performed by the Executive Risk Committee.

The Group's principal risks and uncertainties, which are set out on the following pages, are reflective of where the Board has invested time during the year. These principal risks are not exhaustive. The Group monitors a number of additional risks and adjusts those considered 'principal' as the risk profile of the business changes. See also the risks inherent in the compilation of financial information, as disclosed within note 1 'Principal Accounting Policies' to the consolidated financial statements, within 'Critical accounting judgements and key sources of estimation and uncertainty'.

Since the EU Referendum, there has been ongoing heightened economic and political uncertainty. As the date at which the UK is set to depart from the EU approaches, there may be an increased level of volatility in consumer, occupier and broader corporate behaviour and decision-making. This risk is heightened by the possibility of a disorderly Brexit. To date, we have not identified an adverse impact on occupier demand for the Covent Garden estate, which has seen strong rental growth.

At Earls Court, valuation of residential-led development land has been impacted by the overall economic and political backdrop. Whilst the impact on our business and the market remains uncertain, the Board continues to monitor progress in this area and wider activity and has assessed risks to the business that may result from the UK leaving the EU, including the implications of a 'no deal' scenario. The main areas that may affect the Group directly are:

- the impact on the London and UK economy, including exchange rate volatility and potential disruption in the financial markets
- the impact on current and prospective tenants, whether it be on management of their inventory, workforce labour, tariffs or other barriers, and the impact on consumer demand (for example due to travel disruption) leading to reduced rents and capital values
- the impact on the supply chain, such as delay to delivery of materials and foreign exchange exposure on development materials
- the impact on the demand from prospective purchasers as a result of market uncertainty and foreign exchange exposure leading to reduced capital values

Brexit uncertainty has continued after the year end date. Whilst it is not possible to predict the overall outcome, the Board is continuing to monitor external events and appropriate action is being undertaken to prepare for short-term risk during and after a political decision is reached to ensure that the business remains resilient and well-positioned for the long-term.

London, as a highly desirable global city, continues to attract both domestic and international businesses and people and we would expect this leading position to be maintained over time. Uncertainty remains, however, around the exit mechanism and longer-term implications of Brexit, and this will continue to have a direct or indirect impact on a number of the principal risks set out on the following pages.

The political framework for large scale residential development has become more difficult and there is an increased risk of political intervention. The Government continues to review housing and planning policy which may result in beneficial or adverse change for landowners.

In May 2018 the Group announced that it was considering a demerger, which would result in two separately-listed businesses based around its prime central London estates. In November 2018 the Group noted press speculation and confirmed that it continued to advance preparations for a possible demerger, however that it had received a number of proposals in relation to the Group's interests in Earls Court which it was considering. If a demerger or a sale of a significant proportion of the Group's interests in Earls Court Properties interests were to occur this would have an impact on the Group's principal risks.

GROUP STRATEGY

All of the principal risks and uncertainties have been mapped to the most relevant strategic priority

1	2	3	4	5	6
STRONG CAPITAL STRUCTURE	STRATEGIC INVESTMENTS AND PARTNERSHIPS	ACTIVE ASSET MANAGEMENT	LAND ASSEMBLY AND PLANNING	SELECTIVE DEVELOPMENTS	ENGAGEMENT WITH STAKEHOLDERS AND PARTICIPATION IN COMMUNITIES

CORPORATE

Risk	Impact on strategy	Mitigation	Change in 2018
Economic conditions	2 3 5		▲
Decline in real estate valuations due to macro-economic conditions Relative attractiveness of other asset classes or locations Inability of the Group to adopt the appropriate strategy or to react to changing market conditions or changing consumer behaviour	Reduced return on investment and development property Higher finance costs Reduced profitability	Focus on prime assets Regular assessment of investment market conditions including bi-annual external valuations Regular strategic reviews Strategic focus on creating retail destinations and residential districts with unique attributes	More challenging occupier and investment market

Key

▲ Increase

— Stable

▼ Decrease

CORPORATE CONTINUED

Risk	Impact on strategy	Mitigation	Change in 2018
Funding Lack of availability or increased cost of debt or equity funding	1 2 3 Reduced financial and operational flexibility Increased cost of borrowing Delay to development works Constrained growth, lost opportunities	Maintain appropriate liquidity to cover commitments Target longer and staggered debt maturities, and diversified sources of funding Consideration of early refinancing Covenant headroom monitored and stress tested Derivative contracts to provide interest rate protection Development phasing to enable flexibility and reduce financial exposure	—
Political climate Uncertain political climate or changes to legislation and policies A disorderly Brexit could cause an adverse impact on business and consumer confidence, increase material costs and reduce labour supply	4 5 6 Inability to deliver business plan Reduced rental income and/or capital values as tenants could suffer staff shortages, increased import prices, longer lead times and lower availability of stock	Monitoring proposals and emerging policy and legislation Engagement with key stakeholders and politicians Diversified occupiers with limited exposure to any one tenant	▲ Heightened and continuing political and consumer uncertainty due to ongoing negotiations to exit from the EU
Catastrophic external event Such as a terrorist attack, health pandemic or cyber crime	2 3 5 Diminishing London's status Heightened by concentration of investments Reduced rental income and/or capital values Business disruption or damage to property Reputational damage	Terrorist insurance On-site security Health and safety policies and procedures Close liaison with police, National Counter Terrorism Security Office (NaCTSO) and local authorities Regular training	—
People Inability to retain the right people and develop leadership skills within the business	2 3 4 6 Inability to execute strategy and business plan Constrained growth, lost opportunities	Succession planning, performance evaluations, training and development Long-term and competitive incentive rewards	—
Health, safety and the environment Accidents causing loss of life or very serious injury to employees, contractors, occupiers and visitors to the Group's properties Activities at the Group's properties causing detrimental impact on the environment	3 5 6 Prosecution for non-compliance with legislation Litigation or fines Reputational damage Distraction of management	Health and safety procedures across the Group Appointment of reputable contractors External consultants undertake annual audits in all locations Adequate insurance held to cover the risks inherent in construction projects	—
Compliance with law, regulations and contracts Breach of legislation, regulation or contract Inability to monitor or anticipate legal or regulatory changes	2 6 Prosecution for non-compliance with legislation Litigation or fines Reputational damage Distraction of management	Appointment of external advisers to monitor changes in law or regulation Members of staff attend external briefings to remain cognisant of legislative and regulatory changes	—

PROPERTY

Risk	Impact on strategy	Mitigation	Change in 2018
Leasing	3 5		▲
Inability to achieve target rents or to attract target tenants due to market conditions Competition from other locations/formats	Decline in tenant demand for the Group's properties Reduced income and increased vacancy Reduced return on investment and development property	Quality tenant mix Strategic focus on creating retail destinations with unique attributes	More challenging occupier and investment market
Planning	3 4 5		—
Unfavourable planning policy or legislation impacting on the ability to secure planning approvals or consents Secretary of State or Mayoral intervention or judicial review	Impact on land valuations and realisation	Engagement with local and national authorities Pre-application and consultation with key stakeholders and landowners Engagement with local community bodies Outline planning permission already granted for the Earls Court Masterplan, including detailed planning for the ECPL land, and implemented on ECPL land	
Development	3 4 5		—
Decline in returns from development and impact on land valuations due to: • Market conditions • Site constraints leading to an increase in overall development costs • Increased construction costs or delays (including as a result of complexity of developing adjacent to and above public transport infrastructure) • Failure to implement business plans or strategic agreements on acceptable terms (including as a result of diverging stakeholder objectives, such as Compulsory Purchase Orders)	Lower development returns due to lower sales proceeds, higher costs or delay	Focus on prime assets Regular assessment of market conditions and development strategy Business strategy based on long-term returns Professional teams in place to manage costs and deliver programme Earls Court Masterplan designed to allow phased implementation ECPL planning consent implemented	

VIABILITY STATEMENT

The Directors have considered the prospects of the Group over a three-year period to December 2021. The Directors have determined that the three-year period to December 2021 is an appropriate period over which to provide its viability statement as it is the period covered by the latest business plan which takes into account the Group's current position, individual asset performance forecasts and the potential impact of the principal risks disclosed on pages 17-19.

In making their assessment, the Directors have taken account of the Group's robust and flexible balance sheet position with a loan to value ratio well below the 40 per cent limit set, substantial cash and available facilities, the Group's ability to raise new finance and the flexibility of future development expenditure. The business plan considers the Group's cash flow, capital commitments, financial resources, debt covenants and other key financial risks.

All of the Group's risks could have an impact on viability. The Directors consider the key principal risks that could impact the viability of the Group to be economic conditions, funding and leasing. A sensitivity analysis was carried out which involved flexing a number of the main assumptions to consider alternative macro-economic conditions, both positive and negative. In particular the Group considered an economic downturn scenario with conditions equivalent to that of the 2007-2009 financial crisis leading to asset value and rental income decline, as well as rising interest rates. Additional scenarios were reviewed including stress testing the Group's financing covenants, for instance based on the parameters set out in the Bank of England Financial Stability Report issued in November 2018, and increasing the Group's exposure to development activity. This analysis was carried out to evaluate the potential impact of the Group's principal risks actually occurring and based on the results the Directors believe that the Group is well-placed to manage its principal risks successfully. This assessment has considered the potential impacts of these risks on the business model, future performance, solvency and liquidity over the period.

Based on this assessment, the Directors have a reasonable expectation that the Group and Company will be able to continue in operation and meet their liabilities as they fall due over the period to December 2021. In making this statement the Directors have considered the resilience of the Group, taking account of its current position, the risk appetite, the principal risks facing the business in severe but reasonable scenarios, and the effectiveness of any mitigating actions.

COVENT GARDEN: A LEADING GLOBAL RETAIL AND DINING DESTINATION

Market Building, Covent Garden

Capital value

£2,610m

Contribution to portfolio value

80%

Covent Garden

Our ambition to create a highly attractive destination supported by our creative asset management strategy has driven positive leasing momentum with good demand for all uses across the estate

COVENT GARDEN

HIGHLIGHTS

- Total property value of £2.6 billion, an increase of 1.6 per cent (like-for-like) (2017: £2.5 billion)
- Net rental income up 9.6 per cent (like-for-like) to £57.5 million (2017: £48.9 million)
- 103 new leases and renewals transacted representing £12.9 million of income at 7.5 per cent above 31 December 2017 ERV
- ERV increased by 3.0 per cent (like-for-like) to £108 million (2017: £105 million)
- £19 million invested in strategic acquisitions expanding ownership of the estate

STRATEGY

- Drive rental growth and capture reversionary income potential
- Creative asset management for a mixed-use portfolio
- Attract the best brands and concepts to meet evolving consumer demand
- Emphasis on customer engagement to enhance customer experiences
- Selectively acquire properties and invest in portfolio assets to drive value creation opportunities
- Responsible stewardship of the estate
- Disciplined capital management – maintain a strong financial position

"Attracting the best brands and concepts ensures that Covent Garden is positioned to meet evolving consumer expectations, secure rental value growth and continue to capture its reversionary income potential."

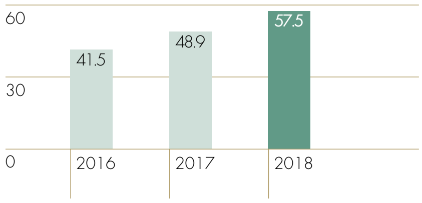
Ian Hawksworth, Chief Executive

RESULTS AT A GLANCE

Covent Garden net rental income

£57.5m

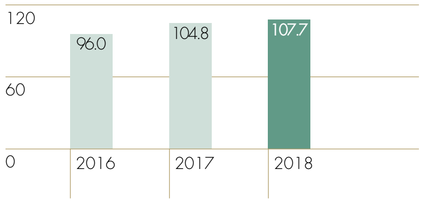
+9.6% (LfL)



Covent Garden ERV

£107.7m

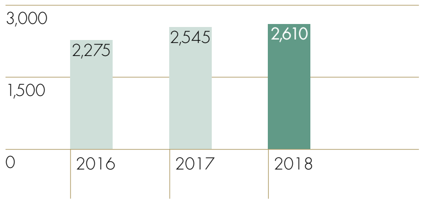
+3.0% (LfL)



Covent Garden capital value

£2,610m

+1.6% (LfL)



Royal Opera House Arcade, Covent Garden

OPERATING PERFORMANCE

A word-class retail and dining destination in the heart of London's West End

Covent Garden is firmly established as a leading global destination for Londoners and visitors to the Capital. Capco's distinct approach to management of the estate with emphasis on creativity and differentiated customer experiences ensures Covent Garden continues to attract target brands and consumers.

The Covent Garden estate comprises high quality retail and dining concepts as well as offices and premium residential apartments. In aggregate, the estate provides approximately 1.2 million square feet of lettable space. As one of central London's most iconic destinations, Covent Garden is now home to over 150 British, global and independent brands with many choosing the estate as a flagship, first or only London presence. Emphasis on the customer is essential to ensuring that the estate continues to thrive as a leading destination for Londoners, domestic and international visitors as well as office occupiers and residents.

Overview

Covent Garden is continuing to build on its success as a world-class retail and dining destination and is well-positioned to deliver long-term income and value growth. The team's proactive approach is designed to sustain and enhance demand from occupiers and consumers. Capco adopts a thoughtful approach to selecting leading retail and dining brands and targeting concepts to satisfy consumer expectations.

Consumer needs are constantly evolving, therefore the environment and management of a high quality destination are key in securing demand across all uses, particularly retail. Capco actively engages with its audiences through multi-channel marketing activities such as events, brand partnerships and digital outreach, as well as investment in high quality public realm to enhance the overall customer experience on the estate. Covent Garden has a very significant social media presence with approximately 400,000 followers across Instagram, Facebook and Twitter. Covent Garden is attractive to both online and physical retailers as brands use the estate as well as the strong social media presence to launch products and events, evidencing the strength of not only Covent Garden's location but also the potential value of the brand.

The luxury component continues to expand with the introduction of brands such as Tiffany & Co. and there is an increasing representation from brands generating higher sales densities. 2018 was another active year delivering positive performance. The retail portfolio continues to flourish, with good demand for offices and residential as occupiers are attracted to the overall offer at Covent Garden. The estate has made a number of signings and 2018 was a record year for openings with brands such as SushiSamba and The Shop at Bluebird further strengthening the estate's attractiveness as a leading global destination. The completion of Floral Court and subsequent opening of the courtyard, connecting Floral Street with King Street anchored by retail and dining concepts have enhanced the pedestrian flow on the northern side of the estate.

The Covent Garden estate is highly reversionary, and demand for space in this setting continues to be positive, highlighted by 21 new brands opening this year. 103 leasing transactions including new leases and renewals were completed representing £12.9 million of rental income per annum transacted at 7.5 per cent above 31 December 2017 ERV (H1 2018: 26 transactions representing £4.2 million of rental income, H2 2018: 77 transactions representing £8.7 million of rental income).

Net rental income ("NRI") is £57.5 million, up 9.6 per cent (like-for-like) or 17.5 per cent in absolute terms compared to 2017. NRI growth continues to outperform ERV growth as the reversionary income potential of the portfolio is captured. The value of the estate increased by 1.6 per cent on a like-for-like basis to over £2.6 billion. ERV is £108 million, a like-for-like increase over the year of 3.0 per cent. Contracted income of the estate is £83 million which now represents 77 per cent of the current ERV. Occupancy on the estate remains high at 97 per cent.

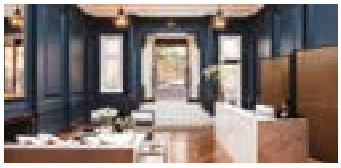
Capco continues to work closely with the community stakeholders including Westminster City Council ("WCC") and Covent Garden Area Trust ("CGAT") to maintain and promote the attributes which make the area unique.

1 The Petersham 2 La Goccia

Two restaurants from Petersham Nurseries open in Floral Court courtyard, a new pedestrian walkway from Floral Street to King Street

3 The Shop at Bluebird

Concept store strengthens the luxury positioning of the retail offer on Floral Street



4 The Floral Court Collection

Development of 29 bespoke residences completed and launched to market

5 The Alkemistry

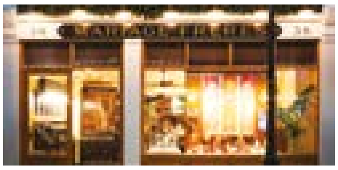
First stand-alone store from British jewellery brand opens on Floral Street

6 Free People

Premium clothing brand centred around ethical lifestyle chooses Floral Street for first permanent store outside US

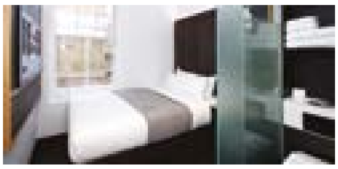
7 Peloton

Innovative tech-leisure brand signs to 11 Floral Street to launch European flagship



8 Mariage Frères

Globally renowned French Maison du Thé opens its first London flagship on King Street



11 Z Hotel

Specialist short-stay hotel opens on Bedford Street

9 Avobar 10 Cora Pearl

All-avocado casual dining alongside restaurant from the masterminds behind Kitty Fisher's now open on Henrietta Street

12 So Soufflé

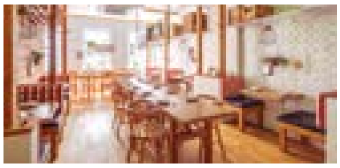
London's first soufflé shop opens on the Strand


13 Tiffany & Co.
Global luxury brand opens UK concept store on James Street

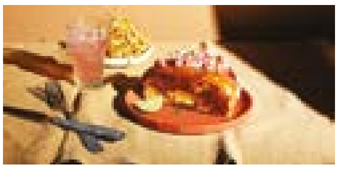

14 SushiSamba
Restaurant famed for unique blend of Japanese, Brazilian and Peruvian cuisine opens iconic London location in Covent Garden Market Building


15 Olivia Burton
First UK store from British watch and jewellery brand sits alongside Chanel and Deciem in the Market Building


16 Tumi 17 APM Monaco
Leading travel and contemporary jewellery brands introduced to Royal Opera House Arcade


18 RedFarm
Award-winning restaurant from New York launches dim sum sensation on Russell Street


19 Africology 20 For Art's Sake
Leading South African skincare and lifestyle brand opens first UK store in the Market Building; fashion forward eyewear For Art's Sake open in Central Avenue


21 Buns & Buns
Miami restaurant placing breads and buns at the heart of its menu opens first location outside US


22 Abuelo
Australian-meets-South-American coffee house and kitchen opens first location, offering light, fresh meals on Southampton Street

ACQUISITIONS
A 28 Maiden Lane
B 23 Wellington Street
C 39-40 Bedford Street*
D 158-159 Drury Lane

Acquired February 2019

Capco owned as at 31 December 2018

James Street, Covent Garden

Retail

Luxury jewellery brand Tiffany & Co. has opened a new concept store on James Street offering an innovative and distinctive retail experience. Its new store complements Covent Garden's growing luxury retail offer which includes Bucherer, Chanel and Mulberry.

The ongoing repositioning of Floral Street as a fashion and lifestyle destination continues to progress. During the year fitness technology company Peloton agreed terms to open its first flagship studio outside the US at 11 Floral Street. The Grade II listed former Victorian seed warehouse, will be Peloton's training studio, covering over 20,000 square feet spread over four floors, and will live stream classes to members worldwide.

Premium womenswear brand ba&sh has agreed terms to open a flagship store which completes the retail leasing activity within Floral Court on King Street.

Floral Court, Covent Garden

The Shop at Bluebird has opened in Carriage Hall, housing two dedicated retail floors. The multi brand concept store stocks more than 100 brands such as Victoria Beckham, Marni, Acne Studios and Alexander McQueen.

US fashion brand Free People has opened its first permanent store outside the US, at 28 Floral Street. The Philadelphia-founded ethical-lifestyle brand connects with the customer by sharing the stories behind the latest collections and designs.

Jewellery, gifting and accessories continue to strengthen with the introduction of luxury jewellery brand The Alkemistry to Floral Court as well as the opening of contemporary jewellery brand APM Monaco in the Royal Opera House Arcade offering a collection of hand-crafted designs. In addition, leading travel brand Tumi was introduced to the Royal Opera House Arcade.

During the year strong demand for the Market Building was recorded; new leasing deals were agreed with Whittards and Atelier Cologne, along with the introduction of new British watch brand Olivia Burton and spa brand Africology. Eyewear brand For Art's Sake launched its first stand-alone retail store. The store incorporates a host of customer features, including a selfie station, personal shopping in multiple languages, a concierge option, tax-free shopping as well as Click and Collect.

Shortly after year end, French luxury sportswear brand Lacoste agreed terms to open a new store on James Street. The opening of Lacoste will continue to position Covent Garden as one of London's fashion and lifestyle destinations for a wide range of international, luxury brands.

Dining

Introducing high quality innovative food concepts has been central to the dining strategy for Covent Garden. Ten new restaurant formats have opened during 2018 adding to the depth of quality on the estate, establishing Covent Garden as one of London's best dining destinations.

Global restaurant SushiSamba opened its fusion dining restaurant on the Opera Terrace above the Market Building, offering a unique blend of Japanese, Brazilian and Peruvian cuisine. The Market Building's dining offering has been enhanced with the opening of acclaimed US fast casual restaurant Buns & Buns. The Miami based 'breadery' and grill is another London first for Covent Garden and offers an all-day casual dining destination.

Petersham Nurseries opened two new restaurants in Floral Court, La Goccia, a vibrant all-day restaurant, offering an extensive menu of small sharing plates, and The Petersham, a sophisticated, a la carte restaurant. Tables flow out onto Floral Court, where al fresco dining is offered.

New York restaurant RedFarm opened alongside Balthazar on Russell Street, bringing modern Chinese cuisine and dim sum to Covent Garden. The 96-seat restaurant features modern rustic decor across three floors, offering a casual dining experience.

Mariage Frères, a Parisian tea house, opened its UK flagship and first stand-alone store outside Paris on King Street comprising over 8,000 square feet, set across retail space, a restaurant specialising in tea gastronomy, a tea museum and two private event spaces.

SushiSamba, Covent Garden

Adding to the offering on Henrietta Street is Cora Pearl, a new restaurant from the team behind Kitty Fisher's in Mayfair. Henrietta Street has also welcomed another UK first, Avobar, London's first permanent avocado bar serving avocado based dishes.

Southampton Street welcomed the opening of Abuelo, an Australian-meets-South-American coffee house and kitchen. Pancs has joined the Market Building, offering handcrafted pancakes and Egg'cellent, serving a breakfast only menu using fresh and organic eggs will open shortly. So Soufflé has opened its first branch in Europe offering delicious soufflé desserts.

Covent Garden now has its best line up to date attracting large numbers of Londoners as well as visitors to the Capital. Footfall across the estate is up and particularly positive on the feeder streets which act as entrances to the estate. In addition, there are a number of openings scheduled for 2019. Vyta Santa Margherita is fitting out space in the Market Building and is expected to open in the spring. Wahlburgers, the casual dining burger restaurant and bar, will open its first restaurant outside the US on James Street, offering a menu of high quality homemade burgers and sandwiches, fresh salads and shakes.

Offices

The office portfolio is performing well with high occupancy and good demand as Covent Garden has become an attractive office location for professional services, creative industries and SMEs. A number of office lettings have been achieved during the year; including Tower House and Regal House which is now fully let. Office space represents 13 per cent of the portfolio by value.

Residential

Covent Garden's prime residential address continues to strengthen with strong leasing demand for residential accommodation across the estate. The residential portfolio is operating close to full occupancy with a high rate of renewals recorded above previous passing rent.

The residential component of Floral Court comprises 16 heritage apartments on King Street and Rose Street and 29 new apartments on Floral Street. The entire heritage component has been leased to Sonder, a single operator which provides flexible short-term accommodation. Strong buyer interest has been received for the new build collection with 11 units now sold representing £32 million of sales proceeds of which £19 million occurred during 2018.

Hospitality

Encouraging first steps have been taken in introducing hotel accommodation to the estate. There has been encouraging demand across various price points. Z Hotels has opened on Bedford Street providing accommodation for visitors with a new 111 room hotel. Existing tenant, The Henrietta Hotel has upsized its offering into a neighbouring building reflecting positive performance on the estate.

Acquisitions and developments

Covent Garden's largest development to date, Floral Court, completed successfully during the year. Floral Court provides over 85,000 square feet (NIA) of space with eight retail and two restaurant units as well as 45 apartments. The new connecting courtyard between Floral Street and King Street is now open and substantially all of the commercial space is now let or under offer.

The Shop at Bluebird relocated flagship retail concept store to Floral Street in 2018

New acquisition 39-40 Bedford Street, Covent Garden

Capco continues to expand its ownership of the estate, acquiring three properties for £19 million consideration including purchasers' costs. Most notably, Capco completed the assembly of the Wellington block, which is a scarce island site in central London, through the acquisition of the last remaining unit, 23 Wellington Street for £10 million. Repositioning of the Wellington block presents an interesting investment opportunity; Capco is reviewing options, which include proposals for office and retail space as well as hospitality.

Subsequent to year end we acquired 39-40 Bedford Street which presents a repositioning opportunity on an important entrance to the estate. There are a number of further properties on or around the estate being tracked for acquisition and repositioning opportunities.

Future Priorities

Capco continues to implement its strategy for Covent Garden through creative asset management and investment, and attracting excellent retail brands and dining concepts to the estate. By introducing a differentiated mix of British, global and independent brands to address the evolving needs of the consumer, Capco aims to continue capturing the reversionary income potential of the portfolio while continuing to drive ERV progression.

Further to this, Capco aims to continue enhancing the customer environment and make investments to expand its ownership of the estate. As the new openings across the estate trade and pedestrian flow changes this will present further repositioning opportunities. In addition, the southern side of the estate offers a number of embedded growth opportunities, including the repositioning of the Wellington block.

Building on the successful openings in 2018 including Tiffany & Co., The Shop at Bluebird, and SushiSamba, 2019 will see a number of retail and dining openings across the estate with brands such as Wahlburgers, Lacoste and ba&sh which are expected to further strengthen the estate's attractiveness as a leading retail and dining destination.

EARLS | COURT

HIGHLIGHTS

- Earls Court interests valued at £0.7 billion, a decrease of 15.6 per cent (like-for-like) (2017: £1.0 billion)
- Completion of demolition works on ECPL land in preparation for future development

STRATEGY

- Establish a new exciting address for London
- Flexibility to realise value over time and bring forward development through the introduction of third-party capital
- Make enhancements to the Masterplan through planning initiatives
- Progress sales and construction of Lillie Square
- Animate the Masterplan through placemaking initiatives

"Through successful implementation of strategy, the ECPL land is now available for development and a significant amount of value has been realised at Earls Court. Further value realisation is expected to be achieved as development is brought forward through the introduction of third-party capital."

Gary Yardley, Managing Director & Chief Investment Officer

RESULTS AT A GLANCE

Contribution to portfolio value

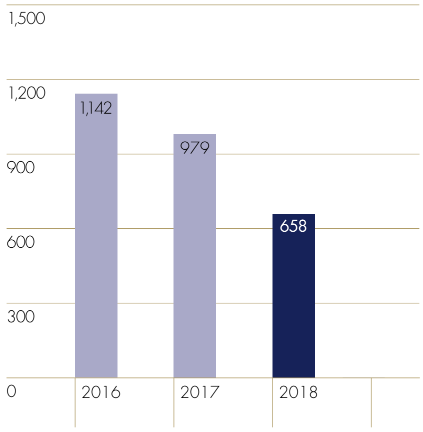
20%

Earls Court Properties

Earls Court Properties capital value

£658m[1]

-15.6% (LfL)



1. *Group share*
2. *The Empress State Building was sold in March 2018 for £250m*

Earls Court site

OVERVIEW

One of London's most important development opportunities

Earls Court is one of the most important mixed-use development opportunities in central London. It is located within two desirable boroughs, with the potential to be transformed into a new district for London.

Capco continues to implement its strategy of realising value at Earls Court over time as evidenced by the sale of Venues, the Empress State Building and handover of Lillie Square Phase 1. Having deployed its expertise to carry out land assembly, establish and manage partnerships, achieve and implement a planning consent and undertake complex enabling works, the land is now available for development. Capco has also successfully established a high quality address for this part of London through the development of Lillie Square with its joint venture partner Kwok Family Interests ("KFI") as well as establishing a pop-up local high street at West Brompton Crossing.

The Company's strategy is to realise value from the ECPL land and bring forward development of the consented Masterplan through the introduction of third-party capital to deliver this important opportunity for London. The current political and economic environment however presents challenges. Whilst many difficult milestones have been achieved over the life of the investment we note the hardening political tone towards large-scale residential development activity which provides the backdrop for evolving policies of the Greater London Authority ("GLA") and many local authorities across London. As we are invested alongside TfL and are a counterparty to a number of public sector stakeholders it is possible that our objectives diverge. For instance LBHF has suggested publicly that it would like to terminate the CLSA. This approach has been echoed by the GLA which has commented on the future of the CLSA and alternative planning proposals for the wider Masterplan area. LBHF has also recently suggested that it is considering the use of Compulsory Purchase Orders. The Company will continue to take a constructive approach to all stakeholders to advance this important scheme for London, whilst protecting its commercial interests, and advance the existing planning consent through the introduction of third-party capital.

Due to the scale of the Earls Court Masterplan, there will remain a risk of protests and legal challenges (ranging from complaints about noise through to judicial reviews or applications for listing) against specific aspects of the development as it is progressed. It should be noted that all such challenges to date have been successfully defended however future challenges of this nature cannot be discounted.

Investments at Earls Court

Earls Court Properties represents Capco's investments within the Earls Court and West Kensington Opportunity Area and principally comprises:

- 63 per cent interest in ECPL: the investment vehicle with TfL in respect of EC1 & EC2, and including certain assets on and around Lillie Road.
- 50 per cent interest in the Lillie Square joint venture with KFI.
- In addition, in 2013, Capco exercised its option under the Conditional Land Sale Agreement ("CLSA"), a legally binding agreement in relation to the West Kensington and Gibbs Green Estates ("The Estates").

Capco's investment in Earls Court Properties declined by 15.6 per cent (like-for-like) to £658 million at 31 December 2018. This comprises £499 million in relation to ECPL and other interests, and £159 million for Capco's share in the Lillie Square joint venture. A number of adjustments have been made to the component parts of the valuation of our interest in ECPL.

The valuer's more conservative view on gross development value and delivery costs, together with an increased developer's margin have resulted in a net decline of 12.1 per cent (like-for-like) for ECPL in the second half of the year. Similarly the valuation of our other interests at Earls Court has declined, reflecting changes in valuation assumptions.

ECPL

ECPL owns 999 year leases (granted in April 2015) over the EC1 & EC2 land together with certain adjacent properties primarily located on or around Lillie Road. Capco continues to lead the venture in its role as business manager.

Following the successful completion of the final phase of the demolition of the former Earls Court Exhibition Centres in early 2018, the ECPL land is available for development. The objective of ECPL is to maximise economic value by enabling development of the consented Masterplan, development of which is expected to be brought forward through the introduction of third-party capital.

To date, a number of approaches have been received from potential investors and occupiers in relation to a broad range of end uses including senior living, diplomatic, education and institutional in respect of certain individual parts of ECPL land.

Sale of the Empress State Building

The disposal of the Empress State Building ("ESB") reflects Capco's disciplined approach to capital management, enabling Capco to realise significant gross cash proceeds of £250 million compared to the 31 December 2017 valuation of £220 million. ESB has been sold to The Mayor's Office for Policing and Crime ("MOPAC"), the long-term occupier of the building under a lease which was due to expire in June 2019. ESB is a 451,000 square foot (NIA), 31 storey, office building located in Earls Court. The consented Earls Court Masterplan is a mixed-use development and is based on retention of ESB's current structure.

Lillie Square

Lillie Square is a one million square foot (GEA) residential development located adjacent to the Earls Court Masterplan. The development can deliver over 600 private and 200 affordable homes across three phases. Development of Lillie Square is very well progressed with over £450 million of cumulative sales contracted across Phase 1 and 2.

Delivery of Phase 1 is substantially complete, and over 220 units have been handed over to residents representing £129 million (Capco share) of sales proceeds.

In Phase 2, over 80 per cent of the units (154 of the 186), have now been reserved or exchanged, 66 of these transacted in 2018, including the exchange of contracts with an international investor for all 49 apartments and 31 parking spaces at '9 Lillie Square', one of the four blocks within Phase 2. Total consideration for this transaction will be approximately £66 million (£33 million Capco share). Pricing was in line with Phase 2 sales to date at a modest premium to comparable units in Phase 1.

The main construction contract for Phase 2 was awarded in June 2018. Completion of construction and hand over of sold units is expected in 2020.

Indicative landowners map of the Earls Court Opportunity Area

1 Earls Court Partnership Limited (63:37 Capco/TfL)

2 Lillie Square (50:50 Capco/KFI)

3 LBHF Estates (Land subject to CLSA)

4 Lillie Bridge Depot (100% TfL)

CLSA

To date, Capco has paid £90 million of the £105 million cash consideration payable to LBHF including four of the five annual instalments of £15 million. Under the CLSA, the residents of The Estates would have the opportunity to be rehoused by the Council within the Earls Court Opportunity Area, some potentially within Block D of the Lillie Square development, in which the basement and foundation works have completed.

LBHF has expressed interest in pursuing alternative options for The Estates including termination of the CLSA, which is a legally binding agreement. Capco continues to meet its contractual obligations in respect of the CLSA and under the existing outline planning consent. Most recently, in November 2018, Capco submitted a Reserved Matters Application for part of the land that is subject to the CLSA. The detailed proposals cover 1.3 million square feet of the Earls Court Masterplan and include residential, office and retail space. LBHF has not yet validated the application; Capco will continue to follow due process in respect of this submission as well as seek to engage with relevant stakeholders in relation to future plans for The Estates, as part of the wider Masterplan.

Capco notes recent comments from LBHF in relation to the internal investigation into the decision of LBHF to enter into the CLSA. The CLSA is a legally binding agreement and was entered into by LBHF, following approval by LBHF's cabinet and the Secretary of State. Capco also notes recent comments from LBHF suggesting that it is considering the use of Compulsory Purchase Orders on various parts of the Earls Court Masterplan.

West Brompton Crossing: temporary retail and leisure use

In 2018, ECPL expanded West Brompton Crossing, a pop-up local high street for Earls Court, by opening additional retail units alongside The Prince. The Prince, which opened in late 2017 has been very successful, comprising two bars, four restaurants and a shared garden exterior with the capacity for up to 400 people. Three new retail units have opened to showcase emerging brands and new local talent.

Future Priorities

Capco's strategy is to realise value from its interests at Earls Court. The objective of ECPL is to maximise economic value by enabling development of the consented Masterplan, development of which is expected to be brought forward through the introduction of third-party capital.

The team will continue to progress Lillie Square through the delivery of Phase 2, ensuring successful completion and hand over to all purchasers and continued sales of the remaining inventory.

Phase 1, Lillie Square

FINANCIAL REVIEW

Situl Jobanputra, Chief Financial Officer

FINANCIAL HIGHLIGHTS

- EPRA NAV of 326 pence per share, a 2.4% decrease
- Total return of -2.0%
- Total property value of £3.3 billion[1]
- LTV of 18%
- Cash and undrawn facilities of £854 million[1]

1. *Group share*

"Our profile of growing income at Covent Garden and strong capital structure provides financial resilience, enabling the Group to withstand prevailing market conditions, take advantage of opportunities as they arise, and deliver long-term value to shareholders."

The Group has strengthened its financial position further during 2018, including through the sale of the Empress State Building, reducing loan to value to 18 per cent and increasing Group undrawn facilities and cash to £854 million.

The Group has continued to invest in the Covent Garden business through £19 million of acquisitions and £42 million of capital expenditure in the Covent Garden portfolio, predominantly at Floral Court. At the year end Covent Garden accounted for 80 per cent of the Group's property portfolio by value. The value of the Covent Garden estate increased by 1.6 per cent (like-for-like) as a result of rental growth achieved during the year and stable yields, with ERV up by 3.0 per cent on a like-for-like basis.

The Empress State Building was sold at a £30 million premium to valuation. Market uncertainty continued to impact the London residential market and has resulted in a further decline in land valuations at Earls Court. The market value of Earls Court Properties, which represents the Group's interests at Earls Court, has decreased by 15.6 per cent on a like-for-like basis.

Overall, the Group share of total property value has decreased by 2.4 per cent (like-for-like). EPRA net asset value per share also decreased by 2.4 per cent during the year, from 333.8 pence at 31 December 2017 to 325.7 pence. Combined with the 1.5 pence dividend paid to shareholders during the year, the total return for 2018 is -2.0 per cent.

Underlying earnings from continuing activities increased by 9.6 per cent to £8.0 million with continued net rental income growth at Covent Garden and reduced underlying administration expenses.

Basis of preparation

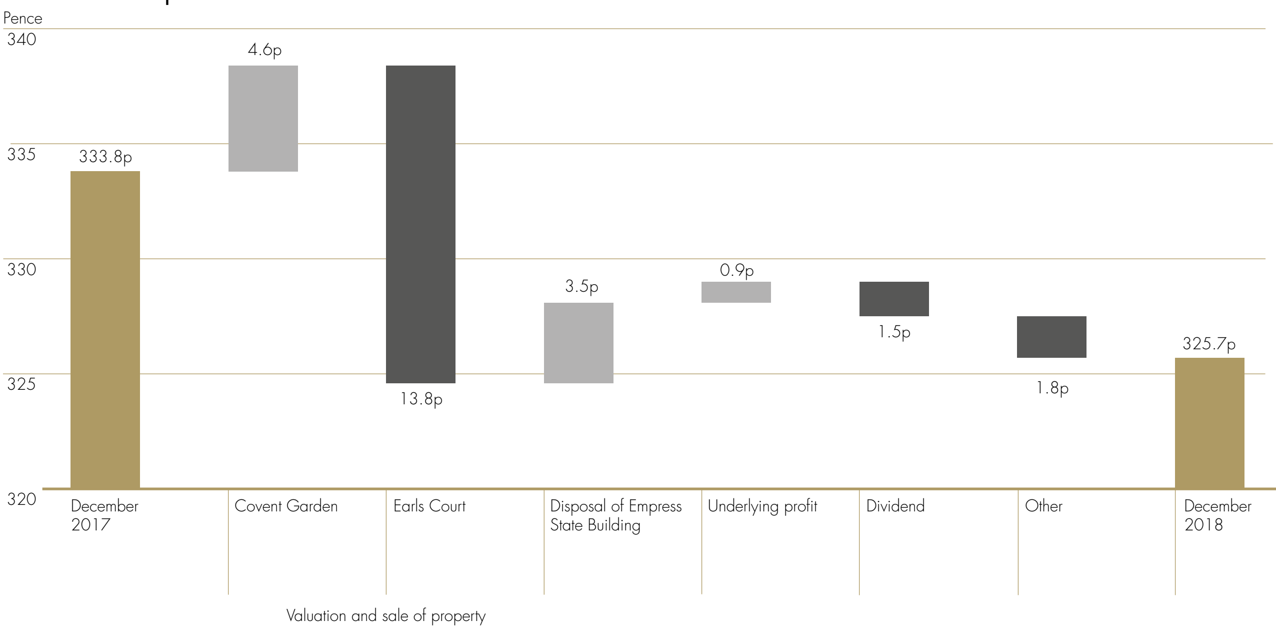
As required by IFRS 11 'Joint Arrangements' the Group presents its joint ventures under the equity method in the consolidated financial statements. The Group's interest in joint ventures is disclosed as a single line item in both the consolidated balance sheet and consolidated income statement rather than proportionally consolidating the Group's share of assets, liabilities, income and expenses on a line by line basis.

The Group uses Alternative Performance Measures ("APMs"), financial measures which are not specified under IFRS, to monitor the performance of the business. These include a number of the Financial Highlights shown on page 3. Many of the APMs included are based on the EPRA Best Practice Recommendations reporting framework which aims to improve the transparency, comparability and relevance of published results of public real estate companies in Europe. A summary of EPRA performance measures and key Group measures included within these financial statements are shown on page 136.

Internally the Board focuses on and reviews information and reports prepared on a Group share basis, which includes the Group's share of joint ventures but excludes the non-controlling interest share of our subsidiaries, as this represents the economic value attributable to the Company's shareholders. Therefore, to align with the way the Group is managed, this financial review presents the financial position, performance and cash flow analysis on a Group share basis.

The chart below sets out a summary of the main movements in the EPRA net asset value per share over the year.

EPRA net assets per share
-2.4% to 325.7 pence



FINANCIAL POSITION

At 31 December 2018 the Group's EPRA net asset value was £2.8 billion (31 December 2017: £2.8 billion) representing 326 pence per share (31 December 2017: 334 pence).

Summary adjusted balance sheet

	2018				2017			
	Group Share £m	Joint ventures[1] £m	NCI[2] £m	IFRS £m	Group Share £m	Joint ventures[1] £m	NCI[2] £m	IFRS £m
Investment, development and trading property	3,198.2	(133.4)	270.7	3,335.5	3,441.0	(124.7)	329.4	3,645.7
Net debt	(572.7)	9.4	(21.4)	(584.7)	(733.7)	6.1	(20.7)	(744.3)
Other assets and liabilities[3]	123.0	111.7	(1.9)	232.8	92.5	118.6	(2.9)	208.2
Non-controlling interest	–	–	(247.4)	(247.4)	–	–	(305.8)	(305.8)
Net assets attributable to owners of the Parent	2,748.5	(12.3)	–	2,736.2	2,799.8	–	–	2,799.8
Adjustments:								
Fair value of derivative financial instruments				(0.7)				5.5
Unrecognised surplus on trading property				25.7				31.8
Revaluation of other non-current assets				12.3				–
Deferred tax adjustments				3.5				1.9
EPRA net asset value				2,777.0				2,839.0
EPRA net asset value per share (pence)[4]				326				334

1. *Primarily Lillie Square.*
2. *Non-controlling interest represents TfL's 37 per cent share of ECPL.*
3. *IFRS includes amounts receivable from joint ventures which eliminate on a Group share basis.*
4. *Adjusted, diluted number of shares in issue at 31 December 2018 was 852.6 million (2017: 850.6 million).*

Investment, development and trading property

The revaluation loss on the Group's property portfolio was £84.7 million for the year, representing a 2.4 per cent decrease in value on a like-for-like basis compared with the MSCI Capital Return for the equivalent period of a 2.1 per cent gain. The Group revaluation loss consists of a £37.3 million gain at Covent Garden and a £122.0 million loss at Earls Court.

Total property return for the year was -0.4 per cent. The MSCI Total Return Index recorded a 7.5 per cent return for the corresponding period.

The revaluation loss of £84.7 million occurred on investment property. On an IFRS basis, which includes ECPL at 100 per cent and does not include Lillie Square on a line by line basis, loss on revaluation and sale of investment and development property was £146.1 million.

Trading property is carried on the consolidated balance sheet at the lower of cost and market value, therefore valuation surpluses on trading property are not recorded. Any unrecognised surplus is however reflected within the EPRA net asset value measure. During the year £4.4 million of the unrealised trading property surplus has been realised. At 31 December 2018, the unrecognised surplus on trading property was £25.7 million (31 December 2017: £31.8 million) which arises solely on the Group's share of trading property at Lillie Square.

Debt and gearing

During the year the Group agreed terms for two 12 month extensions to the Lillie Square LP facility at the borrower's option. As a result, assuming that the second extension is exercised, the Group's earliest repayment date on its facilities would be May 2021.

The Group's cash and undrawn committed facilities at 31 December 2018 were £854.4 million (31 December 2017: £690.8 million). A reconciliation between Group share and IFRS is shown below:

	2018				2017			
	Group Share £m	Joint ventures[1] £m	NCI[2] £m	IFRS £m	Group Share £m	Joint ventures[1] £m	NCI[2] £m	IFRS £m
Cash and cash equivalents	49.9	(20.4)	3.0	32.5	52.3	(25.7)	2.0	28.6
Undrawn committed facilities	804.5	(35.0)	32.0	801.5	638.5	(33.1)	32.5	637.9
Cash and undrawn committed facilities	854.4	(55.4)	35.0	834.0	690.8	(58.8)	34.5	666.5

1. *Primarily Lillie Square.*
2. *Non-controlling interest represents TfL's 37 per cent share of ECPL.*

Net debt decreased by £161 million to £573 million, principally as a result of the disposal of the Empress State Building, partly offset by further investment into our assets and the acquisitions at Covent Garden. As set out in the summary adjusted balance sheet, net debt on an IFRS basis was £585 million.

The gearing measure most widely used in the industry is loan to value ("LTV"), which is calculated on the basis of net debt divided by the carrying value of the Group's property portfolio. The Group focuses most on an LTV measure that includes the notional share of joint venture interests but excludes the share of the non-controlling interest. The LTV of 17.9 per cent remains comfortably within the Group's limit of no more than 40 per cent.

	2018	2017
Loan to value	17.9%	21.3%
Interest cover	149%	170%
Weighted average debt maturity	6.0 years	6.9 years
Weighted average cost of debt	2.9%	2.8%
Gross debt with interest rate protection	88%	91%

The Group's policy is to eliminate substantially the medium and long-term risk arising from interest rate volatility. The Group's banking facilities are arranged on a floating rate basis but are generally swapped to fixed rate or capped using derivative contracts. At 31 December 2018 the proportion of gross debt with interest rate protection was 88 per cent (31 December 2017: 91 per cent).

The Group remains compliant with all of its debt covenants, details of which are set out on page 135, and has significant levels of headroom against its covenants across all of its debt facilities.

At 31 December 2018 the Group had capital commitments of £53.4 million (£61.3 million at 31 December 2017). Capital commitments consist of £3.8 million for Covent Garden and £49.6 million for Earls Court Properties (including the £15.0 million of CLSA instalments and £32.4 million in relation to Lillie Square).

	2018				2017			
	Group Share £m	Joint ventures[1] £m	NCI[2] £m	IFRS £m	Group Share £m	Joint ventures[1] £m	NCI[2] £m	IFRS £m
Capital commitments	53.4	(32.4)	1.4	22.4	61.3	(7.0)	3.0	57.3

1. *Primarily Lillie Square.*
2. *Non-controlling interest represents TfL's 37 per cent share of ECPL.*

Conditional Land Sale Agreement ("CLSA")

In November 2013 the Group exercised its option under the CLSA, which it entered into with LBHF, for the purchase of the West Kensington and Gibbs Green housing estates ("The Estates"). The overall consideration payable is expected to be £105 million cash plus the planning requirement to provide up to 760 replacement homes.

The CLSA investment property remains unrecognised in the consolidated financial statements of the Group as its main underlying asset (the land relating to The Estates) does not currently meet the recognition criteria under IFRS required for investment and development property. Annual payments of £15 million commenced in December 2015 and the final payment is due to be paid in December 2019. Where amounts are paid prior to the transfer of property, they will be carried on the Group's balance sheet as prepayments against future land draw down. Of the £90 million paid to date, £15 million relates to the acquisition of two properties, held as investment and development property, and £75 million relates to options over The Estates which is held as a prepayment within other receivables. The remaining future payment totalling £15 million is disclosed as a capital commitment as referred to above.

The prepayment balance will be transferred to investment and development property once the recognition criteria for investment and development property have been met. Once this occurs, in line with the Group's accounting policy, the land will become subject to bi-annual valuation with any changes reflected in the Group's reported net asset measure.

CASH FLOW

A summary of the Group's cash flow for the year ended 31 December 2018 is presented below:

Summary cash flow

	2018				2017			
	Group Share £m	Joint ventures[1] £m	NCI[2] £m	IFRS £m	Group Share £m	Joint ventures[1] £m	NCI[2] £m	IFRS £m
Operating cash flows after interest and tax from continuing activities	(17.5)	2.5	0.6	(14.4)	(24.0)	10.2	0.6	(13.2)
Purchase and development of property, plant and equipment	(108.7)	33.4	(9.5)	(84.8)	(225.6)	27.0	(12.6)	(211.2)
Transactions with joint venture partners and non-controlling interests	(1.1)	(1.1)	8.3	6.1	7.8	5.6	(0.1)	13.3
Net sales proceeds from discontinued operation	(0.3)	–	–	(0.3)	226.0	–	–	226.0
Net sales proceeds from subsidiaries	250.7	–	–	250.7	(4.5)	–	–	(4.5)
Net sales proceeds from property	51.1	(30.8)	0.6	20.9	109.1	(92.0)	–	17.1
Net cash flow before financing from continuing activities	174.2	4.0	–	178.2	88.8	(49.2)	(12.1)	27.5
Issue of shares	0.1	–	–	0.1	0.3	–	–	0.3
Financing	(166.4)	3.2	1.0	(162.2)	(75.7)	46.3	10.6	(18.8)
Dividends paid	(8.2)	–	–	(8.2)	(6.7)	–	–	(6.7)
Transfers with discontinued operation	–	–	–	–	5.4	–	–	5.4
Other	(4.0)	–	–	(4.0)	(3.8)	–	–	(3.8)
Net cash flow from continuing activities[3]	(4.3)	7.2	1.0	3.9	8.3	(2.9)	(1.5)	3.9
Net cash flow from discontinued operation	–	–	–	–	(0.2)	–	–	(0.2)
Net cash flow	(4.3)	7.2	1.0	3.9	8.1	(2.9)	(1.5)	3.7

1. *Primarily Lillie Square.*
2. *Non-controlling interest represents TfL's 37 per cent share of ECPL.*
3. *Net cash flow is based on unrestricted cash and cash equivalents and therefore does not include the movement in Lillie Square deposits on a Group share basis of £1.9 million (2017: £14.6 million).*

Operating cash outflows of £17.5 million are as a result of changes in net working capital requirements.

During the year, £57.4 million was invested at Covent Garden for the purchase of three properties and subsequent expenditure for the development of property predominantly at Floral Court. At Earls Court, total expenditure of £51.3 million primarily relates to enablement works on ECPL land including the acquisition of the final residential unit at Empress Place and the construction of Lillie Square Phase 2.

The disposal of the Empress State Building, effected through the sale of subsidiaries, resulted in a net inflow of £248.9 million after transaction-related costs. The proceeds were used to reduce the Group's net debt position and will be deployed in Capco's core central London estates. Net proceeds from subsidiaries also includes £1.8 million relating to deferred consideration on the disposal of the Brewery by EC&O Limited on 9 February 2012.

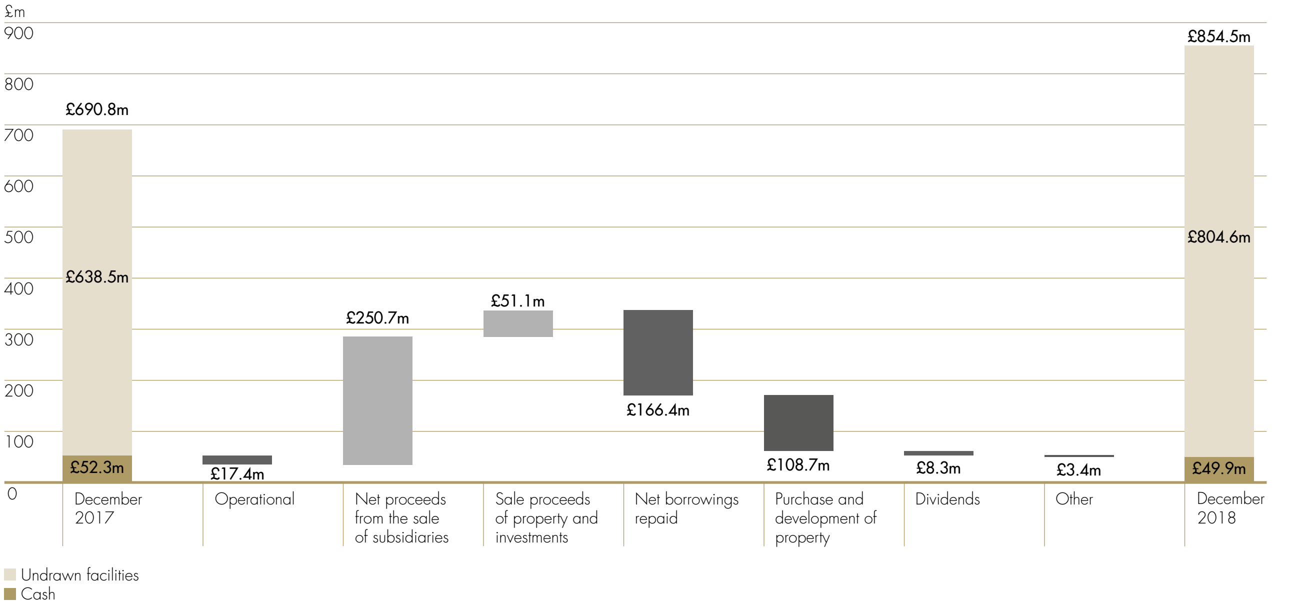
Net sales proceeds from property of £51.1 million (Group share) relates to the disposal of seven units at Floral Court and 41 units at Lillie Square.

IFRS net borrowings repaid during the year were £162.2 million. Adjusted for net borrowings repaid in joint ventures and the Group's non-controlling interest the reduction was £166.4 million.

Dividends paid of £8.2 million reflect the final dividend payment made in respect of the 2017 financial year and the interim dividend paid in September 2018. This was higher than the previous year due to a lower take up of the scrip dividend alternative, 35 per cent versus 47 per cent for the final dividend in 2017.

IFRS cash and cash equivalents has increased by £3.9 million to £32.5 million. Lillie Square Phase 1 completions has reduced the cash held for deposits and as a result the Group's share of cash and cash equivalents has decreased by £2.4 million to £49.9 million.

Cash and undrawn facilities



FINANCIAL PERFORMANCE

The Group presents underlying earnings and underlying earnings per share in addition to the amounts reported on a Group share basis. The Group considers this presentation to provide useful information as it removes unrealised and certain other items and therefore represents the recurring, underlying performance of the business.

Summary income statement

	2018				2017			
	Group Share £m	Joint ventures[1] £m	NCI[2] £m	IFRS £m	Group Share £m	Joint ventures[1] £m	NCI[2] £m	IFRS £m
Net rental income	63.5	(0.1)	1.0	64.4	66.2	–	0.7	66.9
Loss on revaluation and sale of investment and development property	(78.8)	–	(67.3)	(146.1)	(28.0)	(0.3)	(62.6)	(90.9)
Administration expenses	(41.6)	(0.5)	(0.4)	(42.5)	(38.7)	0.3	(0.4)	(38.8)
Net finance costs	(19.2)	0.2	–	(19.0)	(19.8)	0.7	–	(19.1)
Taxation	(4.3)	–	–	(4.3)	(6.7)	–	–	(6.7)
Other	35.8	(11.9)	–	23.9	20.5	(0.7)	(0.4)	19.4
Non-controlling interest	–	–	66.7	66.7	–	–	62.7	62.7
Loss for the year attributable to owners of the Parent from continuing operations	(44.6)	(12.3)	–	(56.9)	(6.5)	–	–	(6.5)
Adjustments:								
Loss on revaluation and sale of investment and development property				146.1				90.9
Non-controlling interest in respect of Group adjustments				(67.3)				(62.6)
Profit on sale of subsidiaries				(29.5)				–
Administration expenses – non-underlying				4.9				–
Other[3]				7.8				(18.5)
Taxation on non-underlying items				2.9				4.0
Underlying earnings from continuing operations				8.0				7.3
Underlying earnings from discontinued operation				–				4.1
Underlying earnings				8.0				11.4
Underlying earnings per share (pence):								
From continuing operations				0.9				0.9
From discontinued operation				–				0.4
Underlying earnings per share (pence)				0.9				1.3
Weighted average number of shares				850.8m				850.4m

1. *Lillie Square and Innova Investment.*
2. *Non-controlling interest represents TfL's 37 per cent share of ECPL.*
3. *Further details regarding the EPRA and Company specific adjustments are disclosed within note 14 'Earnings Per Share and Net Assets Per Share' within the consolidated financial statements.*

Income

Covent Garden net rental income has increased by £8.6 million due to £4.4 million of like-for-like growth and £4.2 million through current and prior year acquisitions and developments. The Group continues to convert reversionary potential into contracted rents resulting in a like-for-like net rental income growth at Covent Garden of 9.6 per cent. ERV at Covent Garden increased by 3.0 per cent, like-for-like, from £104.8 million to £107.7 million.

Earls Court net rental income has decreased by £11.5 million, primarily as a result of the Empress State Building sale.

On an overall basis, increased net rental income at Covent Garden has been offset by the loss of income from the Empress State Building resulting in a decrease in Group net rental income of £2.7 million (IFRS: £2.5 million).

Loss on revaluation and sale of investment and development property

The loss on revaluation of the Group's investment and development property was £80.9 million. Covent Garden recorded a gain on revaluation of £37.3 million as a result of rental growth. The loss on revaluation at Earls Court of £118.2 million was driven by changes in valuers' assumptions. The IFRS loss on revaluation, which includes the non-controlling interest share of ECPL losses, was £148.2 million.

The sale of seven apartments at Floral Court resulted in a £2.1 million gain above the previous recognised valuation gain.

Administration expenses

Underlying administration expenses have been reduced by £2.0 million due to efficiency initiatives. £4.9 million of costs were incurred during the year in relation to the possible demerger and related activity.

Net finance costs

Net finance costs have decreased to £19.2 million due to the lower level of average borrowings during the year.

Taxation

The total tax charge for the year, made up of both underlying tax and non-underlying tax, is £4.3 million.

Tax on underlying profits of the Group was £1.4 million which reflects a rate in line with the current rate of UK corporation tax. The main rate of corporation tax reduced from 20 per cent to 19 per cent from 1 April 2017. The corporation tax rate will reduce further to 17 per cent from 1 April 2020.

Contingent tax, being the amount of tax that would become payable on a theoretical disposal of all investment property held by the Group, as at 31 December 2018 was nil (31 December 2017: nil). A disposal of the Group's trading properties at their market value, before utilisation of carried forward losses, would result in a corporation tax charge to the Group of £4.9 million (19 per cent of £25.7 million).

IAS 12 provides for the recognition of a deferred tax asset where it is probable that there will be future taxable profit against which a deductible temporary difference can be utilised. As a result of the application of this provision, the Group has not recognised the deferred tax asset on decreases to the carrying value of investment property and certain losses carried forward.

The Group's tax policy, which has been approved by the Board and is available on the Group website, is aligned with the business strategy. The Group seeks to protect shareholder value by structuring operations in a tax efficient manner, with external advice as appropriate, which complies with all relevant tax law and regulations and does not impact adversely our reputation as a responsible taxpayer. As a Group, we are committed to acting in an open and transparent manner.

Consistent with the Group's policy of complying with relevant tax legislation and having regard to key stakeholders, the Group maintains a constructive and open working relationship with HM Revenue & Customs which regularly includes obtaining advance clearance on key transactions where the tax treatment may be uncertain.

Dividends

The Board has proposed a final dividend of 1.0 pence per share to be paid on 16 May 2019 to shareholders on the register at 12 April 2019. Subject to SARB approval, the Board intends to offer a scrip dividend alternative.

Going concern

At 31 December 2018 the Group's cash and undrawn committed facilities were £854.4 million and its capital commitments were £53.4 million. With a weighted average debt maturity of six years, loan to value of 17.9 per cent and sufficient headroom against all financial covenants, there continues to be a reasonable expectation that the Company and Group will have adequate resources to meet both ongoing and future commitments for at least 12 months from the date of signing these financial statements. Accordingly, the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the 2018 Annual Report & Accounts.

Situl Jobanputra
Chief Financial Officer

26 February 2019

CORPORATE RESPONSIBILITY REPORT

Planting at Covent Garden

It is important to us that we conduct our business in a responsible way. Our programme of Corporate Responsibility ("CR") initiatives sits at the core of Capco's business, with a focus on three themes: people, community and environment, underpinned by a commitment to the highest standards of business practices.

Although Capco owns assets totalling £3.3 billion, the Company is managed by a relatively small team of people. Our employees are therefore key to the success of our business and we provide a range of support and training opportunities that enable us to develop the right talent to implement our strategy and help individuals to maximise their potential.

As long-term stewards of two major London estates, we support initiatives that aim to address social problems faced by the communities in which our estates are located. Our work with these communities focuses on initiatives that maximise opportunities for young people, address homelessness and support ex-military personnel.

We are committed to minimising the impact of our operations on the environment, employing a forward-looking approach to air quality, environmental and sustainability issues, and implementing initiatives which improve the quality of the environment for all, such as pedestrianisation and increasing greenery at Covent Garden.

We target the highest standards of health and safety and ethical practices in areas such as modern slavery, tax evasion and bribery and corruption, and expect the same standards from our suppliers.

Community and environmental initiatives across the business are managed by our asset teams and overseen by the CR Executive Committee. This report provides updates on the progress made against our 2018 CR targets, and explains more about our activities in each of our areas of focus.

OUR APPROACH

We monitor and assess the effectiveness of our CR strategy and measure impact in three areas: people, community and environment. In addition, we monitor health and safety standards across the Group.

It is our intention to benefit the communities in which our assets are located, providing development opportunities to our talented people and respecting the environment.

See pages 43 & 44

PEOPLE

TALENT

Our teams of highly skilled and motivated people are critical to the successful delivery of our business plan. We aim to develop careers within the Company and promote from within whenever possible.

REWARD

We reward performance against objectives set through competitive salaries, discretionary bonus and share awards.

CULTURE

The business is both fast-moving and entrepreneurial. We have a high-performance culture in which innovation and creativity are encouraged.

GIVING BACK

We aim to make a difference in the communities in which our assets are located and have well-established associations with volunteer organisations and chosen charities. We facilitate volunteering opportunities for our employees and are proud of their commitment and engagement with our CR programme.

See pages 45 & 46

COMMUNITY

COMMUNITY PROGRAMMES

We work hand-in-hand with the communities in the areas of London in which we invest, and have programmes centred on young people, the homeless and ex-services personnel.

EDUCATIONAL PROGRAMMES

We work with specialist providers to deliver an educational programme to primary and secondary schools in Covent Garden and Earls Court, designed to introduce children of school age to specific issues affecting their areas of London.

CHARITY PROGRAMMES

We have long-standing relationships with selected charities which are aligned with our CR strategy to help young people, ex-services personnel and the homeless.

See pages 47 & 48

ENVIRONMENT

ENERGY AND CARBON MANAGEMENT

We are committed to improving the energy efficiency of our portfolio and to lowering our carbon emissions. We continue to meet our energy target and have increased our purchase of energy via renewable energy tariffs at Covent Garden.

RESPONSIBLE DEVELOPMENT

We are committed to integrating responsible and sustainable practices into the delivery of projects and development. Floral Court, our mixed-use development in the heart of Covent Garden, achieved three sustainability certifications: Level 4 Code for Sustainable Homes, BREEAM Excellent rating for domestic refurbishment and BREEAM Very Good rating for retail.

SUSTAINABILITY INDICES

We maintain our commitment to participating in industry sustainability indices and benchmarks. We continue to be included within the FTSE4Good Index and responded to the CDP climate change programme and the Global Real Estate Sustainability Benchmark ("GRESB").

See page 49

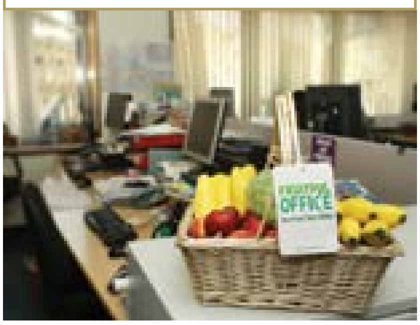
HEALTH AND SAFETY

We are committed to providing the highest standards of health and safety across our property activities to offer the highest levels of protection for our employees, supply chain partners and the members of the public who interact with our business operations.

ENVIRONMENTAL INITIATIVES AT COVENT GARDEN

Residents' herb barrow at Covent Garden

WE SUPPORT INITIATIVES THAT PROMOTE EMPLOYEE WELL-BEING



Fruit baskets are available in our offices for all employees

WE ENCOURAGE OUR EMPLOYEES TO PARTICIPATE IN OUR CR ACTIVITIES

Capco employees volunteered at the annual Apple Market Challenge

PEOPLE

People are the key to our success.

We aim to develop careers by promoting talented individuals to positions of leadership.

TALENT

Our aim is to manage talent effectively and ensure that we have sufficient capability to realise our strategy. We regularly undertake succession planning exercises to review the talent pipeline and progress individuals according to capability.

We have a graduate recruitment programme for top graduates who pursue an internal programme of training and mentoring, which will ensure they are well prepared for the Royal Institution of Chartered Surveyors ("RICS") Assessment of Professional Competence ("APC"). Each graduate is assigned an experienced Capco counsellor and supervisor who guide them through the APC process.

New opportunities that arise in the business are advertised internally and we aim to promote internal candidates in order to enhance career development and encourage mobility across the Company.

TRAINING AND DEVELOPMENT

Capco training and development programmes are designed to strengthen our teams and challenge aspiring leaders.

Individual training and development needs are identified and discussed at performance review meetings with line managers. During 2018, our employees recorded 987 hours of training activity.

We sponsor individuals undertaking further professional qualifications, and encourage continuous learning, reflecting our commitment to a knowledgeable environment.

We recognise that coaching and mentoring can have significant impact on behaviours and key employees continue to benefit from bespoke coaching programmes.

PERFORMANCE MANAGEMENT

Annual performance objectives for individuals are agreed at performance review meetings, which take place at the beginning of the calendar year. Performance is measured against objectives set for the previous year and individual performance ratings underpin discretionary annual bonus awards.

We regard the giving of regular and direct feedback as a core competency of effective leadership and encourage line managers to appraise performance regularly during the year.

CULTURE

Capco has a high-performance culture, reflective of our business strategy. Capco people operate with integrity and are supportive of colleagues across the business. Employees are particularly engaged with the business and understand the difference they can make in progressing our strategic objectives.

We have an inclusive approach and aim to help people develop and realise their potential. Capco people are results-driven and brave in their approach to new ideas. Many of our people are in new roles and have assumed increased levels of responsibility since joining Capco.

We support new parents returning to the workplace, and encourage our people to adopt a healthy attitude to work-life balance and to participate in the community.

2018 ACHIEVEMENTS

Well-being

Capco employees participated in a 30-day 500/750 mile challenge. A combined total of 7,256 miles was completed.

We ran a series of development sessions which covered topics including mental health awareness and resilience, and received positive feedback across the business.

Leadership development

We enhanced the capability of our senior leadership team through a business coaching programme.

Diversity and inclusion

Capco has supported a number of diversity initiatives throughout the year, including Real Estate Balance, and we have refreshed our diversity and inclusion policies.

OUR COMMITMENTS IN 2019

Performance

Recognising that our people are our most valuable asset, in 2019 we will seek to further improve employee performance and professional standards across the Company.

Leadership capability

We will further enhance the capability of the leadership team through coaching and a series of internally delivered bespoke workshops.

Diversity and inclusion

We will continue to support initiatives that aim to increase diversity and inclusion within the property industry and strengthen a diverse talent pipeline.

BENEFITS

In addition to core elements, we reward people with an attractive package of additional benefits, which includes private medical insurance and dental cover. The Company contributes up to 10 per cent of salary into the MyCapco pension scheme.

Our policy is to enable employees to take their full annual leave entitlement of 28 days per annum, rising to 30 days after four years' service.

LIFESTYLE PROGRAMME

In 2018, our lifestyle programme covered matters including well-being, resilience, mental health and financial matters such as mortgages and retirement planning.

REWARD

The aim of our reward strategy is to compensate people for high performance and to incentivise them to strive to improve.

Core compensation packages at Capco comprise three elements: base salary, discretionary performance bonus and discretionary share awards. We regularly benchmark our approach to reward to ensure that we are appropriately competitive in the market.

Awards are made in April of each year and take account of performance ratings discussed at performance review meetings.

All Capco employees are eligible to receive share awards so that everyone can participate in the success of the Company. These awards have a three-year performance period and are subject to corporate performance conditions.

DIVERSITY

We believe that every person in the Company has a part to play in generating value and we understand fully the benefits of a diverse workforce. Diversity is considered when making appointments at all levels.

We are keen to develop female talent across the business and provide executive coaching to our senior leadership team. There is strong female representation across the business. A summary of gender diversity across the Company is set out to the right.

We support a number of initiatives which aim to increase diversity within the property industry, including being a signatory to the RICS Inclusive Employer Quality Mark, a member of the Employers Network for Equality and Inclusion ("ENEI"), a member of Real Estate Balance, a sponsor of the Reading Real Estate Foundation and supporting the Pathways to Property work experience programme. Capco is a corporate member of British Property Federation ("BPF") and supports the BPF Futures programme.

During the course of the year, Capco held a number of diversity awareness sessions for all employees.

HUMAN RIGHTS

This report does not contain specific information on human rights issues as this is not considered necessary for an understanding of the development, performance or position of the Company's business. However, Capco has adopted a CR policy and a supply chain policy which reflect a responsible approach to human rights.

MODERN SLAVERY

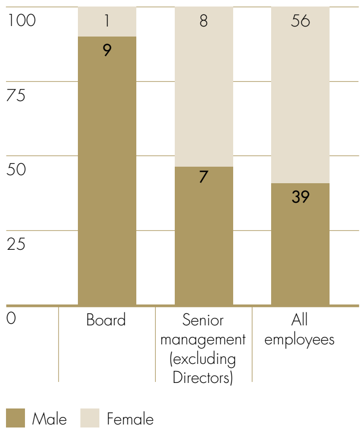
In accordance with the Modern Slavery Act 2015, the Board has approved a Modern Slavery and Human Trafficking Statement, which has been published on our website. The statement details the steps we take to avoid slavery and human trafficking in our own operations and in our supply chain. We believe that our own operations present minimal risk, but recognise that a higher level of risk is posed by the suppliers we engage with to provide goods and services.

During 2018 we provided further guidance to our employees on modern slavery risks, ensured that our commitment to combatting modern slavery was reflected in our sustainability framework and continued our engagement with suppliers.

WE ENCOURAGE OUR EMPLOYEES TO SUPPORT OUR CR ACTIVITIES

A number of Capco employees participated in fundraising for the London Air Ambulance

Gender diversity (%)



WE SUPPORT A NUMBER OF DIVERSITY INITIATIVES

RICS INCLUSIVE EMPLOYER

employers network for equality and inclusion www.enei.org.uk Member

REAL ESTATE BALANCE

COMMUNITY

During 2018, Capco continued to work to benefit the communities in which we operate and to support our chosen charities. Capco employees committed over 600 hours to CR-related activity and volunteered to help with CR projects, meeting our target for the year.

Benefiting the communities in which our assets are located is the cornerstone of the stewardship of our estates.

SUPPORTING THE LOCAL COMMUNITY

Community events

Capco continues to support a range of community events at Covent Garden and a number of employees volunteered to help run the events. In 2018 these included:

- Sponsorship of a formal wreath-laying event in the Covent Garden Piazza in commemoration of the centenary of the WW1 Armistice, in association with the local residents and the Lord Mayor of Westminster City Council
- In partnership with the West End Community Trust, providing a day trip and Christmas lunch to elderly local residents.
- Sponsorship of the Covent Garden Community Association Christmas Carol concert held in St. Paul's Church
- Sponsorship of Recruit London, which assists the long-term unemployed into work. 46 Westminster residents were placed into full-time employment with local Covent Garden businesses and 13 residents were provided with work experience

EARLS COURT COMMUNITY OPEN DAY

Easter flowers at an Earls Court community open day

2018 ACHIEVEMENTS

Education programme

We extended the number of schools that participate in the Capco Education Programme in collaboration with our education partners.

Local initiatives

We delivered a range of local community and education projects that have benefited people of all ages.

Charitable donations

We developed closer ties with our chosen charities which align with our CR strategy, and have provided £72,000 of support to charitable causes.

Employee CR engagement

Capco staff remain committed to participating in CR-related activities and undertook over 600 hours of CR-related activity during the year.

OUR COMMITMENTS IN 2019

Community facility

We will continue to make community space available at Lillie Road for use by local groups.

Educational Programme

We will extend the number of schools that participate in the Capco Education Programme, building further on our success with school children of all ages.

Employee CR engagement

We will encourage employees to engage in CR initiatives and contribute 500 employee hours to supporting CR-related projects.

Volunteering programme

We will promote a volunteering programme with Construction Youth Trust, LandAid and Urban Land Institute ("ULI").

Earls Court community engagement includes regular community events at the Earls Court Project Room. Families are able to participate in a range of activities, view models and presentations on the Earls Court development and ask questions of Capco representatives. Activities in 2018 included Easter egg decorating, bunting designing, hand-held windmill decorating and flower crown arranging and a Christmas open day with a wreath-making workshop.

District stewardship

Capco continues to fund additional security for the Covent Garden estate due to the high national security threat level. This includes 24-hour monitoring of CCTV and extensive patrolling of the estate throughout the day and night.

To help improve air quality in the area, we have commissioned signage encouraging drivers to turn off their engines whilst queuing in traffic to help improve air quality and have consolidated deliveries to our Covent Garden office to reduce the number of vehicles visiting the district.

A dedicated residents' herb barrow on the Piazza has been provided for use by all residents.

CHARITABLE SUPPORT

Crisis at Christmas
Capco supported Crisis, the national charity for homeless people, as our charity partner for Covent Garden's Christmas campaign. Approximately £16,500 was raised for the charity over the Christmas period.

Refuge
As part our annual "Beautython" campaign, Covent Garden supported Refuge, who provide specialist support for women experiencing domestic violence. £700 was raised for the charity.

Mousetrap Theatre
Capco supported a charity event organised by Mousetrap Theatre Projects, which supports disadvantaged children and children with special needs in accessing local theatre.

Perennial
Covent Garden participated in this year's Chelsea Fringe Festival, sponsoring the creation of a garden on the Piazza in support of Perennial, the charity supporting people in horticulture. The garden was situated in the Piazza for two weeks, encouraging donations from the public.

London Community Foundation
In collaboration with the London Community Foundation, we have donated £180,000 to provide grants to support community activity in the Earls Court area. The projects fall under the three criteria of Get fit, Get support and Get involved and include a number of youth projects, classes, homework clubs, nutrition and well-being projects and trips for older people.

Emergency services
Capco donated £10,495 towards the funding of child and newborn manikins, used in emergency services scenario training sessions.

In collaboration with the London Air Ambulance, Capco hosted a Retail Apprentice Challenge in the Covent Garden Piazza, raising approximately £2,500 for the charity. A number of employees from the Covent Garden office took part in the challenge.

Lifelites
Capco raised over £11,500 for the charity Lifelites, which is based near Covent Garden, through a golf day held in September.

EDUCATIONAL PROGRAMMES

Apple Market Challenge
The hugely successful Apple Market Challenge, run in conjunction with sixth form students at a Business Enterprise School, Ursuline High School Wimbledon, entered its twelfth year and has involved over 6,700 children since its inception in 2006. Pupils from 10 schools, including both the Covent Garden primary schools, presented products that could be sold from the Apple Market in the Covent Garden Market Building.

Little Architect
Capco supported an Architectural Association School of Architecture project with pupils from St. Joseph's primary school, Covent Garden. The project focused on the Victorian era of design, the Great Fire of London and the Roman Empire.

Gardening
Covent Garden's Head Gardener undertook a planting and gardening workshop with children from St Joseph's primary school.

Construction Youth Trust
Capco supports Construction Youth Trust, which aims to inspire and enable young people to overcome barriers and discover a career in construction. This programme targets schools with a high proportion of socially or economically disadvantaged students and works with a diverse demographic of young people to introduce them to career opportunities in construction. Initiatives in 2018 included a number of speed networking and careers events for students and parents at Ark King Solomon Academy in Westminster.

SUPPORTING CRISIS AT CHRISTMAS

Capco supported Crisis over the Christmas period

PLANTING AND GARDENING

Planting and gardening workshop with local school children

Earls Court
Through our collaboration with our education partner, Urbanwise London, Capco worked with children from six primary schools in the Earls Court area on a range of educational projects focused on Earls Court. The projects focused on what makes a great place to live with specific focus on home design, housing construction and materials and local area issues. They also spent some time researching the history of the Earls Court area, which involved history mapping and survey work looking at different types of businesses.

Urban Plan Project
We collaborated with the Urban Land Institute on their UrbanPlan Project, working with Year 12 students from Fulham College and students from Chelsea Academy. This programme helps young people understand the role the real estate industry plays in reviving and regenerating urban areas and brings to life the urban environment through a series of interactive workshops and team challenges.

ENVIRONMENT

Capco aims to minimise the impact of our operations on the environment. We apply a responsible and forward-looking approach to environmental issues and the principles of sustainability.

ENERGY MANAGEMENT

In 2018 we continued our efforts to lower our energy usage and met our target to reduce energy use by three per cent on a like-for-like basis compared to 2017. At Covent Garden Market electricity usage was lowered by 15 per cent as we introduced further energy efficient LED lighting. We also carried out energy-saving audits and purchased 98 per cent of our electricity from renewable energy suppliers.

Improving the energy performance of our assets in response to the Minimum Energy Efficiency Standards ("MEES") has remained a priority. We have improved the Energy Performance Certificate ("EPC") rating to E or better on all our Covent Garden properties, removing all ratings of F or lower, and achieved an EPC rating of at least C for all new residential apartments at Floral Court.

AIR QUALITY

We recognise that improving air quality remains a priority for those living and working in, or visiting London. In 2018 we have continued our discussions with Westminster City Council to ascertain if further streets in Covent Garden can be made pedestrian-friendly. In advance of this, we have commissioned mobile signage encouraging drivers to turn off their engines if they are queuing in traffic, which will contribute to improving air quality.

GREENING OUR PLACES

At Covent Garden, we expanded our greening programme by installing planting to building facades on Floral Street and creating a pocket park in Conduit Court. We aim to increase planting over time to provide a biodiverse environment which will assist in improving air quality.

WASTE AND WATER MANAGEMENT

We have maintained our efforts to improve recycling rates and 100 per cent of waste was diverted from landfill for our head office and Covent Garden office operations. We raise awareness of how our employees can improve recycling rates in our operations by sharing information on our intranet pages. In an effort to reduce plastic waste, the Covent Garden office has switched its milk deliveries so that milk is provided in re-usable glass bottles.

We monitor water use across our portfolio and actively seek opportunities to install more efficient water-using equipment during our refurbishment works and new developments.

2018 ACHIEVEMENTS

Lowering carbon emissions
98 per cent of electricity purchased for Covent Garden from renewable energy suppliers.

Sustainability certification
Achieved Level 4 Code for Sustainable Homes and BREEAM Very Good & Excellent certification for Floral Court.

A greener Covent Garden
Introduced new planting across Covent Garden and a new Head Gardener to enhance greenery and improve air quality.

Award for sustainability reporting
Maintained Silver Award in EPRA Sustainability Best Practice Recommendations for Reporting awards and as a constituent of FTSE4Good.

Diverting waste from landfill
At our head office and Covent Garden office operations, we diverted 100 per cent of non-hazardous waste from landfill and continued with our efforts to improve recycling.

OUR COMMITMENTS IN 2019

Energy management
Lower energy use by 3.5 per cent for managed areas on a like-for-like basis compared with 2018 and maintain this target annually until 2021.

Air quality
We will promote our no-idling campaign in Covent Garden and review further opportunities for more pedestrian friendly areas.

Waste and water management
At Covent Garden, we will continue to identify opportunities to consolidate waste collections and divert waste from landfill.

Responsible development
We will refresh our sustainability framework for projects and development to recognise emerging policy and improved industry standards.

AIR QUALITY

Capco has introduced signs discouraging engine idling.

GREENHOUSE GAS EMISSIONS

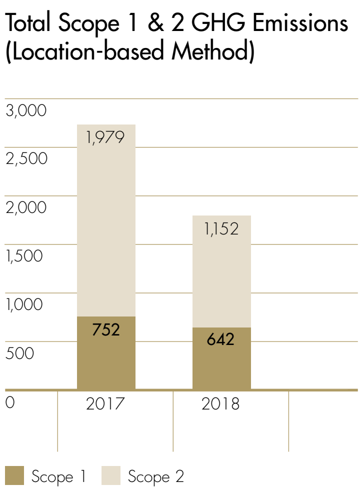
Capco continues to monitor and report all greenhouse gas emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. We prepare the report by following the 'Greenhouse Gas (GHG) Protocol: A Corporate Accounting and Reporting Standard' published by the World Resources Institute ("WRI") and adopt the operational consolidation method, as this reflects where we can influence energy use.

For Scope 2 emissions, those arising from generated electricity usage, we report in two ways. Firstly, we calculate the 'location-based' emissions which reflect emissions according to the energy mix of the National Grid. Secondly, we also report 'market-based' emissions which reflect the energy mix provided by our energy suppliers. This helps us to demonstrate the reduction in emissions as a result of purchasing energy from suppliers who generate renewable energy.

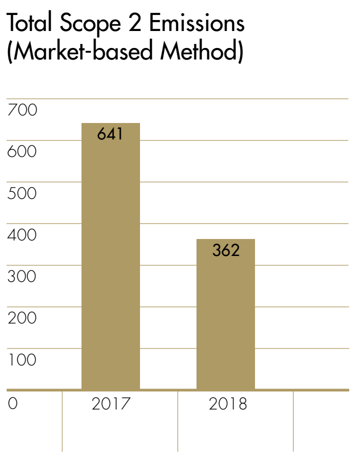
Capco has engaged Ramboll UK Limited to provide independent verification of the 2018 greenhouse gas emissions assertion, in accordance with the industry recognised standard ISO 14064-3.

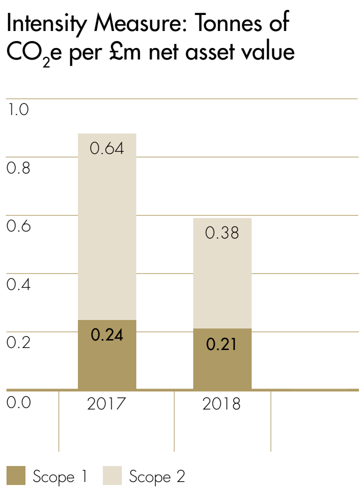
GREENHOUSE GAS EMISSIONS DATA FOR YEAR ENDED DECEMBER 2018

Location-based method (tCO_2e)[1]



Market-based method (tCO_2)[2]





1. *The location-based method reports emissions as tonnes of carbon dioxide equivalent (tCO_2e)*
2. *The market-based method reports emissions as tonnes of carbon dioxide (tCO_2)*

RESPONSIBLE DEVELOPMENT

We are committed to delivering new developments responsibly and to embedding sustainable practices. Our Environmental Policy and Sustainability Framework set out to our contractors and suppliers the standards our developments are to meet. We are currently reviewing our Sustainability Framework in light of the new London Environment Strategy and emerging New London Plan.

Across our major projects, we use industry certification programmes including BREEAM and Code for Sustainable Homes to help us maintain high standards of sustainable design. For Floral Court, our mixed-use development in the heart of Covent Garden, we have achieved three certifications: Level 4 Code for Sustainable Homes, BREEAM Excellent rating for domestic refurbishment and BREEAM Very Good rating for retail.

Capco remains an active member of the UK Green Building Council.

SUSTAINABILITY INDICES

In 2018 we maintained our commitment to participating in industry sustainability indices and benchmarks. We continued to be included within the FTSE4Good Index, responded to the CDP climate change programme and GRESB, and again received a Silver award for reporting in line with the EPRA Sustainability Best Practice Recommendations for Reporting. For more information on our reporting visit www.capitalandcounties.com /responsibility/environment.

INTRODUCING PLANTING AND GREENERY

Estate greening at Floral Court

CDP DRIVING SUSTAINABLE ECONOMIES   GRESB   FTSE4Good   EPRA EUROPEAN PUBLIC REAL ESTATE ASSOCIATION

HEALTH AND SAFETY

We are committed to providing the highest standards of health and safety at our assets and expect our supply chain to support us in achieving this commitment by applying a responsible risk-based approach to the management of health and safety.

MILESTONES

2018 saw a number of important projects safely completed in partnership with our contractors. This included practical completion of the first phase of the Lillie Square development and the Floral Court residential development in Covent Garden, and successful de-rigging of the heavy lifting crane, following completion of the demolition of the Earls Court Exhibition Centres. Construction of the next phase of the Lillie Square development is well-underway and the scheme continues to demonstrate the highest standards of health and safety.

Capco takes a proactive approach to ensuring the highest standards of health and safety across the business with a focus on leading indicators. This saw over 150 inspections by both internal and external parties.

Capco continues to be a Client Partner of the Considerate Constructors Scheme (“CCS” or the “Scheme”), reflecting the Company’s commitment to ensuring that our contractors provide the highest standards of health and safety on Group construction projects. As a Client Partner, Capco encourages the contractors we engage to be registered with the Scheme. We expect compliance with all aspects of the Scheme’s Code on our registered sites. Capco is also a participating member of the Construction Clients’ Leadership Group.

In 2018, Capco received a number of health and safety awards, including a Gold CCS Award for Lillie Square Phase 1 and a Silver CCS Award for the demolition of the former Earls Court Exhibition Centres. The demolition project also won Client of the Year Award at the CDM Association of Project Safety Awards.

GOVERNANCE

At a Group level, the health and safety governance and reporting framework continue to function effectively across the business. The Sector Safety Leadership Teams (“SSLTs”) met regularly during the year to consider health and safety matters for each asset and to implement the Group’s Occupational Health and Safety Management System (“OH&SMS”) at operational level.

The SSLTs are overseen by the Group Safety Leadership Team (“GSLT”), which is chaired by our General Counsel & Director of Corporate Services and championed by the Managing Director and Chief Investment Officer, who is responsible for health and safety at Board level. The GSLT continues to review health and safety performance across the Group regularly throughout the year, and facilitate the sharing of lessons learnt and best practice across the management team.

Health and safety is a standing item on the Board’s agenda and the Board receives regular formal reports on health and safety, summarising health and safety performance, risks and achievements across the Group.

In line with our OHSAS 18001 compliant OH&SMS, a detailed health and safety management review was undertaken during the year to ensure that the system remained appropriate and continued to operate effectively. Capco’s Group-wide major incident response plans were also tested and refreshed during the year.

TRAINING

A range of health and safety related training was provided across the Group in 2018, which included IOSH Managing Safely training for relevant employees. In addition, a number of employees received mental health first aider training, sessions on mental health awareness were held for employees, and health and safety awareness was promoted across the business.

2018 ACHIEVEMENTS

Our key projects received industry best practice awards in recognition of their health and safety achievements.

We improved health and safety performance across our development project sites through enhanced engagement and client sponsorship of initiatives with our contractors.

IOSH Managing Safely training was completed by relevant Group employees, alongside a suite of other health and safety training initiatives.

Health and safety practices were promoted across the Group using various channels of engagement.

As a result of our focus on leading indicators, there has been a downward trend in Accident Frequency Rate (“AFR”) and RIDDORs on our estates.

OUR COMMITMENTS IN 2019

Continue to maintain exceptional health and safety standards in all of the working environments we control. Consistently strive to achieve best practice in all our activities. In addition to this commitment, our 2019 health and safety objectives are to:

- Maintain visible leadership and culture in safety and health
- Give health equal billing as safety with employees and contractors
- Recognise achievement internally and through industry awards
- Enhance compliance dashboard reporting

REPORTING

No work-related employee fatalities were recorded in 2018 or since Capco’s inception. There was a total of three RIDDOR incidents reported across the Group during 2018. The AFR for Capco development projects at the end of 2018 stood at 0.13. We benchmark our development projects’ AFR against the Health and Safety Executive (“HSE”) Construction Industry Standard of 0.77. Capco’s Lost Time Incident Frequency Rate (“LTIFR”) for 2018 was 0.13. We have created heat maps to enable us to carry out trend analysis for near misses and minor injuries reported. This has allowed us to focus our resources on areas across where improvements can be made.

The sections of the Annual Report which make up the Strategic Report are set out on page 83. The Strategic Report has been approved for issue by the Board of Directors on 26 February 2019.

On behalf of the Board

Ian Hawksworth
Chief Executive

EXECUTIVE DIRECTORS

IAN HAWKSWORTH
Chief Executive

Ian has led Capco since inception, shaping strategy and driving performance. He has over 30 years' experience in global real estate investment, development, asset and corporate management, having been a senior Director of Hongkong Land and a managing executive of Liberty International. Ian is a Chartered Surveyor and a member of leading international industry bodies.

SITUL JOBANPUTRA
Chief Financial Officer

Situl leads the Capco finance function, which includes reporting, treasury, corporate finance and tax. Having joined Capco in 2014, he became Finance Director for Earls Court and Lillie Square in 2015 and was appointed as CFO in 2017. Situl is an experienced corporate financier, having led Deutsche Bank's UK real estate investment banking team before joining Capco.

GARY YARDLEY
Managing Director & Chief Investment Officer

Gary leads Capco's real estate investment and development activities. He is a Chartered Surveyor with over 30 years' experience in UK real estate. He is a former CIO of Liberty International and former partner of King Sturge.

COMMITTEE MEMBERSHIP KEY

1 *Audit Committee*
2 *Nomination Committee*
3 *Remuneration Committee*
★ *Committee Chair*

CHAIRMAN AND NON-EXECUTIVE DIRECTORS

HENRY STAUNTON | Chairman

Henry was appointed as Chairman of the Board in 2018 and is responsible for the leadership of the Board, ensuring its effectiveness and setting its agenda. Henry is a Chartered Accountant and has extensive financial and commercial experience. He is Chairman of WH Smith PLC and was previously a partner of Price Waterhouse for 12 years, Finance Director of Granada and ITV, Chairman of Phoenix Group Holdings and Ashtead Group, and Vice Chairman of Legal & General.

External appointments
Chairman of WH Smith PLC

GERRY MURPHY | Independent Non-executive Director and Senior Independent Non-executive Director

Gerry is a Chartered Accountant and a former Deloitte LLP partner with direct industry experience in consumer business, retail and technology, media and telecommunications. He was a member of the Deloitte Board for a number of years and is a Director of Dixons Carphone plc and a member of the Department of Health & Social Care Board.

External appointments
Non-executive Director of Dixons Carphone plc, Non-executive member of the Department of Health & Social Care Board

CHARLOTTE BOYLE | Independent Non-executive Director

Charlotte is a former partner of The Zygos Partnership, an international search and board advisory firm. Prior to this, Charlotte worked for Goldman Sachs International and Egon Zehnder International. Charlotte is a Non-executive Director of Coca-Cola HBC AG and serves as a Board member and chair of the finance committee of Alfanar, the venture philanthropy organisation.

External appointments
Non-executive Director of Coca-Cola HBC AG and Board member and chair of the finance committee of Alfanar

GRAEME GORDON | Non-executive Director

Graeme was a Non-executive Director of Liberty International for 14 years before joining the Board of Capco in 2010. He is the son of Sir Donald Gordon, the founder of Liberty International.

External appointments
Director of Creative Investments Limited and Mymarket Limited

ANTHONY STEAINS | Independent Non-executive Director

Anthony is the CEO of Comprador Limited, a strategic corporate finance advisory firm based in Hong Kong, and has over 20 years of corporate finance experience. A Chartered Accountant, prior to founding Comprador, Anthony was a Senior Managing Director and Head of Blackstone Advisory Partners in Asia and held senior positions in Asia at Lehman Brothers, Deutsche Bank and ING Barings.

External appointments
CEO of Comprador Limited and Chair of the FilmAid Asia Board

ANDREW STRANG | Independent Non-executive Director

Andrew is a Chartered Surveyor and was Managing Director of Threadneedle Property Investments Limited for 17 years until 2008. He was Executive Chairman of Hermes Real Estate Investment Management until 2011.

External appointments
Member of the Investment and Governance Committees of AEW UK and member of the Norges Bank Real Estate Management Real Estate Advisory Board

Further information on Directors' skills and experience can be found in the Nomination Committee Report on pages 61 to 63.

OUR GOVERNANCE FRAMEWORK

Henry Staunton, Chairman

Dear Shareholder,

I am pleased to introduce Capco's 2018 Corporate Governance Report.

During the year the Board evaluated and considered a number of strategic options for the business. Throughout this process the Board continued to operate within Capco's robust governance framework and my fellow Directors and I remain highly committed to the continued successful and efficient operation of all parts of the business.

Following an indication early in 2018 from Ian Durant, our former Chairman, that in light of his eight-year tenure and external commitments he may wish to step down from the Board at an appropriate time, a search for a successor candidate was initiated, and I was delighted to be appointed as Ian's successor when he stepped down from the Board in June 2018 following the announcement that the Board was considering a demerger. On behalf of the Board, I would like to thank Ian for his leadership over the last eight years and the strong governance regime which he implemented.

As a result of my appointment as Ian's successor, there were a number of changes to the Board Committees. Gerry Murphy was appointed as my replacement as Chairman of the Audit Committee and Senior Independent Director, Charlotte Boyle was appointed as Chair of the Remuneration Committee and a member of the Audit Committee, and I have become Chairman of the Nomination Committee.

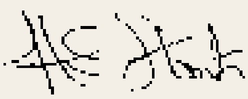
I am pleased to report that there has been a successful handover of these roles during the year. Further detail on the Chairman succession process is included in the Nomination Committee report on page 62. The Board and Nomination Committee continue to monitor the composition, effectiveness and diversity of the Board.

As evidenced by the publication of the 2018 UK Corporate Governance Code (which applies to Capco from 1 January 2019) and a number of reports and guidelines issued during the year, corporate governance remains at the forefront of a transparent, effective and responsible business. Capco continues to place a high level of importance on its approach to corporate governance and its governance framework and reporting systems reflect this.

This Corporate Governance Statement and the Committee reports on the following pages explain Capco's approach to governance in more detail and how it applied the principles of the 2016 UK Corporate Governance Code during 2018.

With the exception of Graeme Gordon who has decided to stand down from the Board, all of the Directors will be seeking election or re-election at our forthcoming AGM. Andrew Strang has served on the Board for more than six years. Accordingly, before recommending that he be reappointed, the Nomination Committee gave particular consideration to his contribution, continued independence and the overall balance of the Board. I would like to thank Graeme for his wise counsel during his time as a Director of Capco.

Capco has its primary listing on the London Stock Exchange and is also listed on the Johannesburg Stock Exchange. A significant proportion of the Company's shares are held by South African investors who may have different market expectations to UK investors, particularly regarding the level of authority to issue new shares that shareholders expect to grant to boards. The Board continues to feel that, to preserve flexibility, it is appropriate to seek the higher levels of authority expected by UK shareholders where possible. This has resulted in significant votes against one of our resolutions at the 2018 AGM and Capco's inclusion in The Investment Association's public register of shareholder dissent. The Board will continue to maintain dialogue with our South African shareholders on this topic.



Henry Staunton
Chairman

26 February 2019

STATEMENT OF COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE

The Company has applied the principles and complied with the provisions of the 2016 UK Corporate Governance Code (the "Code") during 2018.

THE BOARD

The Board is collectively responsible for the long-term success of the Company, and for its leadership, strategy, values, standards, control and management. Day-to-day management of the Group is delegated to the Executive Directors, subject to formal delegated authority limits; however, certain matters have been reserved for Board approval. These matters are reviewed annually and include Board and Committee composition, strategy, significant funding decisions and corporate transactions, delegated authority limits and dividend policy.

Board composition

As at 31 December 2018, the Board comprised the Chairman, three Executive Directors and five Non-executive Directors. The table on page 54 summarises the membership of the Board and Committees.

Biographies of each of the Directors can be found on pages 50 and 51 and additional information on Directors' skills and experience is included on page 63.

Board independence

The Code requires that, excluding the Chairman, at least half of the Board should comprise Non-executive Directors determined to be independent.

The Board has considered the independence of the Non-executive Directors, including potential conflicts of interest, and the table on page 54 sets out those Directors considered to be independent in character and judgement. Each of these Directors has also confirmed that there is no reason why they should not continue to be considered independent.

In considering Director independence, the Board concluded that Directors' tenure should be counted from the date of their first election by shareholders to the Capco Board.

The key responsibilities of Board members are set out in the table on page 55.

THE BOARD IN 2018

The Board met formally throughout the year with main meetings timed around the financial calendar, and additional meetings convened to consider specific matters as required. Attendance at Board and Committee meetings held during 2018 is shown on page 57.

During the year a strategy day was held. At this meeting the Board received detailed updates from external advisers and business divisions, and was able to consider strategic issues in depth, and spend time with members of senior management in a less formal environment.

Board papers are generally circulated a week in advance of meetings to ensure that Directors have sufficient time to consider their content prior to the meeting. If matters require approval at short notice, written approval is sought from the Directors.

The Chairman meets regularly with the Non-executive Directors without the Executive Directors being present, and maintains regular contact with both the Chief Executive and members of senior management.

As matters that require the Board's decision are often large, complex and evolve over a period of time, informal update meetings are held between Board meetings to allow Board members adequate time to explore, understand and challenge matters under consideration. These provide an opportunity for the Non-executive Directors to meet senior management. Three such updates were held during 2018.

During 2018, the Board received regular asset, financial and performance updates from the Executive Directors and senior management from each asset and reports from the General Counsel & Director of Corporate Services ("General Counsel"), the Company Secretary and Committee Chairs. The table below shows the key areas considered by the Board during the year.

BOARD COMMITTEES

The Board has established Audit, Remuneration and Nomination Committees to enable the Board to operate effectively and ensure a strong governance framework for decision-making.

Each Committee has written terms of reference which are reviewed annually. The terms of reference can be viewed on the Company's website. Minutes of all Committee meetings are made available to all Directors. The Committee Chairmen attend the AGM to answer any questions on the Committees' activities.

A number of management committees support the business in delivering its strategy.

A summary of the role of each Committee is shown on page 54, and the activity of each Committee during 2018 is described on pages 58 to 82.

MATTERS CONSIDERED BY THE BOARD IN 2018

Business Strategy, New Business and Directors	Properties	Financial Performance	Governance, Internal Controls and Risk
Potential demerger and other strategic options	Property valuations	Annual and half year results and dividends	Risk appetite and principal risks
New business opportunities	Covent Garden performance	Treasury and cash management	Health and Safety, security risk and IT security updates
Key investment decisions	Floral Court residential strategy	Group tax position and structure	Internal Board evaluation and action plan
Third-party interests	Earls Court development, and Lillie Square construction completions and development	Market and broker updates	AGM resolutions and voting
Market conditions and the impact of Brexit	Acquisitions	Budget and business planning	Board Committees' terms of reference and schedule of matters reserved for the Board
Disposal of the Empress State Building	Planning consents and submissions		Policy updates
Appointment of a new Chairman			Internal audits
Board composition and succession planning			Legal and regulatory updates including • EU General Data Protection Regulation 2016 • 2018 UK Corporate Governance Code
Tax policy			

LEADERSHIP STRUCTURE

THE BOARD
Collectively responsible for the long-term success of the Company. Management of strategy, leadership and risk

Audit Committee
- Oversees financial reporting
- Monitors internal controls, including risk management
- Monitors internal and external auditors

Remuneration Committee
- Sets remuneration policy
- Sets Executive Director remuneration and incentives
- Approves annual performance objectives

Nomination Committee
- Recommends Board appointments
- Board succession planning
- Reviews Directors' skills, experience and independence
- Board evaluation

Further information can be found in:

Audit Committee Report on pages 58 to 60
Principal Risks and Uncertainties on pages 16 to 19

Directors' Remuneration Report on pages 64 to 82

Nomination Committee Report on pages 61 to 63

Business Committees:

Executive Risk Committee
- Executive management forum for review and discussion of risks, controls and mitigation measures

Disclosure Committee
- Monitors whether there is inside information within the business
- Ensures disclosure requirements are met
- Ensures appropriate records are maintained

Group Safety Leadership Team
- Provides Group-wide oversight of management and implementation of Capco's Health and Safety Policy and Management System
- Provides Group-wide oversight of the management of security risk

Corporate Responsibility Executive Committee
- Reports and coordinates sustainability, environmental management, community engagement and charitable activities of the Group
- Implements the CR policy
- Sets targets and objectives and monitors progress

BOARD INDEPENDENCE

Name	Year of first election	Independent	Audit Committee	Nomination Committee	Remuneration Committee
Henry Staunton (Chairman from 5 June 2018)	2011	Yes[1]		★	
Ian Hawksworth (Chief Executive)	2011	No		★	
Situl Jobanputra	2017	No			
Gary Yardley	2011	No			
Charlotte Boyle	2018	Yes	★	★	★
Graeme Gordon	2011	No			
Gerry Murphy (SID from 5 June 2018)	2015	Yes	★	★	★
Anthony Steains	2016	Yes		★	
Andrew Strang	2011	Yes	★	★	★
Ian Durant (Chairman until 5 June 2018)	2011	N/A		★	
		50% independent			

1. *Henry Staunton was independent on appointment as Chairman. Following his appointment 50% of the Board is considered to be independent.*

ROLES OF BOARD MEMBERS

The following table sets out the key responsibilities of Board members:

Roles of Board members

Position	Name	Responsibilities
Chairman	Henry Staunton (from 5 June 2018) Ian Durant (until 5 June 2018)	Leads the Board, ensures its effectiveness and sets its agenda. Ensures an effective link between shareholders, the Board and management.
Chief Executive	Ian Hawksworth	Develops the Company's strategic direction, implements policies and strategies agreed by the Board and manages the business.
Chief Financial Officer	Situl Jobanputra	Responsible for developing and implementing financial strategy for the Group.
Managing Director & Chief Investment Officer	Gary Yardley	Responsible for leading the Group's real estate investment, overseeing significant real estate transactions.
Non-executive Directors	Charlotte Boyle, Graeme Gordon, Gerry Murphy, Henry Staunton (until 5 June 2018), Anthony Steains, Andrew Strang	Constructively challenge the Executive Directors and monitor the delivery of the agreed corporate strategy within the risk and control framework set by the Board.

All Directors have access to the advice and services of:

General Counsel & Director of Corporate Services	Anne Byrne	Provides legal advice and guidance to the Board; reports on corporate services activities.
Company Secretary	Ruth Pavey	Advises the Board on corporate governance matters and ensures a good flow of information within the Board and its Committees and between senior management and the Non-executive Directors.

ENSURING AN EFFECTIVE BOARD

To ensure that Capco's Board continues to be effective, the Board conducts an annual evaluation of its own performance and that of its Committees and Directors. In 2018, an internal evaluation was managed by the Chairman and Company Secretary. Using an online questionnaire, Directors were each asked to rate and provide anonymous feedback on a wide range of matters relating to the performance of the Board, its Committees and its Directors. A report which summarised the responses to the evaluation was considered by the Board and it was concluded that the Board continues to operate well. A number of minor proposals arising from the evaluation will be implemented.

In addition, the Senior Independent Director conducted an appraisal of the Chairman's performance which confirmed the Board's continued confidence in the Chairman since his appointment earlier in the year and that the Directors are satisfied that the Chairman continues to commit sufficient time to the Company. The Chairman also undertook appraisals of the other Directors' performance.

COMMUNICATION WITH STAKEHOLDERS

Our policy

The Board is keen to ensure that our shareholders and potential investors have a good understanding of Capco's business and performance, and that Directors are aware of any issues and concerns that shareholders may have. The Company communicates with stakeholders in a number of ways:

Corporate website

Our corporate website allows visitors to access Company information, annual reports, results presentations and webcasts. The site also includes links to our division websites and contact details for shareholder queries.

Annual General Meeting

Our AGM allows the Board to update our shareholders on Capco's progress, and provides an opportunity for shareholders to put questions to the Directors, and meet senior executives.

Shareholders are encouraged to vote on the resolutions put to the meeting, either in person, online or by submitting a proxy card. We publish the results of the votes on all resolutions on our website following the meeting.

Our 2019 AGM will be held before 30 June 2019. The notice of Annual General Meeting will be issued to shareholders at least 20 working days before the meeting. Separate resolutions will be proposed on each issue and, in accordance with the Code, each Director will offer themselves for election or re-election.

The Chairman, Chairs of the Board Committees and other Directors will be available at the AGM to meet shareholders and answer any questions.

Should shareholders have any concerns that they are unable to successfully resolve following communication with the Chairman, Chief Executive or Chief Financial Officer, they may raise them through the Senior Independent Director.

2018 BOARD EVALUATION

The Chairman and Company Secretary considered the approach to be taken for the 2018 Board evaluation

The Nomination Committee considered the proposed approach and approved an internally-facilitated evaluation

Each Director completed an online questionnaire developed by the Chairman and Company Secretary

A report was prepared and provided to the Board for consideration

A number of actions were agreed

ACTIONS FOR 2018	PROGRESS
Create additional time for debate by considering certain matters on a by exception basis	Time for discussion prioritised
Continue to keep Board composition under review	Board composition regularly reviewed and proposals implemented during the year
Consider whether proposed strategies can be better highlighted within Board materials	Board materials continually reviewed and improvements implemented
Focus on culture and workforce	Board received regular updates from management. Further work to be undertaken in 2019

ACTIONS FOR 2019

- Formalise considerations of stakeholders
- Implement actions required under 2018 UK Corporate Governance Code
- Continue to consider Board composition and succession planning

ATTENDANCE AT MEETINGS

The table below shows Directors' attendance at Board and Committee meetings held during 2018. In addition, the General Counsel attends each Board and Audit Committee meeting and the Company Secretary attends each Board and Committee meeting:

Name	Board	Audit	Remuneration	Nomination
Henry Staunton (Chairman from 5 June 2018)[1,2]	11/11	1/1	2/3	5/5
Ian Hawksworth (Chief Executive)	11/11	–	–	5/5
Situl Jobanputra	11/11	–	–	–
Gary Yardley	11/11	–	–	–
Charlotte Boyle[3]	11/11	2/2	8/8	5/5
Graeme Gordon	9/11	–	–	–
Gerry Murphy	11/11	3/3	8/8	5/5
Anthony Steains	10/11	–	–	5/5
Andrew Strang	11/11	3/3	8/8	5/5
Ian Durant (Chairman until 5 June 2018)	7/7	–	–	2/2
Total meetings held during the year	11	3	8	5

1. *Stepped down from the Audit Committee and Remuneration Committee on 5 June 2018*
2. *Not invited to attend one meeting of the Remuneration Committee due to a conflict of interest*
3. *Appointed to the Audit Committee on 5 June 2018*

Communications with shareholders and other stakeholders

Communication with the Company's investors is a priority for the Board. The Company runs an extensive investor relations programme, and the Chief Executive, Chief Financial Officer and Head of Investor Relations hold meetings with institutional investors throughout the year, including results presentations, webcasts, roadshows, one-to-one meetings and investor tours.

The Company's major shareholders are encouraged to meet with the Chairman and the Senior Independent Director to discuss any matters they may wish to raise. During 2018, Directors engaged with shareholders on matters including the potential demerger and authorities to allot shares (subsequently approved at the 2018 AGM).

The Directors receive regular updates on the Company's major shareholders, and receive reports on shareholder feedback at each Board meeting. The Non-executive Directors are invited to attend the Company's results presentations.

Private shareholders may raise questions through the Company Secretary's office either by telephone or by email (feedback@capitalandcounties.com).

The Company maintains active relations with community stakeholders.

Please see pages 45 and 46 in the CR Report for more details of Capco's stakeholder engagement.

CONFLICTS OF INTEREST AND TIME COMMITMENTS

The Company's Articles of Association permit the Board to authorise potential conflicts of interest that may arise. The Board has adopted a procedure under which Directors must notify the Chairman of any potential conflicts. The Chairman then decides whether a conflict exists and recommends its authorisation by the Board where appropriate. In cases where there is a potential conflict of interest, an appropriate protocol to be followed where a conflict of interest may arise is agreed. In addition, a Director who had a conflict of interest would not be counted in the quorum or entitled to vote when the Board considered the matter in which the Director had an interest. The interests of new Directors are reviewed during the recruitment process and, if appropriate, authorised by the Board on appointment.

On appointment, and each subsequent year, Non-executive Directors are required to confirm in writing that they have sufficient time to devote to the Company's affairs. In addition, they are required to seek prior approval from the Chairman before taking on any additional external commitments that may affect their time available to devote to the Company, and the Board is advised of any changes.

The Chairman is also Chairman of WH Smith PLC and was Chairman of Phoenix Group Holdings until 31 October 2018. The previous Chairman was also Chairman of Greggs plc and DFS Furniture plc. As part of the Senior Independent Director's annual evaluation of the Chairman's performance, Directors were specifically asked to consider whether the Chairman's external commitments prevent him from devoting sufficient time to perform his duties as Chairman of Capco, and it was concluded that the Company continues to receive the appropriate time required.

The Board is satisfied that all Non-executive Directors are contributing effectively to the operation of the Board.

DTR DISCLOSURE

The disclosures required under DTR 7.2 of the Disclosure and Transparency Rules are contained in this report, and the Audit Committee and Nomination Committee Reports, except for information required under DTR 7.2.6 which is contained in the Directors' Report on pages 83 and 84.

AUDIT COMMITTEE REPORT

Gerry Murphy, Chairman of the Audit Committee

Having succeeded Henry Staunton as Chairman of the Audit Committee during 2018, I am pleased to introduce Capco's 2018 Audit Committee Report.

The Committee continues to play a key oversight role for the Board, monitoring and reviewing all aspects of the Group's financial reporting, internal controls and risk management procedures.

This report provides an overview of the work undertaken by the Committee during 2018. The most significant topics considered by the Committee during the year included the Group's property valuations, taxation and the accounting treatment of various significant or complex corporate transactions. The Committee also reviewed the Company's risk and viability statement disclosures before they were recommended to the Board, and approved an amendment to the Company's non-audit services policy in line with recent Financial Reporting Council ("FRC") guidance, to allow the Group's auditors to provide services in respect of preparations for the potential demerger considered by the Board. Before approving the amendment, the Committee satisfied itself that the objectivity and independence of the auditors would not be compromised by the additional work undertaken for the Company.

Finally, following consideration of the matters reviewed during the year and the Group's principal risks, the Committee concluded, and made a recommendation to the Board that, taken as a whole, these Annual Report and Accounts are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

Gerry Murphy
Chairman of the Audit Committee, 26 February 2019

Members:
Gerry Murphy (Chairman)
Andrew Strang
Charlotte Boyle

The Audit Committee, reporting to the Board, oversees the financial reporting process, monitors the effectiveness of internal control, internal audit, risk management and the statutory audit and monitors the independence of the statutory auditors and the provision of non-audit services. As at 31 December 2018 and the date of this report, the Committee comprises three independent Non-executive Directors and is chaired by Gerry Murphy who is considered to have significant, recent and relevant financial experience. The Board believes that the Committee as a whole has competence in real estate matters.

The Committee's meetings were also attended by the Company's Chairman, Chief Executive, Chief Financial Officer, General Counsel, Company Secretary and Group Financial Controller, together with senior representatives of the external and internal auditors.

The valuers and members of senior management, including the Director of Finance and Group Tax Manager, attended meetings by invitation to present reports required for the Committee to discharge its responsibilities.

The Audit Committee met three times during 2018. Attendance at these meetings is shown in the table on page 57. The Committee also met privately during the year with both the external and internal auditors.

The Committee follows an annual programme, which is agreed with the Committee Chair, management and external auditors prior to each financial year, and ensures it gives thorough consideration to matters of particular importance to the Company, and additional matters are considered when appropriate. The Committee's 2018 agenda is shown in the table on the next page, and the significant matters considered by the Committee during the year are also explained on the next page.

The Company was not subject to any FRC reviews during 2018.

EXTERNAL AUDITORS

Committee responsibilities

The Committee oversees the relationship with PricewaterhouseCoopers LLP ("PwC"), the external auditors, and is responsible for developing, implementing and monitoring the

THE AUDIT COMMITTEE IN 2018

Regular meeting items	February meeting	July meeting	November meeting
Report from Group Financial Controller Accounting treatment of significant transactions Accounting standards and policies Property valuations External auditor report Regulatory update Internal auditor report from BDO Tax update Alternative performance measures	Going concern assessment Preliminary results, Annual Report, viability statement and Management Representation Letter Determining and recommending to the Board that the Annual Report taken as a whole was fair, balanced and understandable Effectiveness of internal audit EU General Data Protection Regulation 2016	Interim results announcement 2018 Audit Plan Liquidity forecasting Risk management	Effectiveness and independence of external auditor, and recommendation for reappointment Risk management review Internal controls Viability statement review Corporate governance policies, Non-audit services policy and Committee terms of reference 2019 Internal Audit Plan

SIGNIFICANT ISSUES CONSIDERED BY THE COMMITTEE IN 2018

Matter considered	What the Committee did
Valuations	As in previous years, the independent external valuers presented the year end and half year valuations to the Committee at the February and July meetings respectively. The Committee reviewed the valuation process and component parts of the valuations, discussed the valuations with the external auditors and challenged the valuers on the assumptions used. The Committee also advised the Board on the independence of the valuers and obtained confirmation that management had provided all requested information. The Committee was satisfied that the approach taken by the valuers was appropriate. Further information can be found in note 15 on pages 112 to 115 of the notes to the accounts.
Tax	The Director of Finance and Group Tax Manager presented a report to the Committee at the February and July meetings, explained the basis of the Group's tax position, identified key taxation risks to the Group and updated the Committee on the ongoing relationship with HMRC. The Committee challenged the assumptions made in arriving at the tax position and discussed with the external auditors the assumptions and judgements made in arriving at the tax position. The Committee was satisfied that the policy was appropriate for the Group. Further information can be found in note 11 on page 107 and in note 27 on page 125 of the notes to the accounts.
Significant and complex transactions	As in previous years, the Committee received updates from the Financial Controller on significant and complex transactions at each meeting. With regard to each transaction, such as the CLSA, the Innova Investment joint venture, impairments of other receivables and the sale of the Empress State Building, the Committee discussed the accounting treatments with management and the external auditors and is satisfied that the appropriate approach has been taken.

Company's policy on external audit, and for monitoring the auditors' independence, objectivity and compliance with ethical, professional and regulatory requirements.

The external auditors are not permitted to perform any work that they may subsequently need to audit or which might either create a conflict of interest or affect the auditors' objectivity and independence.

Access to Committee

The external auditors have direct access to the Audit Committee Chairman should they wish to raise any concerns outside formal Committee meetings.

Effectiveness of auditors

The Committee monitored PwC's effectiveness and performance during 2018, and considered a paper prepared by the Group Financial Controller which confirmed that in management's view PwC was providing an independent and good-quality audit service and continued to deliver against all services considered at their appointment. Matters considered in reaching this conclusion included audit partner rotation, continuity of audit team, commitment to understanding the Group's business and transactions, the level of technical challenge on the Group's accounts and accounting policies and the segregation of work between audit and non-audit services teams.

The Committee is satisfied that the external auditors remain independent and objective, are able to challenge management where appropriate, and that the Group's audit is robust and objective. The Committee has therefore recommended to the Board that PwC be reappointed in 2019.

Tendering of external audit contract

Capco tendered its external audit contract in 2010, and PwC was appointed as Group auditors on an annual rolling contract. This is the third year in which Jeremy Jensen has been the audit engagement partner. The external audit contract must be tendered by 2020 to comply with regulatory requirements. The Directors plan to complete a tender of the 2020 external audit contract during 2019.

The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 – statement of compliance

The Company confirms that it complied with the provisions of the Competition and Markets Authority's Order for the financial year under review.

Non-audit services

Non-audit services are normally limited to assignments that are closely related to the annual audit or where the work is of such a nature that a detailed understanding of the Group is necessary.

The Company has adopted a non-audit services policy that is consistent with the FRC's current Ethical Standard. The purpose of the policy is to ensure that the provision of non-audit services by the external auditors does not compromise their independence or objectivity. A number of non-audit services, which reflect the FRC's list of prohibited non-audit services, are prohibited under the policy. The policy requires the Audit Committee Chairman to approve in advance any non-audit work with a cost exceeding £75,000 for work related to the interim review or, for other projects, the lower of £50,000 or 15 per cent of the estimated annual level of the auditors' fees at that time.

With effect from 1 January 2020, unless an exemption has been obtained from the FRC, the total value of non-audit services in a financial year must not exceed 70 per cent of the average of the fees paid to the external auditors in the last three consecutive years for the audit of Capco, its Group undertakings and joint ventures.

Services below this limit are pre-approved by the Audit Committee under the policy, subject to consideration and approval by an Executive Director. Approval is only given following a full and thorough assessment of the value case for using the auditors, the skills and experience the auditors would bring and determination that the auditors are the most suitable provider of the service. Additionally, consideration must be given to the preservation of auditor independence; and in advance of providing non-audit services the external auditors are required to report that they are acting independently, that provision of the non-audit services does not impair their objectivity and that they are not:

- auditing their own work;
- making management decisions for the Company;
- creating a mutuality of interest;
- being remunerated via a contingent success fee;
- developing close personal relationships with the Company's personnel; or
- acting in the role of advocate for the Company.

The Committee is satisfied that the policy is operating effectively. The total fees paid and payable to PwC in 2018 were £2,081,000 of which £1,757,000 related to non-audit work (2017: £435,000 of which £66,000 related to non-audit work). The significant 2018 increase in non-audit work was as a result of assurance services in connection with the potential demerger. PwC were selected over another service provider for this undertaking due to their detailed knowledge and understanding of the business. The other non-audit work relates to the interim review and agreed upon procedures on the verification of balances for contractual arrangements, the verification of share scheme performance outcomes and other assurance services. The total fees for non-audit services represented 84 per cent of the total Group audit fees payable for the year (2017: 15 per cent). The total fees paid and payable to PwC in 2018 and 2017 are set out in the table below.

	2018	2017
Total fees paid to PwC	£2,081,000	£435,000
Non-audit fees	£1,757,000	£66,000

INTERNAL AUDITOR

Internal audit plan

BDO LLP ("BDO") has been appointed to act as Capco's internal auditor. During 2018, BDO's audit plan included reviews of corporation tax, Covent Garden project management, Covent Garden commercial leasing, Capco's crisis management and major incident plans, Lillie Square facilities management, accounts payable, the corporate governance framework and compliance with the EU General Data Protection Regulation 2016. No significant issues were raised during the reviews.

During 2019, it is expected that the audit plan will include reviews of Lillie Square health and safety, payroll, Earls Court site management, Covent Garden asset management, Covent Garden residential leasing, risk management, the Bribery Act and tax evasion, Covent Garden rent collection and IT arrangements.

Committee responsibilities

The Committee reviews the work of the internal auditor, the audit plan, any matters identified as a result of internal audits and whether recommendations are addressed by management in a timely and appropriate way. The Committee is satisfied that the internal auditor continues to be independent and its services effective.

Access to the Committee

The internal audit partner has direct access to the Audit Committee Chairman should they wish to raise any concerns outside formal Committee meetings. The Committee meets with the internal auditor at least once per year without management being present.

INTERNAL CONTROL & RISK MANAGEMENT

Risk management

The Board has overall responsibility for the Group's risk management framework and system of internal control and the ongoing review of their effectiveness; it also determines the risk appetite of the Group and regularly reviews principal risks and uncertainties. The framework is designed to manage rather than eliminate risk, and can only provide reasonable, and not absolute, assurance against material misstatement or loss. The Board has delegated responsibility for the review of the adequacy and effectiveness of the Group's internal controls relating to risk to the Committee and the Committee reviews the controls relating to risks and the proposed principal risk disclosures.

A description of the Group risk management framework and the review undertaken during the year is set out on page 16.

Viability statement

As part of its work in reviewing the Group's financial statements, the Committee reviewed the methodology for the preparation of the viability statement including the principal risks, supporting analysis, qualifications and assumptions to be disclosed.

The viability statement can be found on page 19.

Internal controls

The Audit Committee monitors and reviews the effectiveness of the Group's internal controls and reports regularly to the Board on its work and conclusions. In reviewing the effectiveness of the Group's internal controls, the Committee considers reports provided by the Group Financial Controller, external auditors and internal auditor. No significant failings or weaknesses were identified in the review process.

Details of the Group's internal controls are set out below:

Day-to-day procedures and internal control framework

- Schedule of matters reserved for the Board
- Remit and terms of reference of Board Committees
- Delegated authority limits
- Documentation of significant transactions
- The Executive Directors are closely involved in the day-to-day operations of the business and hold regular meetings with senior management to review aspects of the business, including risks and controls
- Regular Board updates on strategy and project developments
- A whistleblowing policy and hotline under which staff may raise matters of concern confidentially. No calls were received during the year.

Specific controls relating to financial reporting and consolidation process

- Appropriately staffed management structure, with clear lines of responsibility and accountability
- A comprehensive budgeting and review system. Board and Audit Committee updates from the Chief Financial Officer which include forecasts, performance against budget and financial covenants
- Led by the Chief Executive, the Group Finance team participates in the control self-assessment and policy compliance elements of the risk management framework and sets formal requirements with business division finance functions which specify the reports and approvals required
- BDO conducts regular audits of the Group's financial control procedures and reports its findings to the Audit Committee

The Committee is satisfied that the Group's internal controls are operating effectively and that systems are in accordance with FRC guidance.

NOMINATION COMMITTEE REPORT

Henry Staunton, Chairman of the Nomination Committee

I am pleased to introduce Capco's 2018 Nomination Committee Report. During 2018, the Committee devoted a significant proportion of its time to consideration of Board succession planning and composition.

In early 2018, Ian Durant, the Company's former Chairman, indicated that he might wish to step down from the Board at an appropriate time, should an appropriate successor be identified. Accordingly, the Committee initiated a search for a candidate to succeed Ian as Chairman. The search and its conclusions are described within this report. In running the succession process the Committee took care to ensure that any conflicts of interest were appropriately managed.

In light of the strategic options under consideration by the Board during the year, the Committee also spent time considering the appropriate compositions for the Boards and Committees of each new business in the event that a demerger is undertaken.

The Committee also continued its search for an additional Non-executive Director with property expertise, and made a recommendation to the Board in February 2019 that Jonathan Lane be appointed to the Board, Audit Committee and Nomination Committee. In reaching its decision the Committee gave consideration to the implications for Board diversity and weighed these against the skills and experience that Jonathan will bring to the Board. Diversity remains high on our agenda and we will continue to consider this during the course of 2019. It is notable that Capco's senior management is gender diverse, as was reflected in the 2018 Hampton-Alexander Review.

Finally, in advance of the introduction of the 2018 UK Corporate Governance Code, the Committee reviewed its terms of reference and introduced changes to ensure that it will continue to be compliant with the Code during 2019. The main change arising from the updates will be an increased focus on succession planning below Board level.

In 2019, the Committee will continue to monitor Board composition, including Directors' tenure, skills, experience and diversity, to ensure that the Board is best placed to deliver Capco's strategy, and will consider succession planning for all Directors and senior management.

Andrew Strang has decided to step down from the Audit, Nomination and Remuneration Committees with effect from 1 March 2019. Anthony Steains will join the Remuneration Committee with effect from 1 March 2019.

All the Directors except for Graeme Gordon will be seeking election or re-election at the forthcoming AGM. In accordance with best practice, the Nomination Committee gave particular consideration before recommending that Andrew Strang, who has served on the Board for more than six years, be reappointed. I am pleased to report that the Committee concluded that Andrew continues to make a valuable contribution to the work of the Board.

Henry Staunton
Chairman of the Nomination Committee, 26 February 2019

Members:	Ian Hawksworth	Anthony Steains
Henry Staunton (Chairman)	Charlotte Boyle	Andrew Strang
	Gerry Murphy	

MATTERS CONSIDERED BY THE COMMITTEE DURING 2018 INCLUDED:

- Chairman succession
- Board and Committee composition, including planning needed in respect of strategic options considered
- Non-executive Director recruitment
- Succession planning
- Diversity at Board level and across the Company
- Board evaluation
- Directors' skills, experience and training opportunities
- Directors' time commitments and independence
- 2018 UK Corporate Governance Code
- Committee terms of reference

DIRECTOR RECRUITMENT PROCESS

Nomination Committee considers Board composition and determines desired skills and experience

A person specification is prepared

A shortlist of executive search firms is prepared and a selection process followed

A list of candidates is identified

The Chairman and Chief Executive meet with shortlisted candidates and provide feedback to the Committee

All Directors and the Company Secretary are given the opportunity to meet the preferred candidate

The Committee makes a formal recommendation to the Board

The Nomination Committee has responsibility for making recommendations on Board appointments and succession to the Board.

The members of the Committee as at 31 December 2018 and the date of this report are listed in the box on the previous page. The Nomination Committee met five times during the year, and attendance at these meetings is shown in the table on page 57.

Board composition and succession

The Committee regularly considers Board composition and succession planning for both Executive and Non-executive Directors. In considering Executive Director succession, the Board's strategy is to consider both internal and external candidates, whilst aiming to develop a choice of internal potential successors. The focus of Non-executive Director succession planning is to ensure that the Board and its Committees continue to have the right mix of skills and experience to deliver Capco's strategy. A summary of Directors' core skills and experience is shown in the table to the right.

Chairman succession: Early in 2018, Ian Durant indicated that, in light of his eight-year tenure and other commitments, he may wish to retire from the Board at an appropriate time, and it would be appropriate for the Board to plan for his succession. Accordingly Lygon Group, which provides no other services to the Company, was engaged to identify potential external successor candidates. A number of internal candidates also expressed interest in the role. A sub-committee, led initially by Henry Staunton and subsequently by Charlotte Boyle, considered proposed candidates before making a recommendation to the Committee and subsequently to the Board that Henry Staunton would be the most appropriate candidate to succeed Ian as Chairman. When the decision was taken to announce that the Board was considering a potential demerger of the business, Ian Durant confirmed that, whilst supportive of the proposals, he felt it would be appropriate to put his successor in place to see through this process. Accordingly the Board resolved that Henry Staunton would succeed Ian Durant as Chairman of the Company with effect from 5 June 2018, that Gerry Murphy would become Chairman of the Audit Committee and Senior Independent Director and Charlotte Boyle would become Chair of the Remuneration Committee.

Appointment of new Non-executive Director: As reported in past years, the Committee had previously determined that it would be desirable for an additional Non-executive Director with property expertise to be appointed to the Board. The extensive search, supported by Lygon Group, was continued during 2018.

Prior to making a recommendation to the Board in February 2019, the Committee determined that it would be appropriate to appoint Jonathan Lane to the Board with effect from 1 March 2019. Jonathan is the former Chief Executive and Chairman of Shaftesbury PLC and brings a wealth of West End property experience to the Board. During the course of the search, a diverse range of candidates was considered. In reaching its conclusion, the Committee recognised that the appointment would not increase the Board's diversity; however, it was concluded that, on this occasion, this was outweighed by the benefits that Jonathan's considerable property experience would bring to the Board. However, the Committee acknowledges the aspirations within the Board Diversity Policy and will continue to seek opportunities to improve Board diversity through future appointments.

Strategic considerations: During the year the Committee also spent time considering Board and Committee composition in the event that a demerger is undertaken, to ensure that each new business would have an appropriate Board, if required.

Board succession and composition will continue to be considered at Committee meetings during 2019, and the Committee will make recommendations to the Board where appropriate. This may include the appointment of an additional Non-executive Director at such time as a suitable candidate is identified.

Director recruitment

Capco operates a rigorous and transparent recruitment process for new Directors, which is summarised above.

Director induction

An induction programme is provided for each new Director, which is tailored depending on the individual's experience and expected role on the Board. A typical induction programme for a Capco Non-executive Director will include individual meetings with the Chairman, Executive Directors, General Counsel, Company Secretary and members of senior management, site tours of Capco's estates with management, and meetings with the Company's brokers, advisers and lawyers. The Director is also provided with copies of past Board and Committee papers and minutes, and individual briefings are arranged on topics such as Directors' duties and responsibilities, remuneration structure and regulations and the property market.

The Company will provide Jonathan Lane with a full induction programme on his appointment.

Director development

The Chairman and the Committee together ensure that Directors keep their skills and knowledge up to date to allow them to fulfil their roles on the Board and Board Committees. The General Counsel and Company Secretary regularly update the Board on legal and corporate governance matters, and information on training opportunities and seminars is circulated to Directors. The Company also arranges periodic briefings from external advisers, and Directors receive regular business updates from the Executive Directors. Directors may also take independent advice at the Company's expense where they feel this is appropriate.

Diversity

Diversity is important to Capco and the Board recognises that diversity of experience and perspective can bring benefits across the business. The Board Diversity Policy aligns with the Committee's aim of ensuring that the Board has the right mix of skills and experience to deliver Capco's strategy, and properly reflects the Board's view of the benefits of diversity.

Capco's Board Diversity Policy states that, when considering the nomination of new Directors, the Nomination Committee will evaluate the balance of skills, knowledge and experience on the Board, to establish the particular skills, experience and aptitudes desirable for that appointment. Such evaluations will pay particular attention to the merits of diversity, including diversity of gender, race, age and background.

The Board remains committed to encouraging diversity, and intends that over the next few years, in the normal course of succession management, its composition will become more reflective of the diversity across Capco's business, particularly in respect of gender. The Board Diversity Policy does not include targets for gender or other characteristics; however, in conducting searches, Capco will only use executive search firms that are signatories to the Voluntary Code of Conduct for Executive Search Firms, and will require diverse candidate shortlists, from which appointments will be made on merit. The Board believes that diverse shortlists increase the likelihood of identifying the best candidates for each appointment.

The composition of the Board will be kept under review to ensure that the best balance of skills and experience is maintained, and the effectiveness of the Board Diversity Policy will be monitored by the Nomination Committee.

Below Board level there is strong female representation within Capco's senior management team and their direct reports, which is summarised in the table to the right. However, as a company with a relatively small headcount, a small number of changes can have a significant impact on the percentages.

Capco is supportive of employee development, including those who wish to seek Non-executive roles elsewhere, and provides development opportunities, including mentoring from our Non-executive Directors. It is hoped that such initiatives will help develop the next generation of Board members either within Capco or in the wider business world.

Capco's diversity in figures (as at 31 December 2018):

	Recommendation	Capco's current position
Hampton-Alexander – Board	33% Female	11%
Hampton-Alexander – Executive Committee or equivalent	33% Female by 2020	37.5%
Hampton-Alexander – Leadership team	33% Female by 2020	44%
Parker Review – Board	At least one director of colour by 2024	1

Summary of Directors' skills and experience

Director	Skills and experience
Henry Staunton	Financial and commercial management
Ian Hawksworth	Global real estate investment and development
Situl Jobanputra	Corporate finance, capital markets and financial management
Gary Yardley	Global real estate investment and development
Charlotte Boyle	People, talent and succession
Graeme Gordon	A South African perspective and property investment
Gerry Murphy	Auditing and commercial management
Anthony Steains	Corporate finance and Asian markets
Andrew Strang	Real estate investment

During the year, as part of its review of Board diversity, the Committee reviewed the Group's diversity policies, and received an update on diversity initiatives supported by the Company, which promote diversity within the property industry including Real Estate Balance, the RICS Inclusive Employer Quality Mark, Employers' Network for Equality & Inclusion and Pathways to Property.

More information on Capco's people practices and diversity initiatives can be found on pages 43 and 44 of the Corporate Responsibility Report

DIRECTORS' REMUNERATION REPORT

"A framework to deliver the Company's strategic objectives".

Charlotte Boyle, Chair of the Remuneration Committee

ANNUAL STATEMENT

Dear Shareholder,

I am pleased to present the Directors' Remuneration Report for 2018. The Committee's key objectives, as in previous years, were to ensure that Capco's executive team is appropriately incentivised by remuneration arrangements that are fully aligned with the Company's strategy of providing long-term market-leading returns to shareholders. Management incentives are linked to the KPIs which the Company uses to measure the creation and growth of value for shareholders. These KPIs are described in full on page 15.

In 2018, the Remuneration Committee continued to operate the remuneration policy approved by shareholders at the 2017 AGM. In addition to the normal matters of business, the Committee also made detailed preparations for remuneration in the case of a demerger or a sale of Capco's interests in Earls Court Properties (excluding Lillie Square). It also considered how to address the recent changes to the UK Corporate Governance Code. Further detail on the key remuneration decisions relating to 2018 is set out below.

Performance in 2018 and variable remuneration outcomes

Although uncertainties in the broader political and economic environment continue to prevail, Capco delivered strong operational performance across both its key estates 2018. Covent Garden exhibited growth of both ERV and NRI and saw the completion of the Floral Court development. Earls Court continued to realise value with progress at Lillie Square and the sale of the Empress State Building at a £30 million premium to the December 2017 valuation.

Unfortunately, despite strong operational performance in 2018, the threshold financial targets for NAV, TPR and EPS were not met. As a result, there was no payment for the financial element of the bonus. However, delivery of key investment, corporate and financial objectives resulted in between 95 and 100 per cent of the personal element of the annual bonus being paid. Further information is set out on page 75.

In addition, the long-term incentive awards which would have vested in 2019 based on TSR and TR performance up to the end of 2018 are expected to lapse as neither the TSR or TR targets are expected to be met.

Implementation of the remuneration policy in 2019

In 2019, base salary increases for the Chief Executive and Managing Director and Chief Investment Officer will be in line with those for the general workforce, being approximately 2 per cent. Following a review of market alignment and in light of additional responsibilities, the Committee has determined that the salary of the Chief Financial Officer will be increased by approximately 5.7 per cent to £395,000. Pension and benefits will continue to operate as in prior years, the annual bonus opportunity will continue to be 150 per cent, and PSP awards of 350 per cent of salary will be granted in 2019. Performance measures will be the same as in prior years. However, when the Committee determined the targets, in light of the possibility of corporate or asset transactions being undertaken during the year, the Committee incorporated alternative sets of performance measures and targets for the 2019 annual bonus and PSP awards to account for these exceptional circumstances and our strategic objective to explore the merits of creating value through a separation of the two main assets or other strategic options.

These targets are, by their nature, commercially sensitive and will be disclosed retrospectively once they cease to be commercially sensitive. However, the performance measures for the annual bonus continue to be based at least 75 per cent on financial measures, which is in line with our policy, and performance measures for the PSP will continue to be based on appropriate TSR and TR measures. In the event of a separation of the assets, the performance measures relating to Covent Garden will continue to be relative TSR and relative TR, with an updated comparator group to better reflect the Covent Garden asset, and the maximum performance target will be the upper quartile of the revised group. In the event of a demerger, the performance measures for Earls Court would be changed and would include absolute targets recognising the difficulty in finding an appropriate comparator group which reflects the change in value of central London residential land. In both cases, threshold vesting would reduce from 33 per cent to 25 per cent of the shares under award.

Impact of the UK Corporate Governance Code on remuneration

The Committee seeks to comply in full with the remuneration provisions of the UK Corporate Governance Code. Following the publication of the new Code in the second half of 2018, the Committee reviewed Capco's remuneration policy and the Remuneration Committee's terms of reference to ensure that they remain compliant with the new Code. Following this review, the Committee noted that Capco is already broadly compliant with the new Code and has undertaken actions to ensure that Capco will be appropriately compliant during 2019.

Conclusion

We are not proposing changes to our policy having received shareholder approval at the 2017 AGM held on 5 May 2017. This year, we will only ask shareholders to approve the Annual Report on Remuneration and this Annual Statement. We have included the remuneration policy in the Annual Report in order to provide clarity for our shareholders. The Committee looks forward to receiving your support for this advisory vote at the forthcoming Annual General Meeting.

Charlotte Boyle
Chair of Remuneration Committee, 26 February 2019

Members:
Charlotte Boyle (Chair)
Gerry Murphy
Andrew Strang

1. POLICY REPORT

This section of the Directors' Remuneration Report sets out Capco's remuneration policy which took effect following shareholder approval at the 2017 AGM. In the interests of clarity, the report includes some minor annotations to show, where appropriate, how the policy will be implemented in 2019. A full version of the policy approved by shareholders can be found in the Annual Report and Financial Statements for the year ended 31 December 2016 which can be downloaded from www.capitalandcounties.com. Details of actual remuneration paid, share awards made, and the approach to remuneration for 2019 are set out within the Annual Report on Remuneration which starts on page 72.

1.1 Remuneration policy

The key objectives of the Company's remuneration policy are to:

- strongly align executive and shareholder interests;
- underpin an effective pay-for-performance culture;
- support the retention, motivation and recruitment of talented people who are commercially astute; and
- encourage executives to acquire and retain significant holdings of Capco shares.

The Committee aims to achieve an appropriate balance between fixed and variable remuneration, and between variable remuneration based on short-term and longer-term performance. Fixed remuneration includes base salary, benefits and pension. Variable remuneration includes an annual bonus, half of which is deferred in shares, and awards under the Performance Share Plan ("PSP").

The remuneration policy is aligned to the strategy and nature of the Company, and reflects the importance of total return and the long-term nature of Capco's business, rewarding the Executive Directors for delivering strong performance against the Company's Key Performance Indicators ("KPIs").

Details of each element of remuneration, their operation, purpose, link to strategy and performance metrics are set out in this section.

1.2 Executive Director Policy Table

The table below summarises each of the components of the remuneration package for the Executive Directors:

Purpose and link to strategy	Operation
Base salary	
To provide an appropriately competitive base salary, whilst placing emphasis on the performance related elements of remuneration. The Committee believes base salary for high-performing experienced Executive Directors should be at least median.	Base salaries are normally reviewed on an annual basis, with any increase normally taking effect from 1 April. The Committee reviews base salaries with reference to: • other property companies (including the constituents of the long-term incentive plan's comparator group) • UK companies of a similar size • each Executive Director's performance and contribution during the year • scope of each Executive Director's responsibilities • changes to the remuneration and overall conditions of other employees When reviewing base salaries, the Committee is mindful of the gearing effect that increases in base salary will have on the potential total remuneration of the Executive Directors.
Benefits	
To be appropriately competitive with those offered at comparator companies.	Benefits will be in line with those offered to some or all employees and may include private dental and healthcare, life insurance, personal accident cover, travel insurance, income protection and a car allowance, currently paid in cash. Other benefits may be introduced from time to time to ensure the benefits package is appropriately competitive and reflects individual circumstances. For example, Directors may be offered relocation and/or expatriate benefits should a Director be required to relocate as a result of emerging business requirements.
Pension	
To be appropriately competitive with that offered by comparator companies.	Capco offers a defined contribution pension scheme. Executive Directors may elect to be paid some or all of their entitlement in cash.
Annual bonus	
To incentivise and reward performance. The Committee selects performance measures and targets each year to reinforce the strategic business priorities for the year. The deferral of half of the bonus into shares is designed to further align executives with shareholders' interests.	The annual bonus arrangements are reviewed at the start of each financial year to ensure performance measures and weightings are appropriate and support the business strategy. The Committee reviews performance against the annual bonus targets but has the ability to take into account broader factors and, subject to the 150 per cent of salary maximum, may exercise two-way discretion to ensure that the annual bonus awarded properly reflects the performance of the Company and each Director. Adjudication of bonuses will be explained in the Directors' Remuneration Report. 50 per cent of any bonus earned is deferred in Capco shares or nil cost options for three years under the Performance Share Plan without further performance conditions but subject to risk of forfeiture should an Executive Director leave the Company in certain circumstances. Directors may be entitled to be paid dividend equivalents on deferred bonus. Deferred bonus is subject to malus as described in the notes to this table.
Performance Share Plan "PSP"	
To incentivise and reward long-term outperformance, and help retain Executive Directors over the longer term.	Executive Directors are eligible to receive awards of shares under the PSP, which may be made as awards of shares or nil cost options, at the discretion of the Committee. In assessing the outcome of the performance conditions, the Committee must satisfy itself that the figures are a genuine reflection of underlying financial performance, and may exercise downwards discretion when determining the proportion of an award that will vest. Dividend equivalents may be paid. The Committee has the discretion in certain circumstances to grant and/or settle an award in cash. In practice this will only be used in exceptional circumstances for Executive Directors. PSP awards are subject to malus and clawback as described in the notes to this table.
All Employee Share Schemes	
	The Company does not currently operate any All Employee Share Schemes, however if such a scheme were introduced the Executive Directors would be able to participate on the same terms as other employees.

Maximum opportunity	Performance metrics
Base salary increases will be applied in line with the outcome of the annual review and will normally be in line with increases awarded to other employees. However, the Committee may make additional adjustments in certain circumstances to reflect, for example, an increase in scope or responsibility, development in role, to address an increase in size or complexity of the business, to address a gap in market positioning and/or to reward the long-term performance of an individual. For the purposes of stating a maximum as required by the remuneration regulations, no increase will be applied to an Executive Director's base salary if the resulting base salary would be above the upper quartile base salary for CEOs at companies in the FTSE 350.	The Committee considers individual and Company performance when setting base salary, as well as the general increase awarded to other employees.
Set at a level which the Committee considers appropriate in light of relevant market practice for the role and individual circumstances. The cost of all benefits will not normally exceed 10 per cent of base salary, with the exception of any future expatriate and/or relocation benefits, which would be disclosed in the Annual Report on Remuneration. Any reasonable business related expenses (including tax thereon) can be reimbursed if determined to be a taxable benefit.	N/A
The maximum contribution is 10 per cent of base salary for any Executive Director appointed on or after the 2017 AGM, in line with the level available for other head office and Covent Garden employees. Executive Directors appointed before the 2017 AGM receive 24 per cent of base salary as a defined contribution.	N/A
The maximum bonus opportunity for Executive Directors is 150 per cent of annual salary with a bonus of 75 per cent of salary payable for achieving target levels of performance. No bonus is payable for below threshold performance. The payment for threshold performance will not exceed 10 per cent of maximum. Awards are made on a straight-line basis for performance between threshold and target, and on a separate straight-line basis for performance between target and maximum.	Executives' performance is measured relative to challenging one-year targets in key financial, operational and strategic measures. The measures selected and their weightings vary each year according to the strategic priorities. At least 75 per cent of the bonus will be measured against financial performance. Measures and respective weightings used for the annual bonus for 2018 and proposed for next year's annual bonus are set out in the Annual Report on Remuneration on pages 74 to 77. An explanation of how the performance measures were chosen and how the performance targets are set is given on page 68.
Each year participants may be granted up to 350 per cent of salary in awards or nil cost options. 33 per cent of an award vests for threshold performance, with full vesting taking place for equalling or exceeding maximum performance conditions and straight-line vesting between threshold and maximum.	PSP awards vest on the third anniversary of the date of grant, and are subject to a two-year post-vesting holding period. The vesting of awards is subject to continued employment and the Company's performance over a three-year performance period based: • 50 per cent on relative Total Return (Net Asset Value growth plus dividends); and • 50 per cent on relative Total Shareholder Return For both measures, performance is measured relative to a comparator group comprising the largest FTSE350 property companies. The performance measures and weightings which apply to the PSP are reviewed by the Committee annually, and, subject to consultation with shareholders, the Committee has discretion to make changes to the measures, the weightings and/or comparator group for future awards to ensure that they remain relevant to the Company strategy and are suitably stretching. Details of the performance conditions for previous years' awards, and those proposed for 2019 awards, are set out in the Annual Report on Remuneration on pages 76 to 78. An explanation of how the performance measures were chosen and how the performance targets are set is given on page 68.
In line with HMRC approved limits.	

1.3 Notes to the Policy Table

Performance measurement selection

Annual bonus scheme

Executive Directors may earn bonuses depending on the Company's financial performance and performance against individual performance targets designed to deliver strategic goals. The current structure of the annual bonus performance conditions is illustrated within the Annual Report on Remuneration on page 77. The financial performance measures and the importance of each are set out in the table below. The Remuneration Committee has discretion to change the performance conditions in the annual bonus, but within the bounds set out in the Remuneration Policy Table.

The annual financial performance targets are set by the Committee in the first quarter of each year following an analysis of external and internal expectations compiled by the Committee's independent adviser. The Committee sets targets it believes to be appropriately stretching, but achievable.

Long-term incentives

As mentioned above, the performance conditions for the PSP currently comprise two measures:

- Three-year relative Total Return (TR, growth in NAV per share plus dividends); and
- Three-year relative Total Shareholder Return (TSR, increase in price of an ordinary share plus dividends).

The Committee believes that these two measures are currently the most appropriate measures of long-term success for Capco as long-term relative performance provides an appropriately objective and relevant measure of Capco's success which is strongly aligned with shareholders' interests.

The Committee believes that NAV growth is the most important internal measure of success for Capco at this time. Accordingly, the Committee considered it appropriate to reward NAV performance in both the short and long-term incentive arrangements, with one-year absolute NAV growth being used in respect of the annual bonus arrangements and three-year relative NAV (as the main component of three-year Total Return) being used in respect of the long-term incentives. NAV is used as a performance measure by over half of FTSE350 property companies in their long-term incentive arrangements. The Company's NAV is based on independent external valuations carried out in accordance with RICS Valuation Professional Standards.

Relative TSR helps align the interests of Executive Directors with shareholders by incentivising share price growth and, in the Committee's view, provides an objective measure of the Company's long-term success.

The current long-term incentive performance conditions are summarised within the Annual Report on Remuneration on page 78. Performance is measured relative to a comparator group comprising the largest FTSE350 property companies and Capco. The members of the comparator group are shown in Figure 4 on page 76.

In order for any awards to vest, the Committee must also satisfy itself that the TR and TSR figures are a genuine reflection of underlying financial performance. In assessing the extent to which the performance conditions have been met, the Committee consults with its independent remuneration adviser. The calculation of the returns is also reviewed by the Company's auditors as appropriate. The performance targets are set by the Committee following an analysis of internal and external expectations, and are believed to be appropriately stretching.

For future awards, the Remuneration Committee has discretion to change the performance measures and weightings. However, any such changes would only be made after consulting with shareholders.

Discretions

Under the annual bonus scheme and the PSP the Company has the standard discretions to take appropriate action in the event of unforeseen events which affect the schemes such as a variation in share capital as well as terminations and on a change in control as described in the policy. The Committee does not intend to make adjustments to the methods by which it measures the performance conditions, however, it reserves the discretion to make adjustments in very exceptional circumstances. Shareholders would be given details of any exercise of discretion.

Payments resulting from existing arrangements

The Committee may make any remuneration payments and payments for loss of office (including exercising any discretions it has relating to such payments) even though they are not in line with the policy set out in this report. This will apply where the entitlement to the payment arose: (i) before the 2014 AGM; (ii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company; or (iii) under a remuneration policy previously approved by the Company's shareholders. For these purposes entitlements arising under the Company's previous remuneration policy (as approved by shareholders at the 2014 AGM) will be incorporated into this policy, "payments" includes the Committee satisfying awards of variable remuneration, and an entitlement under an award over shares arises at the time the award is granted.

Why are the current annual bonus performance measures appropriate for Capco?

Measure	Reason
Growth in Net Asset Value per share	Considered by the Committee to be the most important driver of value creation for Capco at the present time.
Relative Total Property Return	Rewards the additional portfolio value created by management over and above any changes in value from tracking the property market as a whole, as measured by the MSCI (formerly IPD) Total Return All Property Index, an external benchmark widely used in the property industry.
Underlying Earnings Per Share	Rewards value growth in net rental income as well as the management of financing and other costs. Given the current stage of the Company's development, the Committee considers EPS to be relatively less relevant as an indicator of value creation than growth in Net Asset Value per share.

Malus and clawback

Awards granted under the long-term incentive arrangements are subject to malus and clawback until the end of the respective holding periods. Deferred bonus awards are subject to malus prior to vesting. Reasons for malus and clawback include: in the event of gross misconduct of a Director, in the event of a material misstatement in the audited accounts of the Company for a period that was wholly or partly before the end of the financial year by reference to which any performance condition was assessed, or in the event that the assessment of the satisfaction of any performance condition was based on error or inaccurate or misleading information. In the latter two scenarios, to the extent an overpayment resulted. The application of any malus or clawback is at the discretion of the Remuneration Committee.

Remuneration of employees below the Board

No element of remuneration is operated solely for Executive Directors. Capco head office (including Earls Court Properties) and Covent Garden employees below the Board receive base salary, benefits, annual bonus, and participate in the PSP. The pension contribution for new Executive Directors has been set at the same level as available to employees at Capco head office (including Earls Court Properties) and Covent Garden. However, there are some differences in operation as set out below:

- In exceptional circumstances, such as recruitment, long-term incentive awards may be granted without performance conditions to participants below the Board;
- Employees below the Board are not subject to any minimum shareholding requirement; and
- Incentive awards granted to employees below the Board may not be subject to holding periods, clawback or malus.

Shareholding guidelines

The Chief Executive is required to achieve a shareholding in the Company equivalent to 300 per cent of salary and the other Executive Directors are required to achieve a shareholding in the Company equivalent to 200 per cent of base salary, to be achieved by retaining at least 50 per cent of any vested share awards (net of tax) or within three years. The current shareholdings of the Executive Directors are set out on page 80. The former Chairman was required to maintain a shareholding in the Company equivalent to 100 per cent of his base fee, an arrangement which would be reviewed on any new appointment. The current Chairman does not have a formal shareholding requirement. The current shareholding of the Chairman is set out on page 80.

1.4 Performance scenario charts

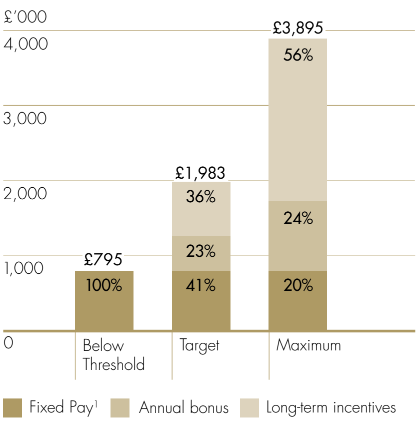
The potential reward opportunities illustrated in Figure 1 are based on the policy which will apply in 2019, applied to the base salary at the salary review date, 1 April 2019, and provide estimates of the potential future reward opportunity for each Executive Director, and the potential split between the different elements of remuneration under three different performance scenarios: 'Below Threshold', 'Target' and 'Maximum'.

The Below Threshold scenario includes base salary, pension and benefits (fixed pay). No annual bonus or PSP elements are included (variable pay). The Target scenario includes fixed pay, on target bonus and threshold vesting of PSP awards. The Maximum scenario includes fixed pay, maximum bonus and full vesting of PSP awards. For variable pay, the amounts illustrated are the normal maximum opportunities.

It should be noted that the PSP awards granted in a year do not normally vest until the third anniversary of the date of grant and are subject to a two-year post-vesting holding period. The projected values of long-term incentives shown here exclude the impact of share price movement and dividends.

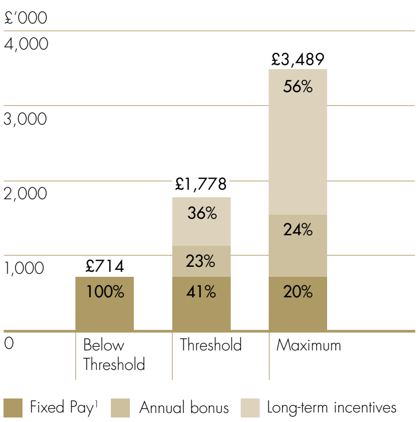
Figure 1

Chief Executive



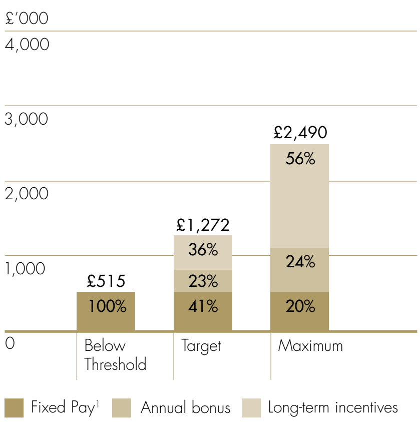
Salary for Chief Executive assumes a 2.14 per cent increase on prior year

Managing Director and Chief Investment Officer



Salary for Managing Director and Chief Investment Officer assumes a 2.02 per cent increase on prior year

Chief Financial Officer



Salary for Chief Financial Officer assumes a 5.69 per cent increase on prior year

1. *Fixed pay comprises salary, pension and benefits.*

1.5 Approach to recruitment remuneration

When hiring or appointing a new Executive Director, the Committee may make use of any of the existing components of remuneration, as follows:

Element of remuneration	Policy on recruitment	Maximum opportunity
Salary	Based on scope and nature of responsibilities of the proposed role; the candidate's experience; implications for total remuneration positioning vs. market pay levels for comparable roles; internal relativities; and the candidate's current salary. A new Director may be appointed at a salary which is less than the prevailing market rate but increased over a period to the desired positioning subject to satisfactory performance.	N/A
Pension	A contribution of up to 10 per cent of salary may be offered, consistent with policy.	
Benefits	Appropriate benefits will be provided, which may include the continuation of benefits received in a previous role.	
Annual bonus	Executive Directors will be eligible to participate in the annual bonus scheme on the same basis as existing Executive Directors, pro-rated for proportion of year served. Depending on the timing of the appointment, the Committee may deem it appropriate to set different annual bonus performance conditions to the current Executive Directors in the first performance year of appointment.	The maximum opportunity will be 150 per cent of salary, consistent with policy. In exceptional circumstances, normal policy table limits may be exceeded on recruitment. The maximum additional bonus opportunity will be limited to 50 per cent of salary.
Performance Share Plan	New Executive Directors will be eligible to participate in the long-term incentive scheme set out in the remuneration policy table. A PSP award can be made shortly following an appointment (assuming the Company is not in a prohibited period).	The opportunity levels will be consistent with those disclosed in the table.
Other	In determining appropriate remuneration for new Executive Directors, the Committee will take into consideration all relevant factors (including quantum, the nature of remuneration and where the candidate was recruited from) to ensure that arrangements are in the best interests of Capco and its shareholders. Remuneration may include: • An award made in respect of a new appointment to "buy out" existing incentive awards forfeited on leaving a previous employer. In such cases the compensatory award would typically be a like-for-like award with similar time-to-vesting, performance conditions and likelihood of those conditions being met. The fair value of the compensatory award would not be greater than the awards being replaced. To facilitate such a buyout, the Committee may use an award under a different structure or an additional award under the PSP; • A relocation package, should this be required; • For an overseas appointment, the Committee will have discretion to offer cost-effective benefits and pension provisions which reflect local market practice and relevant legislation; and • In the event that an employee is promoted to the Board, the Company would honour any existing contractual arrangements.	

1.6 Service contracts and exit payment policy

The service contracts of Executive Directors are approved by the Remuneration Committee and are one-year rolling contracts. The commencement dates of the current contracts are shown below. The service contracts may be terminated by either party giving one year's notice to the other. It is the Company's policy that termination payments should not exceed the Director's current salary and benefits for the notice period. The service contracts may be viewed at the Company's registered office.

Where a Director may be entitled to pursue a claim against the Company in respect of his/her statutory employment rights or any other claim arising from the employment or its termination, the Committee will be entitled to enter into a settlement agreement with the Director. The Company may pay a Director's legal fees in relation to any settlement agreement.

The Committee may pay reasonable outplacement fees where considered appropriate.

When considering exit payments, the Committee reviews all potential incentive outcomes to ensure they are fair to both shareholders and participants. The payment of any annual bonus is subject to the discretion of the Committee, and both the cash and deferred share elements of an annual bonus would normally be payable at the normal payment date. Any deferred share element could be paid in cash. Any outstanding deferred bonus may be released or paid in cash, subject to clawback for a period of three years from the date of grant.

	Commencement date	Notice period
Ian Hawksworth	17 May 2010	12 months
Situl Jobanputra	1 January 2017	12 months
Gary Yardley	17 May 2010	12 months

An individual would generally be considered a 'good leaver' if they left the Group's employment for reasons including injury, ill-health, disability approved by the Committee, redundancy or retirement with the agreement of the employing company. The table below summarises how PSP awards are typically treated in specific leaver circumstances, with the final treatment remaining subject to the Committee's discretion, for example an individual may be considered a 'good leaver' for any other reason at the absolute discretion of the Committee, and the vesting of awards may be reduced for 'good leavers'.

Reason for leaving	Timing of vesting	Treatment of awards
Good leaver	Normal vesting date, although the Committee has discretion to accelerate.	Payments are normally pro-rated for time and remain subject to outstanding performance conditions. Where vesting is accelerated, payments are further pro-rated to reflect the extent to which the performance conditions had been satisfied at the date of leaving. The holding period would continue to apply.
Change of control	Immediately	Vesting will be pro-rated for time and remain subject to performance conditions. However, the Committee has discretion to allow awards to vest in full in such circumstances if it deems this to be fair and reasonable. The holding period would cease to apply.
Any other reason	Awards lapse	

There are no obligations on the Company contained within the existing Directors' service contracts which would give rise to payments not disclosed in this report.

The service contracts of any future-appointed Directors will provide for mitigation in the event of termination.

1.7 Non-executive Director Policy Table

The Non-executive Directors do not have service contracts but instead have letters of appointment. The letters of appointment of the Non-executive Directors are reviewed by the Board annually and contain a one-month notice period. The Chairman's letter of appointment contains a three-month notice period. The letters of appointment may be viewed at the Company's registered office.

Non-executive Directors' dates of appointment and unexpired terms

	Date of appointment	Date of most recent letter of appointment	Unexpired term as at 31 December 2018
Charlotte Boyle	1 October 2017	26 September 2017	4 months
Graeme Gordon	23 February 2010	4 May 2018	4 months
Gerry Murphy	1 March 2015	29 May 2018	4 months
Henry Staunton	2 June 2010	29 May 2018	4 months
Anthony Steains	1 March 2016	4 May 2018	4 months
Andrew Strang	23 February 2010	4 May 2018	4 months

The table below summarises each of the components of the remuneration package for the Non-executive Directors. The Non-executive Directors do not receive any pension, bonus or long-term incentive benefits from the Company.

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Fee			
To recruit and retain appropriately qualified Non-executive Directors.	The Chairman and Non-executive Director fees are reviewed on an annual basis, with any increase taking effect from 1 May. The Board and Committee review fees with reference to: • other property companies; • UK companies of a similar size; and • the time that Non-executive Directors are required to devote to the role. In exceptional circumstances, if there is a temporary yet material increase in the time commitments for Non-Executive Directors, the Board may pay extra fees on a pro-rata basis to recognise the additional workload.	Non-executive Director fees may include a basic fee and Committee/SID fees as disclosed in the Annual Report on Remuneration. These are set at a level that is considered appropriately competitive in light of market practice, and will not exceed the aggregate fees permitted by the Company's Articles of Association.	N/A
Benefits			
To be appropriately competitive with those offered at comparator companies.	The Chairman's benefits include private healthcare and personal accident and travel insurance. Other Non-executive Directors will be covered by the Company's travel insurance policy should they be required to travel on Company business. Any reasonable business related expenses can be reimbursed (including tax thereon if determined to be a taxable benefit).	The maximum value of the benefits provided to Non-executive Directors will be the cost of purchasing them in the market.	N/A

1.8 External Directorships
The Company's policy is to encourage each Executive Director to take up one or more Non-executive Directorships, subject to Board approval. Fees received for serving as a Non-executive Director of a company outside the Capco Group are retained by the Executive Director.

1.9 Consideration of conditions elsewhere in the Company
When setting Executive Director pay the Committee considers the remuneration and overall conditions of all employees. As Capco has a relatively small workforce, the Committee does not consult with employees when deciding remuneration policy, but it receives regular updates from the Head of HR on salary increases, bonus and share awards made to Group employees and is aware of how the remuneration of Directors compares to that of other employees; for example, salary increases are generally in line with increases awarded to other employees, which are set with reference to market data.

1.10 Consideration of shareholder views
It is the Committee's policy to consult with major shareholders as appropriate, for example, prior to finalising any major changes to its executive remuneration policy.

2. ANNUAL REPORT ON REMUNERATION
This section of the Directors' Remuneration Report explains how Capco's current remuneration policy has been implemented during the year.

2.1 Remuneration Committee
The Remuneration Committee is responsible for determining and recommending to the Board the policy for the remuneration of the Executive Directors, setting targets for the Company's incentive schemes and determining the total individual remuneration package for each Executive Director. Membership of the Committee as at 31 December 2018 and the date of this report is set out on page 65. In addition, the Company Chairman, Chief Executive and the Company Secretary are invited to attend Committee meetings and contribute, except on matters relating to their own remuneration. Attendance at the eight meetings held during the year is shown in the table on page 57 and a summary of the matters considered by the Committee during the year is set out in the adjacent shaded box in column 3.

2.2 Remuneration Committee and its advisers
The Committee appointed Aon Hewitt as its independent remuneration adviser in 2014 following a competitive process. During the year, the Committee received advice on matters including remuneration structure, incentive design and target setting from Aon Hewitt. Aon Hewitt is a member of the Remuneration Consultants Group and adheres to its code of conduct. The Committee has received confirmation of independence from Aon Hewitt, and is satisfied that the advice received was objective and independent. In addition to advice provided to the Committee, Aon Hewitt also provided share award valuation services to the Company. During 2018, the Company was charged a total of £58,255 by Aon Hewitt in respect of advice to the Committee. In addition, fees of £155,899 were charged in respect of advice relating to the potential demerger and other strategic options. Fees were charged on a time basis.

2.3 Statement of shareholder voting
The table below shows the results of the advisory vote on the 2017 Directors' Remuneration Report and the binding vote on remuneration policy at the 2017 AGM.

2.4 Single figure of remuneration
The table on page 73 shows the single figures of total remuneration paid to each Director in 2018 and 2017. The charts in Figure 2 on page 74 illustrate the contribution that each element of remuneration made to the total remuneration of the Executive Directors.

Matters considered by the Committee over the past year include:
- Executive Director remuneration
- Shareholder and investor body correspondence
- Legislative and regulatory developments including 2018 UK Corporate Governance Code
- Directors' remuneration report
- Committee terms of reference
- Potential corporate transactions
- Institutional investor voting reports and voting at 2018 AGM
- Setting of and evaluation of performance against Executive Directors' performance targets
- Remuneration across the Group
- Share scheme awards and performance targets
- Outcome of 2017 shareholder consultation on performance targets
- Directors' shareholdings and ownership guidelines
- Chairman's remuneration
- Chairman's and Chief Executive's expenses

Voting on Remuneration Report 2018 AGM

	Votes for	% For	Votes against	% Against	Total votes cast	Votes withheld (abstentions)
Approval of Remuneration Report	577,067,034	97.48	14,891,662	2.52	591,958,696	10,784,876

Voting on Remuneration Policy 2017 AGM

	Votes for	% For	Votes against	% Against	Total votes cast	Votes withheld (abstentions)
Approval of Remuneration Policy	650,133,456	97.63	15,774,537	2.37	665,907,993	2,857,671

Single figure of remuneration 2018 and 2017 (Audited)

	Base salary and fees £000		Taxable benefits[1] £000		Single-year variable £000		Multiple-year variable[2] £000		Pension related benefits[3] £000		Other £000		Total £000	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Chairman														
Henry Staunton[4]	**194**	92	**9**	–	**–**	–	**–**	–	**–**	–	**–**	–	**203**	92
Executive Directors														
Ian Hawksworth	**604**	591	**26**	24	**216**	550	**–**	–	**145**	142	**–**	–	**991**	1,307
Situl Jobanputra	**362**	325	**25**	23	**140**	314	**–**	–	**87**	78	**–**	–	**614**	740
Gary Yardley	**541**	529	**26**	25	**194**	485	**–**	–	**130**	127	**–**	–	**891**	1,166
Non-executive Directors														
Charlotte Boyle[5]	**74**	16	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**74**	16
Graeme Gordon	**52**	51	**19**	19	**–**	–	**–**	–	**–**	–	**–**	–	**71**	70
Gerry Murphy	**89**	79	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**89**	79
Anthony Steains	**58**	57	**37**	23	**–**	–	**–**	–	**–**	–	**–**	–	**95**	80
Andrew Strang	**72**	70	**1**	1	**–**	–	**–**	–	**–**	–	**–**	–	**73**	71
Former Directors														
Ian Durant[6]	**133**	262	**8**	6	**–**	–	**–**	–	**–**	–	**–**	–	**141**	268
Demetra Pinsent[7]	**–**	48	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	48
Total	**2,179**	2,120	**151**	121	**550**	1,349	**–**	–	**362**	347	**–**	–	**3,242**	3,937

1. *Comprises Executive Director car allowance of £18,000, medical insurance and Non-executive Directors' travel expenses relating to Board meeting attendance where these are taxable or would be if the Director were resident in the UK for tax purposes. Where applicable, the Company pays the tax payable on Non-executive Director travel expenses as they are incurred in the fulfilment of Directors' duties.*
2. *The 2018 disclosure comprises the estimated value on maturity of the 2016 Former PSP and MSP awards which have a performance period that ran from 2016 to 2018, and were expected to vest in early 2019. These awards have been included in the 2018 single figure as the performance conditions relating to these awards had been substantially (but not fully) completed during 2018. The disclosure has been calculated assuming that 0 per cent of the Former PSP awards and MSP awards will vest. The 2017 multi-year variable comparators were previously disclosed on the basis described above assuming vesting of 0 per cent, and it is confirmed that the awards lapsed as the performance conditions were not satisfied.*
3. *Comprises payments in lieu of pension contributions.*
4. *Appointed as Chairman on 5 June 2018.*
5. *Appointed on 1 October 2017.*
6. *Retired from the Board on 5 June 2018.*
7. *Stepped down from the Board on 30 September 2017.*

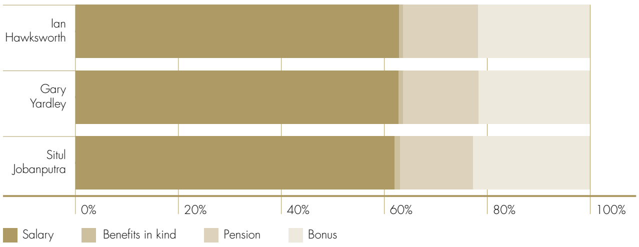
What is included in the single figure?

- The salary or fees paid in the year
- The gross cash value of any taxable benefits
- The total annual bonus awarded for the year – including both cash and the deferred element
- The expected value of any long-term incentive awards due to vest
- The cash value of any pension contribution or allowance

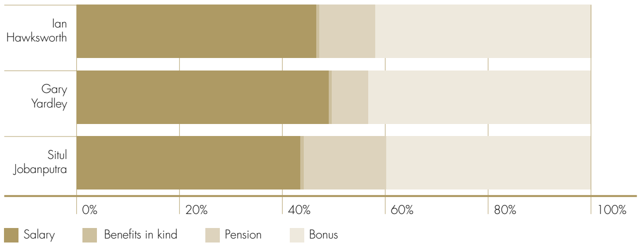
The figures below illustrate the contribution that each element of the Executive Directors' remuneration made to the single figure disclosures.

Figure 2

Composition of 2018 single figures



Composition of 2017 single figures



2.5 Annual bonus outcomes for 2018

Opportunity

Executive Directors can earn bonuses of up to 150 per cent of salary. Half of the bonus earned is deferred in Capco shares or nil cost options for three years, subject to forfeiture should the Executive Director leave the Company.

Performance measures and targets

Awards made in respect of the year ended 31 December 2018 were based 75 per cent on financial performance, and 25 per cent on individual performance.

Financial measures: The financial performance element for the year ended 31 December 2018 was based on growth in absolute NAV per share ("NAV"), Total Property Return relative to the MSCI Total Return All Property Index ("TPR"), and underlying Earnings Per Share ("EPS"). When setting the annual targets for these measures in 2018, the Committee recognised the long-term nature of some aspects of the Company's strategy, and the extent to which this would be reflected in these measures on a 12-month horizon. In line with the framework set for the annual bonus at the beginning of the year, the EPS target was adjusted following the disposal of the Empress State Building on 26 March 2018. The adjustment was made to ensure that the target remained as stretching as intended when originally set at the start of 2018 and did not become more or less challenging to achieve as a result of the adjustment. The performance measures, weightings and targets that applied in respect of the 2018 annual bonus are summarised in the table on the following page.

The Committee has previously committed to publishing the financial performance targets once they cease to be commercially sensitive. The Committee has determined that the financial performance targets that applied in respect of the years ended 31 December 2017 are no longer commercially sensitive; accordingly, the targets and the Company's performance against these targets are set out on the following page. In future the Committee expects to continue to disclose annual bonus targets one year retrospectively.

Personal measures: The Committee assessed individual performance against a set of KPIs which align with the Company's objectives outlined on page 15 of the Annual Report. These KPIs include:

- Corporate objectives: enhancing Capco's position and reputation in the market; identifying, monitoring and controlling risk including health and safety; progress towards meeting medium-term corporate objectives;
- Financial objectives: optimising liquidity and financing; effective cost and capital expenditure management; other budgeted KPIs;
- Investment objectives: strategic investment initiatives; operation of joint ventures; implementation of business plans; achievement of planning targets; and
- CR/HR objectives: personal development; optimisation of organisational structure; nurturing of future leaders; promotion and support of CR initiatives.

Outcome of 2018 annual bonus performance measures (Audited)

Outcome of financial objectives: In respect of the year ended 31 December 2018, the Company's performance did not meet the threshold performance targets for TPR, EPS or NAV performance. Accordingly, no awards were made to Ian Hawksworth, Situl Jobanputra and Gary Yardley in respect of the financial performance measures.

Outcome of personal objectives: The Executive Directors were considered to have performed very well in 2018 delivering strong outcomes at Covent Garden through high levels of leasing transactions and store openings, growth of both ERV and NRI and the completion of Floral Court; the completion of demolition works at Earls Court; the sale of the Empress State Building; progress on corporate strategic objectives, particularly regarding a possible demerger; continued progress on reduction of administration costs; management of capital and corporate liquidity; and implementation of HR initiatives. Accordingly, awards of between 35.63 and 37.50 per cent of salary were made to the Executive Directors in respect of the individual performance measures. A summary of the overall outcomes of 2018 annual bonus performance measures is shown in Figure 3 on page 75.

Summary of Executive Directors' bonuses (Audited)

		2018			2017	
Executive Director	Cash	Deferred shares[1]	Total	Cash	Deferred shares[1]	Total
Ian Hawksworth	£108,122	£108,122	£216,244	£274,896	£274,896	£549,792
Situl Jobanputra	£70,078	£70,078	£140,156	£156,856	£156,856	£313,712
Gary Yardley	£96,900	£96,900	£193,800	£242,254	£242,254	£484,508

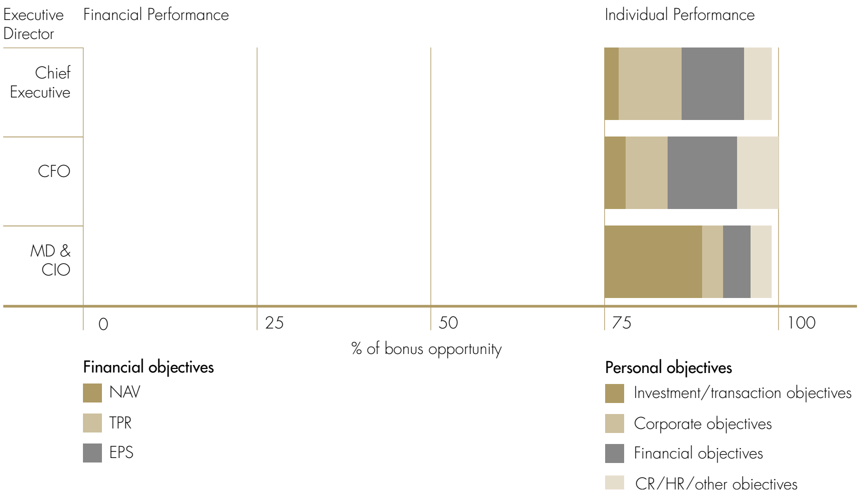
1. Half of bonus earned is deferred in Capco shares or nil cost options for three years, subject to forfeiture should the Executive Director leave the Company

Outcome of 2018 annual bonus performance measures (Audited)

Performance measure	Weighting			Performance	Outcome		
	Chief Executive	MD & CIO	CFO		Chief Executive	MD & CIO	CFO
Financial performance (% of max)	**75%**	**75%**	**75%**		nil	nil	nil
Comprising:							
• Absolute Net Asset Value per share	50%	50%	50%	Below threshold	nil	nil	nil
• Relative Total Property Return	30%	30%	30%	Below threshold	nil	nil	nil
• Underlying Earnings per Share	20%	20%	20%	Below threshold	nil	nil	nil
Individual performance (% of max)	**25%**	**25%**	**25%**		23.75/25	23.75/25	25/25
Total performance outcome (% of salary)					**35.63%**	**35.63%**	**37.50%**

Figure 3

Outcome of 2018 annual bonus performance objectives



Disclosure of 2017 annual bonus financial performance targets (Audited)

Performance measure	Weighting	Target range		Actual performance	% of bonus opportunity awarded
		Threshold (0% payout)	Maximum (100% payout)		
Absolute Net Asset Value per share	55%	316p	339p	333.8p	82.7%
Relative Total Property Return	35%	0	1.5% outperformance	10.2% underperformance	0%
Underlying Earnings per Share	10%	0.4p	1.0p	1.3p	100%

2.6 Long-term incentive outcomes for 2018 (Audited)

In 2016 the following awards with a performance period of 2016-2018 were made under the Company's former Performance Share Plan ("Former PSP") and former Matching Share Plan ("Former MSP"):

Former PSP: Awards of 150 per cent of salary were made to Executive Directors.

Former MSP: Shares awarded in respect of Executive Directors' deferred 2015 bonus were matched under the MSP on a 1:1 basis. Additionally, awards were made pursuant to the Committee's 2013 invitation to Executive Directors to invest up to 150 per cent of 2013 salary between 2013 and 2015 (subsequently extended to early 2016) when permitted by scheme headroom with an exceptional matching opportunity of 2:1.

Performance measures and outcomes for 2016 awards under the Former PSP and Former MSP

Performance measures and targets: The performance conditions for the Former PSP and Former MSP comprised two equally weighted measures:

- Three-year relative Total Return (TR, growth in NAV per share plus dividends)
- Three-year relative Total Shareholder Return (TSR, increase in price of an ordinary share plus dividends)

Where an exceptional award was made, the additional matching opportunity could only be earned for performance above the normal stretch targets. The performance targets are set out in Figure 4 below.

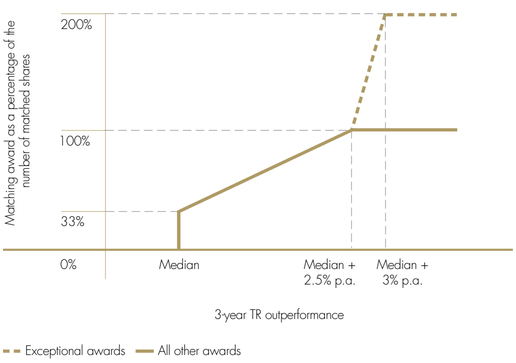
Performance outcome: In early 2019, the Committee determined that Capco's TR was not expected to equal the median of the comparator group (vs an outperformance target of 2.5 per cent per annum or 3 per cent for exceptional awards), and that Capco's TSR was not expected to equal the median of the comparator group (vs an outperformance target of 4 per cent per annum or 5 per cent for exceptional awards), and as such the performance conditions relating to the 2016 Former PSP and Former MSP awards had not been met. Accordingly, the 2016 Former PSP and Former MSP awards are expected to lapse and no value has been included in the single figure disclosures in respect of these awards.

Figure 4

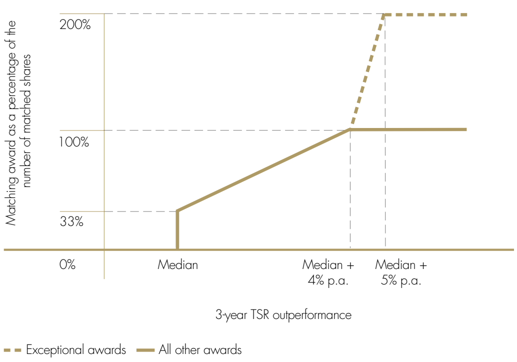
Performance measures for the Former MSP

The graphs below illustrate the proportion of a Former MSP award tested against each performance measure that would vest at different levels of performance. 33 per cent of a non-exceptional award would vest at median performance.

50% on Total Return



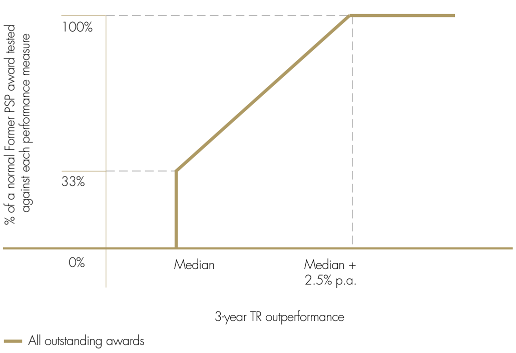
50% on TSR



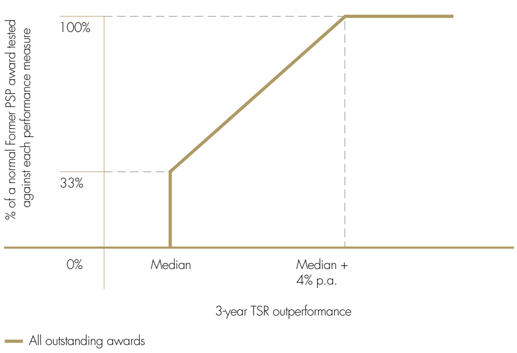
Performance conditions for the Former PSP

The graphs below illustrate the proportion of a Former PSP award that would vest at different levels of performance. 33 per cent of a non-exceptional award would vest at median performance.

50% on Total Return



50% on TSR



TR AND TSR COMPARATOR GROUP FOR THE PSP, FORMER PSP AND FORMER MSP

British Land	Great Portland Estates	Land Securities
Capco	Hammerson	Segro
Derwent London	Intu Properties	Shaftesbury

Scheme interests awarded during the financial year

PSP (AUDITED)[1]

	Basis of award	Market price on date of grant[2]	Exercise price if any	Face value of award	Number awarded	Performance period	Holding period	Threshold vesting %[3]	Exercisable between
Ian Hawksworth	350 per cent of salary	269.1p	Nil	£2,124,499	789,483	2018 – 2021	2021 – 2023	16.5%	2021 – 2028
Ian Hawksworth	Value of Deferred Bonus	269.1p	Nil	£274,894	102,153	2018 – 2021	N/A	100%	2021 – 2028
Situl Jobanputra	350 per cent of salary	269.1p	Nil	£1,308,125	486,111	2018 – 2021	2021 – 2023	16.5%	2021 – 2028
Situl Jobanputra	Value of Deferred Bonus	269.1p	Nil	£156,856	58,289	2018 – 2021	N/A	100%	2021 – 2028
Gary Yardley	350 per cent of salary	269.1p	Nil	£1,903,998	707,543	2018 – 2021	2021 – 2023	16.5%	2021 – 2028
Gary Yardley	Value of Deferred Bonus	269.1p	Nil	£242,252	90,023	2018 – 2021	N/A	100%	2021 – 2028

1. *PSP awards are granted as nil cost options*
2. *Average closing share price on three business days preceding the date of grant*
3. *Assumes threshold vesting under one performance condition for annual PSP awards. There are no performance conditions for the deferred bonus.*

The performance measures for awards made under the PSP in 2018 are described on page 67 and the targets are set out below:

	Threshold	Maximum
TR	Median	Median + 2%
TSR	Median	Median + 4%

2.7 Payments for loss of office and payments to previous Directors (Audited)

No payments for loss of office or payments to previous Directors in respect of relevant services were made during 2018.

2.8 Total pension entitlement (Audited)

No Director participates in or has a deferred benefit under a defined benefit pension scheme.

2.9 External Non-executive Directorships

No Executive Director currently serves as a Non-executive Director elsewhere.

2.10 Statement of implementation of policy for 2018 salary

The Executive Directors' salaries are reviewed annually. In April 2019, the salary of the Chief Executive and Managing Director and Chief Investment Officer will be increased by approximately 2 per cent to £620,000 and £555,000 respectively, which is in line with the lower end of the range of increases expected to be applied to Group employees. The salary of the Chief Financial Officer will be increased by approximately 5.7% to £395,000.

The proposed revised salaries for the Executive Directors are set out in the table below:

Executive Director salaries – 2018 and 2019

	2019	2018	% Increase
Ian Hawksworth	**£620,000**	£607,000	2.14 %
Situl Jobanputra	**£395,000**	£373,750	5.69 %
Gary Yardley	**£555,000**	£544,000	2.02 %

Pension and benefits

As described in the policy table on pages 66 and 67.

Annual bonus

Opportunity

The annual bonus opportunity will remain unchanged for 2019.

Performance conditions

The financial performance targets for the year ended 31 December 2018 were based on growth in absolute NAV per share, Total Property Return relative to the MSCI Total Return All Property Index, and underlying EPS. The Committee has decided that the relative weightings of the NAV, TPR and EPS measures will remain unchanged for 2019. The relative weighting of financial and individual performance measures will also remain unchanged. However, should a demerger or sale of the Earls Court business or parts thereof be decided upon, the performance measures will be modified so that they continue to be aligned with Capco's strategy, or that of the appropriate demerged business. Further detail has been set out in the Annual Statement.

Performance targets

The TPR target is included in the Company's KPIs on page 15. The KPIs are in part dependent upon the occurrence of certain discrete events. Therefore, whilst the outperformance targets that apply to the long-term incentives are disclosed, the Board has decided that as the Group operates in two specific locations within the competitive central London property market, prospective disclosure of specific short-term NAV and EPS targets would provide a level of information to counterparties that could prejudice the Company's commercial interests. The Committee will publish the performance targets retrospectively once they have ceased to be commercially sensitive, which is expected to be one year in retrospect. Further information on the Company's KPIs can be found on page 15.

2019 financial performance measures

Absolute Net Asset Value per share	50%
Relative Total Property Return	30%
Underlying Earnings per Share	20%

Performance Share Plan

PSP awards of 350 per cent of 2019 salary will be made as awards or nil cost options. The applicable performance conditions are set out in the table below. However, as with the annual bonus, the performance condition incorporates flexibility so that it will change should a demerger or sale of the Earls Court business or parts thereof be decided upon, so that it continues to incentivise and reward outcomes and behaviours aligned with Capco's strategy or that of the relevant demerged business. Further detail has been set out in the Annual Statement.

	Threshold	Maximum
TR	Median	Median + 2%
TSR	Median	Median + 4%

Chairman and Non-executive Director remuneration

The Chairman has been appointed for a three-year term, subject to annual re-election by shareholders, which will expire at the 2021 AGM. The Chairman's annual base fee for 2018 was £270,000. The remuneration of the Chairman is reviewed annually. Following the 2018 review, it was agreed that the Chairman's annual base fee would be increased to £275,400 with effect from 1 May 2019.

The remuneration of the Non-executive Directors is considered by the Chairman and the Chief Executive, with regard to market comparatives, and recommended to the Board as a whole. The Non-executive Director fees are reviewed annually. Following the 2018 review, it was agreed that the Non-executive Director fees would be increased as set out in the table below with effect from 1 May 2019.

Non-executive Director fees – 2018 and 2019

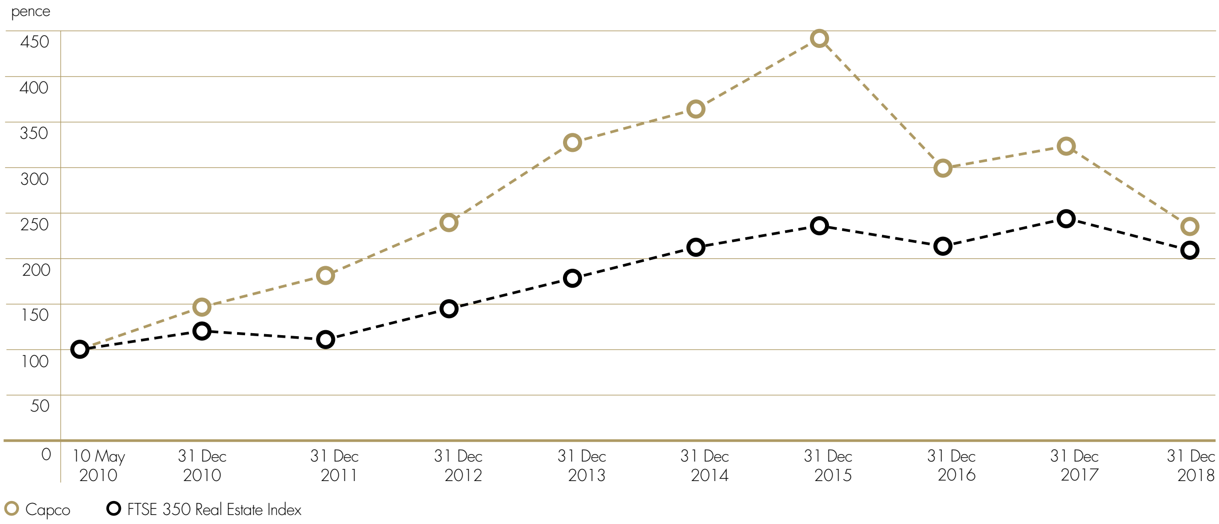
	2019	2018
Basic fee	**£53,500**	£52,500
Committee member (except Nomination Committee)	**£7,000**	£6,850
Committee member (Nomination Committee)	**£6,200**	£6,100
Committee Chairman (Audit and Remuneration Committee)	**£16,600**	£16,300
Senior Independent Director	**£13,400**	£13,150

2.11 Chart of single figure vs. TSR

This graph shows the total shareholder return at 31 December 2018 of £100 invested in Capital & Counties Properties PLC at the start of the first day of trading in its shares following its demerger from Liberty International PLC (10 May 2010), compared to the FTSE 350 Real Estate Index. The Committee considers this benchmark to be the Company's performance.

The table below the graph shows, for each financial year, information on the remuneration of Ian Hawksworth, who has been Chief Executive of Capco since its establishment in 2010.

Figure 5: Total shareholder return



Financial year	2010	2011	2012	2013	2014	2015	2016	2017	**2018**
Single figure £000	£1,184	£1,253	£8,968	£3,530	£3,396	£3,275	£918	£1,307	**£991**
Annual bonus % of max	97.50%	100%	95%	94.67%	96.73%	91.25%	21.25%	61.60%	**23.75%**
MSP vesting % of max	N/A	N/A	100%	100%	93.1%	40 or 80%[1]	0%	0%	**0%**
PSP vesting % of max	N/A	N/A	100%	100%	93.1%	60%	0%	0%	**0%**

1. *Depending on the award*

2.12 Percentage increase of Chief Executive's remuneration

The table below shows the percentage change in the Chief Executive's remuneration from the prior year compared with the average percentage change in remuneration for employees at Capco head office (including Earls Court Properties) and Covent Garden. To allow a meaningful comparison, the analysis for employees is based on a consistent group of individuals.

	Chief Executive			Employees
	2018 £000	2017 £000	% change	% change
Salary	604	591	2.20%	4.64%
Taxable benefits	26	24	8.33%	39.11%[1]
Single-year variable	216	550	-60.73%	-19.02%
Total	846	1,165		

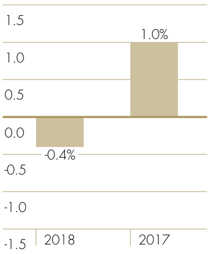
1. *The increase in employees' taxable benefits primarily reflects increased private medical insurance premiums in 2018*

2.13 Distribution statement

The graphs in Figure 6 below illustrate Capco's dividends paid and total employee pay expenditure (this includes pension, variable pay, and social security) for the financial years ended 31 December 2017 and 31 December 2018, and the percentage change in each. The measures above are those prescribed by the remuneration disclosure regulations; however, they do not reflect Capco's KPIs, which are explained on page 15. Accordingly, graphs showing Capco's one-year TPR and TR are also included below.

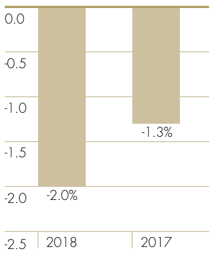
Figure 6

Total property return



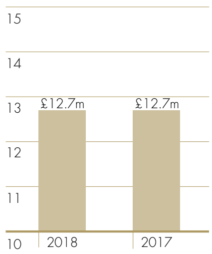
-1.4% change from 2017 to 2018

Total return



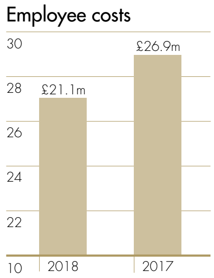
-0.7% change from 2017 to 2018

Dividends



—+No change from 2017 to 2018

Employee costs



-21.6% change from 2017 to 2018

2.14 Statement of Directors' shareholdings and share interests (Audited)

(a) Directors' shareholdings

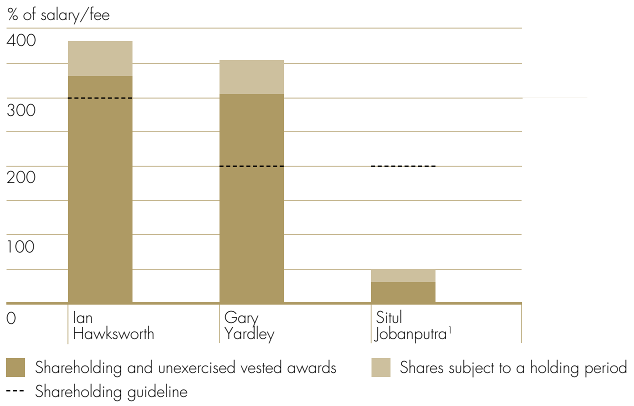
The beneficial interests in the shares of the Company for each Director who served during the year as at 31 December 2018 and 25 February 2019, being a date not less than one month before the date of the Notice of Annual General Meeting, are set out in the table below. The Chief Executive is required to achieve a shareholding in the Company equivalent to 300 per cent of salary and the other Executive Directors are required to achieve a shareholding in the Company equivalent to 200 per cent of base salary, to be achieved by retaining at least 50 per cent of any vested share awards (net of tax) and/or within three years. The current shareholdings of the Executive Directors are illustrated in Figure 7. The shares which are included in these holdings are those held beneficially by the Director, their spouse or dependant family members, shares held within ISAs, PEPs or pensions, shares that are subject to a holding period, such as deferred bonus, and vested but unexercised awards. The latter two categories are included on a net of tax basis.

Directors' shareholdings (including connected persons) – 2018 and 2017 (Audited)

	2018 Number	2017 Number
Chairman		
Henry Staunton	250,000	250,000
Executive		
Ian Hawksworth	820,604	820,604
Situl Jobanputra	50,000	50,000
Gary Yardley	473,073	473,073
Non-executive		
Charlotte Boyle	10,052	10,000
Graeme Gordon[1]	2,305,268	30,450,061
Gerry Murphy	50,000	50,000
Anthony Steains	–	–
Andrew Strang	–	–
Former Directors		
Ian Durant[2]	568,632	568,632
Demetra Pinsent[3]	–	–

1. *Reflects a change in the way the various interests of the Gordon Family holdings are administered. See Directors' Report on page 84*
2. *Shareholdings as at 5 June 2018, being the date that Ian Durant retired from the Board*
3. *Shareholdings as at 30 September 2017, being the date that Demetra Pinsent stepped down from the Board*

Figure 7: Executive Director Shareholdings as at 31 December 2018



1. *Appointed 1 January 2017*

(b) Directors' share interests (Audited)

Details of Executive Directors' share scheme interests, including information on share awards that were exercised or vested during the year, are set out in the tables below.

(i) Summary of Executive Directors' interests in shares and share schemes (full details are set out on pages 81 and 82)

Executive Director	Shares held	Nil cost option awards in respect of deferred bonus	Nil cost option awards, no longer subject to performance conditions[1]	Nil cost option awards, subject to performance conditions[2]	Total
Ian Hawksworth	820,604	347,354	–	2,218,684	3,386,642
Situl Jobanputra	50,000	58,289	–	900,693	1,008,982
Gary Yardley	473,073	494,192	347,095	1,805,798	3,120,158
Total	**1,343,677**	**899,835**	**347,095**	**4,925,175**	**7,515,782**

1. *Comprises vested but unexercised Former PSP and Former MSP nil cost option awards*
2. *Comprises PSP, Former PSP and Former MSP awards that remain subject to performance conditions*

(ii) Outstanding awards made under PSP and Former PSP[1]

Name	Year granted	Option price (pence) if any	Held at 1 January 2018	Granted during the year	Exercised during the year	Lapsed during the year	Held at 31 December 2018	Exercisable during or between
Ian Hawksworth	2015	Nil	207,728	–	–	207,728	–	2018 – 2025
Ian Hawksworth	2016	Nil	274,976	–	–	–	274,976	2019 – 2026
Ian Hawksworth	2017	Nil	29,528	–	–	–	29,528	2020 – 2027
Ian Hawksworth[3]	2017	Nil	667,553	–	–	–	667,553	2020 – 2027
Ian Hawksworth[3]	2018	Nil	–	789,483	–	–	789,483	2021 – 2028
Ian Hawksworth	2018	Nil	–	102,153	–	–	102,153	2021 – 2028
Situl Jobanputra	2015	402.93	7,445	–	–	7,445	–	2018 – 2025
Situl Jobanputra	2015	Nil	22,956	–	–	22,956	–	2018 – 2025
Situl Jobanputra	2016	Nil	49,952	–	–	–	49,952	2019 – 2026
Situl Jobanputra[3]	2017	Nil	364,630	–	–	–	364,630	2020 – 2027
Situl Jobanputra[3]	2018	Nil	–	486,111	–	–	486,111	2021 – 2028
Situl Jobanputra	2018	Nil	–	58,289	–	–	58,289	2021 – 2028
Gary Yardley[2]	2011	157.73	19,019	–	–	–	19,019	2014 – 2021
Gary Yardley[2]	2013	Nil	177,575	–	–	–	177,575	2016 – 2023
Gary Yardley	2015	Nil	186,136	–	–	186,136	–	2018 – 2025
Gary Yardley	2016	Nil	246,431	–	–	–	246,431	2019 – 2026
Gary Yardley	2017	Nil	26,463	–	–	–	26,463	2020 – 2027
Gary Yardley[3]	2017	Nil	597,993	–	–	–	597,993	2020 – 2027
Gary Yardley[3]	2018	Nil	–	707,543	–	–	707,543	2021 – 2028
Gary Yardley[3]	2018	Nil	–	90,023	–	–	90,023	2021 – 2028
Total			2,878,385				4,687,722	

1. *Subject to performance conditions that apply to awards made under the PSP, Former PSP and Former MSP as set out on pages 67, 76 and 78*
2. *Vested but unexercised or not exercised in full*
3. *Subject to a two-year post-vesting holding period*

(c) Former MSP (Audited)

(i) Deferred shares

The following awards made to Executive Directors in respect of annual bonus are outstanding:

Name	Year granted	Market price on date of grant (pence)	Option price (pence) if any	Held at 1 January 2018	Granted during the year	Exercised during the year	Lapsed during the year	Held at 31 December 2018	Exercisable between
Ian Hawksworth[1]	2015	402.93	Nil	94,557	–	–	–	94,557	2018 – 2025
Ian Hawksworth	2016	315.30	Nil	121,116	–	–	–	121,116	2019 – 2026
Gary Yardley[1]	2013	268.10	Nil	102,998	–	–	–	102,998	2016 – 2023
Gary Yardley[1]	2014	351.93	Nil	88,767	–	–	–	88,767	2017 – 2024
Gary Yardley[1]	2015	402.93	Nil	81,279	–	–	–	81,279	2018 – 2025
Gary Yardley	2016	315.30	Nil	104,662	–	–	–	104,662	2019 – 2026
Total				593,379				593,379	

1. *Vested but unexercised*

(ii) Matched deferred shares[1]

The following matching awards made to Executive Directors following their award of deferred bonus are outstanding:

Name	Year granted	Market price on date of grant (pence)	Option price (pence) if any	Held at 1 January 2018	Granted during the year	Exercised during the year	Lapsed during the year	Held at 31December 2018	Exercisable between
Ian Hawksworth	2015	402.93	Nil	94,557	–	–	94,557	–	2018 – 2025
Ian Hawksworth	2016	315.30	Nil	121,116	–	–	–	121,116	2019 – 2026
Gary Yardley[2]	2013	268.10	Nil	76,538	–	–	–	76,538	2016 – 2023
Gary Yardley	2015	402.93	Nil	81,279	–	–	81,279	–	2018 – 2025
Gary Yardley	2016	315.30	Nil	104,662	–	–	–	104,662	2019 – 2026
Total				478,152				302,316	

1. *Subject to performance conditions that apply to awards made under the Former PSP and Former MSP, as set out on page 76*
2. *Vested but unexercised*

(iii) Matching of Directors' co-investment[1]

The following matching awards made to Executive Directors following their co-investment in ordinary shares in the Company are outstanding:

Name	Year granted	Option price (pence) if any	Held at 1 January 2018	Granted during the year	Exercised during the year	Lapsed during the year	Held at 31 December 2018	Exercisable between
Ian Hawksworth	2016	Nil	365,556	–	–	–	365,556	2019 – 2026
Gary Yardley[2]	2013	Nil	73,963	–	–	–	73,963	2016 – 2023
Gary Yardley	2015	Nil	152,788	–	–	152,788	–	2018 – 2025
Gary Yardley	2016	Nil	149,169	–	–	–	149,169	2019 – 2026
Total			741,476				588,688	

1. *Subject to performance conditions set out on page 76.*
2. *Vested but unexercised.*

The market price of Capital & Counties Properties PLC shares on 31 December 2018 (being the last day for trading during the year) was 231.1 pence and during the year the price varied between 226.3 pence and 319.9 pence. No share options were exercised by Executive Directors during the year.

This Remuneration Report has been approved for issue by the Board of Directors on 26 February 2019.

Charlotte Boyle
Chair of the Remuneration Committee

DIRECTORS' REPORT

The Directors present their Annual Report and the audited consolidated financial statements for the year ended 31 December 2018.

STRATEGIC REPORT

The Group's 2018 Strategic Report, which includes a review of the Group's business during the financial year, the Group's position at year end and a description of the principal risks and uncertainties facing the Group, comprises the following sections of the Annual Report:

COMPANY'S LISTINGS

The Company has a primary listing on the London Stock Exchange and a secondary listing on the Johannesburg Stock Exchange. For the purposes of its listing on the Johannesburg Stock Exchange, the Company maintains an overseas branch register in South Africa.

DIRECTORS

The Directors of the Company who held office during the year and up to the date of signing the financial statements were as follows:

Chairman:

Henry Staunton (appointed 5 June 2018)

Executive Directors:

Ian Hawksworth

Situl Jobanputra

Gary Yardley

Non-executive Directors:

Charlotte Boyle

Graeme Gordon

Gerry Murphy

Anthony Steains

Andrew Strang

Former Director:

Ian Durant (retired 5 June 2018)

Biographies of each Director can be found on pages 50 and 51 and details of each Director's interests in the Company's shares are set out on page 80.

The powers of the Directors are determined by UK legislation and the Company's Articles of Association, together with any specific authorities that shareholders may approve from time to time.

The rules governing the appointment and replacement of Directors are contained in the Company's Articles and UK legislation. In compliance with the 2018 UK Corporate Governance Code, with the exception of Graeme Gordon, all the Directors will retire from office and will offer themselves for election or re-election at the 2019 Annual General Meeting.

COMPENSATION FOR LOSS OF OFFICE

The Company does not have any agreements with any Executive Director or employee that would provide compensation for loss of office or employment resulting from a takeover except that provisions of the Company share schemes may cause share options and awards to vest on a takeover.

DIRECTORS' CONFLICTS OF INTEREST

The Company has procedures for the management of conflicts of interest in place. Should a Director become aware that they, or a connected party, have an interest in an existing or proposed transaction with the Group, they should notify the Company Secretary before the next meeting or at the meeting. Directors have a continuing obligation to notify any changes to their potential conflicts.

DIRECTORS' INDEMNITIES AND INSURANCE

In accordance with the Company's Articles, the Company has indemnified the Directors to the full extent allowed by law. The Company maintains Directors' and Officers' liability insurance, which is reviewed annually.

ARTICLES OF ASSOCIATION

Changes to the Articles of Association must be approved by shareholders in accordance with the Companies Act 2006.

DIVIDENDS

The Directors have proposed the following dividends:

Interim Dividend paid on 21 September 2018	0.5p per ordinary share
Proposed Final Dividend to be paid on 16 May 2019	1p per ordinary share
Total proposed dividend for 2018	1.5p per ordinary share

Subject to SARB approval, it is intended that a scrip dividend alternative be offered to shareholders in respect of the proposed final dividend for 2018. The proposed final dividend will be paid on 16 May 2019 to shareholders whose names are on the register at 12 April 2019.

CAPITAL STRUCTURE

Details of the Company's issued ordinary share capital, including details of movements in the issued share capital during the year, and authorities to issue or repurchase shares are shown in note 28 to the financial statements on page 126. Each share carries the right to one vote at general meetings of the Company. No shares were repurchased by the Company during the year.

There are no specific restrictions on the transfer of shares beyond those standard provisions set out in the Articles of Association. No shareholder holds shares carrying special rights with regard to control of the Company. Details of significant shareholdings are set out on page 84.

USE OF FINANCIAL INSTRUMENTS

Information on financial risk management objectives and policies, including hedging policies, and exposure of the Company in relation to the use of financial instruments, can be found in note 26 on pages 122 to 125.

CHANGE OF CONTROL PROVISIONS

There are a number of agreements which take effect, alter or terminate upon a change of control of the Company. The agreements that would be considered significant are the £705 million Covent Garden facility, the Covent Garden £150 million, £175 million and £225 million notes issued pursuant to the Private Placements, and the Lillie Square development joint venture.

Holder	Shares held at time of last notification	Per cent held at time of last notification	Nature of holding	Date of last notification
Foord Asset Management (Pty) Ltd	84,904,815	9.98%	Indirect interest	17 August 2018
BlackRock, Inc.	83,336,424	9.79%	Indirect interest	05 September 2018
Public Investment Corporation SOC Limited	68,038,672	8.00%	Direct interest	06 September 2018
STC International Limited and Novatrust Limited[1]	67,962,577	7.99%	Direct interest	14 January 2019
Norges Bank	66,816,704	7.90%	Direct interest	11 April 2017
Investec Asset Management (PTY) Ltd and Investec Asset Management Ltd	41,951,373	4.96%	Indirect interest	28 June 2016
Old Mutual plc	41,548,620	4.91%	Indirect interest	15 July 2016

1. *Shares were formerly disclosed within the Gordon Family Interests. Holding at 31 December 2018 was 73,347,465 (8.62%).*

SUBSTANTIAL SHAREHOLDINGS

The significant holdings of voting rights in the share capital of the Company notified and disclosed in accordance with Disclosure and Transparency Rule 5, as at 25 February 2019 being a date less than one month before the date of the Notice of Annual General Meeting (and where different 31 December 2018), are shown in the table above.

EMPLOYEES

Information on Group employees can be found on pages 43 and 44 and in note 7 on page 106.

THE ENVIRONMENT

Details of the Group's Corporate Responsibility Policy and its aims and activities are described on the Company's website www.capitalandcounties.com. An overview of the Group's CR activity is on pages 41 to 49.

The Group recognises the importance of minimising the adverse impact of its operations on the environment and the management of energy consumption and waste recycling.

The Company strives to improve its environmental performance. The environmental management system is regularly reviewed to ensure that the Company maintains its commitment to environmental matters.

LISTING RULES DISCLOSURES

The information required to be disclosed pursuant to LR 9.8.4R can be found in the following locations:

	Page
o Interest capitalised	107
o Non-pre-emptive issue of equity	126
o Interests in significant contracts	128

GOING CONCERN

As set out on page 40, the Directors have a reasonable expectation that the Company and the Group will have adequate resources to meet both ongoing and future commitments over a period of at least 12 months from the date of approval of the financial statements. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

DISCLOSURE TO AUDITORS

So far as the Directors are aware, there is no relevant audit information of which the auditors are unaware and each Director has taken all steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the auditors are aware of that information.

INDEPENDENT AUDITORS

The independent auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution seeking to reappoint them will be proposed at the forthcoming Annual General Meeting.

ANNUAL GENERAL MEETING

The 2019 Annual General Meeting of the Company will be held before 30 June 2019. The Notice of the Meeting, together with an explanation of the business to be dealt with at the Meeting, will be sent to shareholders who have elected to receive hard copies of shareholder information and will also be made available on the Company's website.

By Order of the Board.

Ruth Pavey
Company Secretary

26 February 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Parent Company financial statements in accordance with International Financial Reporting Standards ("IFRS") 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 and the Company for that period. In preparing the financial statements, the Directors are required to:

(a) select suitable accounting policies and then apply them consistently;

(b) make judgements and accounting estimates that are reasonable and prudent;

(c) state whether applicable IFRSs as adopted by the European Union ("EU") have been followed, subject to any material departures disclosed and explained in the financial statements; and

(d) prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and the Company's transactions and disclose, with reasonable accuracy at any time, the financial position of the Group and the Company and enable them to ensure that the financial statements and the Directors' 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 Group and the Company 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, whose names and functions are listed in the Governance section, confirm that, to the best of their knowledge:

– the Group and the 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 loss of the Group and performance of the Company;

– the Directors' report contained includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces; and

– having taken all matters considered by the Board and brought to the attention of the Board during the year into account, the Directors consider that the Annual Report & Accounts, taken as a whole, are fair, balanced and understandable. The Directors believe that the disclosures set out in the Annual Report & Accounts provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

The financial statements on pages 92 to 132 were approved by the Board of Directors on 26 February 2019 and signed on its behalf by

Ian Hawksworth
Chief Executive

Situl Jobanputra
Chief Financial Officer

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion, Capital & Counties Properties PLC's Group financial statements and Parent Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 and of the Group's loss and the Group's and the Parent Company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report & Accounts (the "Annual Report"), which comprise: the Group and Company balance sheets as at 31 December 2018; the Consolidated income statement and Consolidated statement of comprehensive income, the Group and Company statements of cash flows, and the Consolidated and Company statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

Other than those disclosed in the Audit Committee Report on pages 59 and 60, we have provided no non-audit services to the Group or the Parent Company in the period from 1 January 2018 to 31 December 2018.

Our audit approach

Overview

Materiality	– Overall Group materiality: £36.6 million (2017: £39.6 million) which represents 1 per cent of total assets. – Overall Parent Company materiality: £20.5 million (2017: £20.5 million) which represents 1 per cent of total assets. – For income statement line items that are deemed to be of particular relevance, we applied a lower materiality.
Audit scope	– We audited the complete financial information of the Group, which comprises three business lines, Covent Garden, Earls Court and Other.
Key audit matters	– Valuation of investment and development property – Taxation – We determined that there were no key audit matters applicable to the Parent Company to communicate in our report.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Group and the Parent Company and their industry, we considered risks of non-compliance with laws and regulations that might have a material effect on the financial statements, and identified the principal risks as relating to the Companies Act 2006 and the UK tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure, and management bias in accounting estimates and judgemental areas of the financial statements such as the valuation of investment and development property. Audit procedures performed by the Group engagement team included:

- Enquiries of management, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud, and review of internal audit reports;
- Testing the Group's whistleblowing helpline and enquiries of the Whistleblowing champion;
- Understanding management's internal controls designed to prevent and detect irregularities;
- Reviewing relevant meeting minutes, including those of the Board and the Audit Committee;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the valuation of investment and development property (see Key audit matters section);
- Review of tax compliance with the involvement of our tax specialists in the audit (see Key audit matters section);

- Identifying and testing journal entries, in particular manual journal entries posted during the preparation of the financial statements and journal entries posted with unusual account combinations;
- Review of financial statement disclosures to underlying supporting documentation;
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Valuation of investment and development property *Refer to pages 58 to 60 (Audit Committee Report), pages 98 to 102 (Principal Accounting Policies) and pages 98 to 132 (notes to the financial statements).* The valuation of the Group's investment and development property is the key component of the net asset value and underpins the Group's result for the year. The result of the revaluation this year was a loss of £146.1m (2017: loss of £90.9m), which is accounted for within 'Loss on revaluation and sale of investment and development property' and is a significant component of the result for the year. The Group's property portfolios, which comprise investment property (including retail, food and beverage, commercial and residential) as well as development property located in central London, are not uniform in nature. Therefore, there are a number of different assumptions made by the Group's third party valuers, JLL and CBRE Ltd (the "Valuers"), in determining fair value: – Investment property – The valuation of investment properties (predominantly Covent Garden) is inherently subjective, due principally to the individual nature of each property, which greatly influences the future rental it is expected to generate. The assumptions on which the property values are based are influenced by tenure and tenancy details for each property, prevailing market yields and the estimated rental value of each property. – Development property – The valuation of development property (predominantly Earls Court) is also inherently subjective. Development properties are valued using the residual appraisal method (i.e. by estimating the fair value of the completed project using either a sales comparison or income capitalisation method less estimated costs to completion, finance cost and market based profit margin providing a return on development risk). Macro-economic factors and uncertain market conditions impact the valuation of investment and development property. The fact that only a small percentage difference in individual property valuations, when aggregated, could result in a material misstatement, warrants specific audit focus on this area. The Valuers were engaged by the Directors, in accordance with the RICS Valuation – Professional Standards ("RICS").	*Experience of Valuers and relevance of their work* We read the Valuers' reports from CBRE Ltd and JLL. We confirmed that the approaches used were consistent with the RICS guidelines and the requirements of IFRSs as adopted by the European Union. We assessed the Valuers' competence and capabilities and read their terms of engagement with the Group, determining that there were no matters that affected their independence and objectivity or imposed scope limitations upon them. *Data provided to the Valuers* For investment and development properties, we validated a sample of the data provided to the Valuers by management and found that it was consistent with the information we audited. This data included tenancy schedules, capital expenditure details, cost schedules and square footage details which we agreed back to appropriate supporting documentation. For development properties, we agreed that the planned schemes being valued were consistent with the actual planned developments and, where appropriate, had achieved planning consents. *Assumptions and estimates used by the Valuers* We met with the Valuers independently of management and gained an understanding of the valuation methods and assumptions used. We compared the movement in capital values over the period with market sector benchmarks to help identify significant changes in assumptions. The nature of assumptions used varied across the portfolio, depending on the nature of each property but they included estimated capital values, investment yields, estimated rental values, construction costs, finance cost and developers' margins. In each of these areas, and on a sample basis, we compared the estimates and assumptions used by the Valuers against our own expectations, using evidence of comparable market transactions. Where we identified estimates and assumptions that were outside the typical ranges used, we discussed these with the Valuers to understand the rationale and then assessed, based on all the available evidence and our experience in this sector, whether the use of the estimate or assumption was justified. We have discussed with management and the Valuers alternative evidence available in relation to proposals for the potential sale of Earls Court, in order to ensure that this is appropriately considered when assessing the valuations.

Key audit matter	How our audit addressed the key audit matter
Valuation of investment and development property (continued)	Our testing, which involved the use of our internal real estate valuation experts, qualified chartered surveyors with deep market knowledge, indicated that the estimates and assumptions used were appropriate in the context of the Group's property portfolio and reflected the circumstances of the market in the year.
Taxation *Refer to page 58 to 60 (Audit Committee Report), page 98 to 102 (Principal Accounting Polices) and pages 98 to 132 (notes to the financial statements).* Tax is a specific risk for the Group due to the degree of judgement involved in some of the ongoing activities of the Group. This gives rise to material tax considerations on the calculation, recognition, and classification of current and deferred tax balances from both a tax compliance and accounting perspective. Judgements are made by management to arrive at the current and deferred tax position. These judgements include the impact of the Group holding structure.	We assessed the principal assumptions and judgements made in arriving at the current and deferred tax position by using our experience of similar matters in the industry. We evaluated the tax provisions and potential exposures as at 31 December 2018, challenging the Group's assumptions and judgements through our knowledge of the tax circumstances. Our testing, which involved the use of our internal tax specialists, did not identify any matters that the Directors have not adequately reflected in their calculation of the necessary current and deferred tax provisions.

We determined that there were no Key audit matters applicable to the Parent Company to communicate in our report.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Parent Company, the accounting processes and controls, and the industry in which they operate.

The Group is structured along three business lines, Covent Garden Earls Court Properties (including the Lillie Square joint venture) and Other. The Group engagement team audited all business lines.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent Company financial statements
Overall materiality	£36.6 million (2017: £39.6 million).	£20.5 million (2017: £20.5 million).
How we determined it	1 per cent of total assets.	1 per cent of total assets.
Rationale for benchmark applied	The key measure of the Group's performance is the valuation of investment and development properties and the balance sheet as a whole. On this basis, and consistent with the prior year, we set an overall Group materiality level based on total assets.	The Parent Company's main activity is the holding of investments in subsidiaries. On this basis, and consistent with the prior year, we set an overall Parent Company materiality level based on total assets.

In addition to overall Group materiality, a specific materiality was also applied to certain areas of the income statement. Our specific materiality is aligned with the metrics in the consolidated income statement that we believe are of particular interest to the members and we determined those metrics to be Net rental income and Net finance costs. In order to reflect their specific characteristics, we applied materiality levels of 10 per cent of Net rental income and 10 per cent of Finance costs to each constituent line item within Net rental income and Net finance costs.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1.8 million (2017: £1.9 million) on balance sheet items as well as misstatements below that amount based on a proportionate value of the relevant materiality figures for income statement line items and other matters that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Parent Company's ability to continue as a going concern over a period of at least 12 months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Parent Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and in common with other companies it is difficult to evaluate all of the potential implications on the Group's and Parent Company's business, clients, suppliers and the wider economy, in general terms.
We are required to report if the Directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report, Directors' Report and Corporate Governance Statement, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006, (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. *(CA06)*

In light of the knowledge and understanding of the Group and Parent Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. *(CA06)*

Corporate Governance Statement

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on pages 52 to 57) about internal controls and risk management systems in relation to financial reporting processes and about share capital structures in compliance with rules 7.2.5 and 7.2.6 of the Disclosure Guidance and Transparency Rules sourcebook of the FCA ("DTR") is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. *(CA06)*

In light of the knowledge and understanding of the Group and Parent Company and their environment obtained in the course of the audit, we did not identify any material misstatements in this information. *(CA06)*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on pages 52 to 57) with respect to the Parent Company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the DTR. *(CA06)*

We have nothing to report arising from our responsibility to report if a corporate governance statement has not been prepared by the Parent Company. *(CA06)*

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

We have nothing material to add or draw attention to regarding:

– The Directors' confirmation on page 85 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

– The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.

– The Directors' explanation on page 19 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and Parent Company and their environment obtained in the course of the audit. (Listing Rules)

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

– The statement given by the Directors, on page 85, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Parent Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Parent Company obtained in the course of performing our audit.

– The section of the Annual Report on pages 58 to 60 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

– The Directors' statement relating to the Parent Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. *(CA06)*

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 85, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Parent Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

OTHER REQUIRED REPORTING

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the Directors on 3 June 2010 to audit the financial statements for the year ended 31 December 2010 and subsequent financial periods. The period of total uninterrupted engagement is nine years, covering the years ended 31 December 2010 to 31 December 2018.

Jeremy Jensen (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

26 February 2019

Consolidated income statement

For the year ended 31 December 2018

	Note	**2018 £m**	2017 £m
Continuing operations			
Revenue	2	**83.5**	87.7
Rental income		**80.1**	80.0
Rental expenses		**(15.7)**	(13.1)
Net rental income	2	**64.4**	66.9
Profit on sale of trading property	3	**–**	0.9
Other income		**3.4**	3.8
Loss on revaluation and sale of investment and development property	4	**(146.1)**	(90.9)
Impairment of other receivables	5	**(23.2)**	(1.3)
Profit on sale of subsidiaries	6	**29.5**	–
		(72.0)	(20.6)
Administration expenses		**(42.5)**	(38.8)
Operating loss		**(114.5)**	(59.4)
Finance income	9	**0.3**	0.8
Finance costs	10	**(19.3)**	(19.9)
Other finance income	9	**12.0**	11.7
Change in fair value of derivative financial instruments	26	**2.2**	4.3
Net finance costs		**(4.8)**	(3.1)
Loss before tax		**(119.3)**	(62.5)
Current tax		**(2.2)**	(1.7)
Deferred tax		**(2.1)**	(5.0)
Taxation	11	**(4.3)**	(6.7)
Loss for the year from continuing operations		**(123.6)**	(69.2)
Discontinued operation			
Profit for the year from discontinued operation	12	**–**	6.1
Loss for the year		**(123.6)**	(63.1)
Loss attributable to:			
Owners of the Parent		**(56.9)**	(0.4)
Non-controlling interest	18	**(66.7)**	(62.7)
Earnings per share attributable to owners of the Parent[1]			
Basic and diluted loss per share	14	**(6.7)p**	(0.1)p
Earnings per share from continuing operations attributable to owners of the Parent[1]			
Basic and diluted loss per share	14	**(6.7)p**	(0.8)p
Weighted average number of shares	14	**850.8m**	850.4m

1 Earnings per share from discontinued operation are shown in note 14 'Earnings Per Share and Net Assets Per Share'.

Consolidated statement of comprehensive income
For the year ended 31 December 2018

	Note	2018 £m	2017 £m
Loss for the year		**(123.6)**	(63.1)
Total comprehensive expense for the year		**(123.6)**	(63.1)
Attributable to:			
Owners of the Parent		**(56.9)**	(0.4)
Non-controlling interest	18	**(66.7)**	(62.7)
Arising from:			
Continuing operations		**(123.6)**	(69.2)
Discontinued operation	12	**–**	6.1

Balance sheets

As at 31 December 2018

	Note	**Group 2018 £m**	Group 2017 £m	**Company 2018 £m**	Company 2017 £m
Non-current assets					
Investment and development property	15	**3,335.5**	3,645.7	**–**	–
Plant and equipment		**3.1**	4.6	**–**	–
Investment in Group companies	16	**–**	–	**516.4**	516.4
Investment in joint ventures	17	**17.3**	16.9	**–**	–
Derivative financial instruments	19	**0.7**	–	**–**	–
Deferred tax	27	**5.5**	7.8	**–**	–
Trade and other receivables	20	**222.8**	224.5	**–**	–
		3,584.9	3,899.5	**516.4**	516.4
Current assets					
Trade and other receivables	20	**38.3**	33.1	**1,537.8**	1,529.7
Cash and cash equivalents	21	**32.5**	28.6	**–**	–
		70.8	61.7	**1,537.8**	1,529.7
Assets classified as held for sale	15	**8.4**	–	**–**	–
		79.2	61.7	**1,537.8**	1,529.7
Total assets		**3,664.1**	3,961.2	**2,054.2**	2,046.1
Non-current liabilities					
Borrowings, including finance leases	23	**(616.5)**	(776.2)	**–**	–
Derivative financial instruments	19	**–**	(5.5)	**–**	–
Trade and other payables		**–**	(0.3)	**–**	–
		(616.5)	(782.0)	**–**	–
Current liabilities					
Borrowings, including finance leases	23	**(0.7)**	(0.7)	**–**	–
Other provisions		**(2.0)**	(2.0)	**–**	–
Tax liabilities		**(2.4)**	(1.8)	**–**	–
Trade and other payables	22	**(58.9)**	(69.1)	**(1.0)**	(0.3)
		(64.0)	(73.6)	**(1.0)**	(0.3)
Total liabilities		**(680.5)**	(855.6)	**(1.0)**	(0.3)
Net assets		**2,983.6**	3,105.6	**2,053.2**	2,045.8
Equity					
Share capital	28	**212.7**	212.2	**212.7**	212.2
Other components of equity		**2,523.5**	2,587.6	**1,840.5**	1,833.6
Equity attributable to owners of the Parent		**2,736.2**	2,799.8	**2,053.2**	2,045.8
Non-controlling interest	18	**247.4**	305.8	**–**	–
Total equity		**2,983.6**	3,105.6	**2,053.2**	2,045.8

The profit for the year attributable to shareholders of the Company is £13.3 million (2017: £18.1 million).

These consolidated financial statements have been approved for issue by the Board of Directors on 26 February 2019 and signed on its behalf by:

Ian Hawksworth
Chief Executive

Situl Jobanputra
Chief Financial Officer

Consolidated statement of changes in equity

For the year ended 31 December 2018

		Equity attributable to owners of the Parent								
Group	Note	**Share capital £m**	**Share premium £m**	**Merger reserve[1] £m**	**Share-based payment reserve £m**	**Other reserves £m**	**Retained earnings £m**	**Total £m**	**Non-controlling interest £m**	**Total equity £m**
Balance at 1 January 2017		211.5	215.1	425.8	6.1	(0.7)	1,947.2	2,805.0	368.2	3,173.2
Loss for the year		–	–	–	–	–	(0.4)	(0.4)	(62.7)	(63.1)
Total comprehensive expense for the year ended 31 December 2017		–	–	–	–	–	(0.4)	(0.4)	(62.7)	(63.1)
Transactions with owners										
Ordinary shares issued[2]	28	0.7	6.0	–	–	–	(0.5)	6.2	–	6.2
Dividends	13	–	–	–	–	–	(12.7)	(12.7)	–	(12.7)
Realisation of share-based payment reserve on issue of shares		–	–	–	(1.8)	–	1.6	(0.2)	–	(0.2)
Fair value of share-based payment	33	–	–	–	2.0	–	–	2.0	–	2.0
Realisation of cash flow hedge		–	–	–	–	0.1	–	0.1	–	0.1
Tax relating to share-based payment	27	–	–	–	–	–	(0.2)	(0.2)	–	(0.2)
Contribution from non-controlling interest		–	–	–	–	–	–	–	0.3	0.3
Total transactions with owners		0.7	6.0	–	0.2	0.1	(11.8)	(4.8)	0.3	(4.5)
Balance at 31 December 2017		**212.2**	**221.1**	**425.8**	**6.3**	**(0.6)**	**1,935.0**	**2,799.8**	**305.8**	**3,105.6**
Loss for the year		**–**	**–**	**–**	**–**	**–**	**(56.9)**	**(56.9)**	**(66.7)**	**(123.6)**
Total comprehensive expense for the year ended 31 December 2018		**–**	**–**	**–**	**–**	**–**	**(56.9)**	**(56.9)**	**(66.7)**	**(123.6)**
Transactions with owners										
Ordinary shares issued[2]	28	**0.5**	**4.5**	**–**	**–**	**–**	**(0.5)**	**4.5**	**–**	**4.5**
Dividends	13	**–**	**–**	**–**	**–**	**–**	**(12.7)**	**(12.7)**	**–**	**(12.7)**
Realisation of merger reserve		**–**	**–**	**(4.0)**	**–**	**–**	**4.0**	**–**	**–**	**–**
Realisation of share-based payment reserve on issue of shares		**–**	**–**	**–**	**(0.1)**	**–**	**–**	**(0.1)**	**–**	**(0.1)**
Fair value of share-based payment	33	**–**	**–**	**–**	**2.4**	**–**	**–**	**2.4**	**–**	**2.4**
Tax relating to share-based payment	27	**–**	**–**	**–**	**–**	**–**	**(0.8)**	**(0.8)**	**–**	**(0.8)**
Contribution from non-controlling interest		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**8.3**	**8.3**
Total transactions with owners		**0.5**	**4.5**	**(4.0)**	**2.3**	**–**	**(10.0)**	**(6.7)**	**8.3**	**1.6**
Balance at 31 December 2018		**212.7**	**225.6**	**421.8**	**8.6**	**(0.6)**	**1,868.1**	**2,736.2**	**247.4**	**2,983.6**

1 Represents non-qualifying consideration received by the Group following the share placing in May 2014 and previous share placements. The amounts taken to the merger reserve do not currently meet the criteria for qualifying consideration and therefore will not form part of distributable reserves as they form part of linked transactions.

2 Share premium includes £4.5 million (2017: £6.0 million) of ordinary shares issued relating to the bonus issued in lieu of cash dividends. Refer to note 13 'Dividends' for further information.

Statement of changes in equity
For the year ended 31 December 2018

Company	Note	Share capital £m	Share premium £m	Merger reserve[1] £m	Share-based payment reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2017		211.5	215.1	425.8	6.1	1,173.9	2,032.4
Profit for the year		–	–	–	–	18.1	18.1
Total comprehensive income for the year ended 31 December 2017		–	–	–	–	18.1	18.1
Transactions with owners							
Ordinary shares issued[2]	28	0.7	6.0	–	–	(0.5)	6.2
Dividends	13	–	–	–	–	(12.7)	(12.7)
Realisation of share-based payment reserve on issue of shares		–	–	–	(1.8)	1.6	(0.2)
Fair value of share-based payment	33	–	–	–	2.0	–	2.0
Total transactions with owners		0.7	6.0	–	0.2	(11.6)	(4.7)
Balance at 31 December 2017		**212.2**	**221.1**	**425.8**	**6.3**	**1,180.4**	**2,045.8**
Profit for the year		**–**	**–**	**–**	**–**	**13.3**	**13.3**
Total comprehensive income for the year ended 31 December 2018		**–**	**–**	**–**	**–**	**13.3**	**13.3**
Transactions with owners							
Ordinary shares issued[2]	28	**0.5**	**4.5**	**–**	**–**	**(0.5)**	**4.5**
Dividends	13	**–**	**–**	**–**	**–**	**(12.7)**	**(12.7)**
Realisation of merger reserve		**–**	**–**	**(4.0)**	**–**	**4.0**	**–**
Realisation of share-based payment reserve on issue of shares		**–**	**–**	**–**	**(0.1)**	**–**	**(0.1)**
Fair value of share-based payment	33	**–**	**–**	**–**	**2.4**	**–**	**2.4**
Total transactions with owners		**0.5**	**4.5**	**(4.0)**	**2.3**	**(9.2)**	**(5.9)**
Balance at 31 December 2018		**212.7**	**225.6**	**421.8**	**8.6**	**1,184.5**	**2,053.2**

1 Represents non-qualifying consideration received by the Group following the share placing in May 2014 and previous share placements. The amounts taken to the merger reserve do not currently meet the criteria for qualifying consideration as they form part of linked transactions.

2 Share premium includes £4.5 million (2017: £6.0 million) of ordinary shares issued relating to the bonus issued in lieu of cash dividends. Refer to note 13 'Dividends' for further information.

Statement of cash flows

For the year ended 31 December 2018

	Note	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Cash flows from operating activities					
Cash generated from operations	31	**7.8**	5.8	**9.0**	6.4
Interest paid		**(20.3)**	(18.4)	**–**	–
Interest received		**0.3**	0.6	**–**	–
Tax paid		**(2.2)**	(1.2)	**–**	–
Net cash (outflow)/inflow from continuing operating activities		**(14.4)**	(13.2)	**9.0**	6.4
Net cash inflow from discontinued operating activities	12	**–**	7.6	**–**	–
Net cash (outflow)/inflow from operating activities		**(14.4)**	(5.6)	**9.0**	6.4
Cash flows from investing activities					
Purchase and development of property		**(84.8)**	(211.2)	**–**	–
Sale of property		**20.9**	17.1	**–**	–
Investment in joint venture		**(0.4)**	(1.9)	**–**	–
Investment in subsidiary undertaking	16	**–**	–	**(0.9)**	–
Sale of discontinued operation	12	**(0.3)**	226.0	**–**	–
Sale of subsidiaries[1]		**250.7**	(4.5)	**–**	–
Loan advances (to)/from joint ventures		**(1.8)**	15.2	**–**	–
Net cash inflow/(outflow) from continuing investing activities		**184.3**	40.7	**(0.9)**	–
Net cash outflow from discontinued investing activities	12	**–**	(2.4)	**–**	–
Net cash inflow/(outflow) from investing activities		**184.3**	38.3	**(0.9)**	–
Cash flows from financing activities					
Issue of shares		**0.1**	0.3	**0.1**	0.3
Borrowings drawn	23	**22.8**	558.7	**–**	–
Borrowings repaid	23	**(185.0)**	(575.5)	**–**	–
Purchase and repayment of derivative financial instruments		**(4.0)**	(4.1)	**–**	–
Other finance costs		**–**	(2.0)	**–**	–
Cash dividends paid	13	**(8.2)**	(6.7)	**(8.2)**	(6.7)
Contribution from non-controlling interest		**8.3**	0.3	**–**	–
Transactions with discontinued operation[2]		**–**	5.4	**–**	–
Net cash outflow from continuing financing activities		**(166.0)**	(23.6)	**(8.1)**	(6.4)
Net cash outflow from discontinued financing activities	12	**–**	(5.4)	**–**	–
Net cash outflow from financing activities		**(166.0)**	(29.0)	**(8.1)**	(6.4)
Net increase in cash and cash equivalents		**3.9**	3.7	**–**	–
Unrestricted cash and cash equivalents at 1 January		**28.6**	24.9	**–**	–
Unrestricted cash and cash equivalents at 31 December	21	**32.5**	28.6	**–**	–

1 Sale of subsidiaries includes £248.9 million relating to the sale of the Empress State Building and £1.8 million (2017: £0.5 million) relating to deferred consideration on the disposal of The Brewery by EC&O Limited on 9 February 2012. The 2017 comparative also includes cash outflows of £5.0 million related to additional costs on the loss of control of former subsidiary Lillie Square GP Limited in 2012.

2 Relates to transactions between the Group's treasury function and discontinued operations. The Group operates a central treasury function which manages and monitors the Group's cash balances.

1 PRINCIPAL ACCOUNTING POLICIES

General information

Capital & Counties Properties PLC (the "Company") was incorporated and registered in England and Wales on 3 February 2010 under the Companies Act as a public company limited by shares, registration number 7145051. The registered office of the Company is 15 Grosvenor Street, London, W1K 4QZ, United Kingdom. The principal activity of the Company is to act as the ultimate parent company of Capital & Counties Properties PLC Group (the "Group"), whose principal activity is the investment, development and management of property.

The Group's assets principally comprise investment and development property at Covent Garden and Earls Court.

Basis of preparation

The Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union, IFRS Interpretations Committee ("IFRS IC") interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The consolidated financial statements have been prepared under the historical cost convention as modified for the revaluation of property and derivative financial instruments.

The Directors have taken advantage of the exemption offered by section 408 of the Companies Act 2006 not to present a separate income statement or statement of comprehensive income for the Company.

During 2018, the following accounting standards and interpretations have been adopted by the Group:

IFRS 2 'Share-based Payment' (amendment)
IFRS 9 'Financial Instruments'
IFRS 15 'Revenue from Contracts with Customers'
IAS 40 'Investment Property' (amendment)
Amendments to IFRS (Annual improvements cycle 2014-2016)

IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' were adopted by the Group from 1 January 2018. The standards have been applied in full, with the exemption of comparative periods as permitted under IFRS 1.

The Group has made changes to its accounting policies however the adoption did not have a material impact on the consolidated financial statements of the Group.

IFRS 9 'Financial Instruments' modifies the classification and measurement of financial assets and financial liabilities, impairment provisioning and hedge accounting. There is no change to the Group in respect of classification of financial assets and liabilities and hedge accounting. All Group financial assets have been assessed for impairments under the 12 month and lifetime expected credit loss models considered by IFRS 9.

In relation to IFRS 15 'Revenue from Contracts with Customers', the Group's material revenue stream relates to property rental income. On the adoption of the standard this revenue stream was not materially impacted due to property rental income not being within the scope of IFRS 15. The impact on all other revenue streams is not material.

At the date of approval of the consolidated financial statements the following standards and interpretations which have not been applied in these financial statements were in issue but not effective, and in some cases have not been adopted for use in the European Union:

IFRS 3 'Business combinations' (amendment)
IFRS 9 'Financial Instruments' (amendment)
IFRS 16 'Leases'
IAS 1 'Presentation of financial statements' (amendment)
IAS 8 'Accounting policies, changes in accounting estimates and errors' (amendment)
IAS 19 'Employee benefits' (amendment)
IAS 28 'Investments in associates' (amendment)
Amendments to IFRS (Annual improvements cycle 2015-2017)

As the Group is predominantly a lessor, IFRS 16 'Leases' will not have a material impact on adoption. Where the Group is currently a lessee, this relates only to immaterial contracts.

A summary of the Group's principal accounting policies, which have been applied consistently across the Group is set out below.

Going concern

The Directors are satisfied that the Group and Company has adequate resources to continue in operational existence for a period of at least 12 months from the date of approval of the financial statements and for this reason the consolidated financial statements have been prepared on a going concern basis.

Basis of consolidation

These consolidated financial statements include the consolidation of the following limited partnerships: Capital & Counties CGP, Capco CGP 2012 LP, CG Investments 2016 LP, EC Properties LP, Innova Investment Group Holdings LP and The Empress State LP (up until disposal on 26 March 2018). The members of these qualifying partnerships have taken advantage of exemptions available in Statutory Instrument 2008/569 and therefore will not produce consolidated accounts at the partnership level.

The consolidated financial statements are prepared in British pounds sterling, which is also determined to be the functional currency of the Parent.

Subsidiaries

Subsidiaries are fully consolidated from the date on which the Group has control, it is exposed, or has rights, to variable returns from its involvement with an entity and has the ability to affect those returns through its power over an entity. Subsidiaries cease to be consolidated from the date this control is lost.

Non-controlling interests are recognised on the basis of their proportionate share in the recognised amounts of a subsidiary's identifiable net assets. On the balance sheet non-controlling interests are presented separately from the equity of the owners of the Parent. Profit or loss and total comprehensive income or expense for the period attributable to non-controlling interests are presented separately in the income statement and the statement of comprehensive income.

Critical accounting judgements and key sources of estimation and uncertainty

The preparation of consolidated financial statements in accordance with IFRS requires the Directors to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, equity, income and expenses from sources not readily apparent. Although these estimates and assumptions are based on management's best knowledge of the amount, historical experiences and other factors, actual results ultimately may differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period.

1 PRINCIPAL ACCOUNTING POLICIES CONTINUED

Critical accounting judgements and key sources of estimation and uncertainty continued

The significant areas of estimation and uncertainty are:

Property valuation: The most significant area of estimation and uncertainty in the consolidated financial statements is in respect of the valuation of the property portfolio, where external valuations are obtained. The valuation of the Group's property portfolio is inherently subjective due to the assumptions as outlined within note 15 'Property Portfolio' and this subjectivity may result in a material adjustment to the carrying amounts of the assets and liabilities year on year. 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 and could therefore have a material effect on the Group's financial performance and position. The key unobservable inputs used in the valuation models and a sensitivity analysis for each are disclosed on page 115.

The key areas of accounting judgement are:

Property classification: Judgement is required in the classification of property between investment and development, trading and owner occupied. Management considers each property separately and reviews factors including the long-term intention for the property, in determining if trading, and the level of ancillary income, in determining if owner occupied, to ensure the appropriate classification.

Other less significant judgements and sources of estimation and uncertainty relate to revenue recognition, significant disposals, provisions, share-based payment and contingent liabilities.

Operating segments

Management has determined the operating segments with reference to reports on divisional financial performance and position that are regularly reviewed by the Executive Directors, who are deemed to be the chief operating decision makers.

Revenue recognition

Rent receivable consists of gross income calculated on an accruals basis, together with services where the Group acts as principal in the ordinary course of business, excluding sales of property. Rental income is spread evenly over the period from lease commencement to lease expiry.

Tenant lease incentive payments, and in certain instances surrender premium payments which are directly linked to new leases, are amortised on a straight-line basis over the lease terms as a reduction in net rental income. Surrender premiums received for early termination of leases are reflected in net rental income.

Contingent rents, being those lease payments that are not fixed at the inception of a lease, for example increases arising on rent reviews, are recorded as income in the periods in which they are earned.

Where the outcome of an outstanding rent review is reasonably certain, rent is accrued from the review date based upon an estimated annual rent. Estimates are derived from knowledge of market rents for comparable properties determined on an individual property basis and updated for progress of negotiations.

Where revenue is obtained by the sale of property, it is recognised when the buyer obtains control of the property. This will normally take place on legal completion. Revenue arising from the sale of property under construction is recognised on completion once all performance obligations have been completed and control of the property has been transferred to the buyer.

Other income

Other income includes management fees charged to joint ventures for services associated with the management of properties and other general expenses as defined by management agreements.

Interest income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate.

Foreign currencies

Transactions in currencies other than the Group's functional currency are recorded at the exchange rate prevailing at the transaction date. Foreign exchange gains and losses resulting from settlement of these transactions and from retranslation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement except for differences arising on the retranslation of available-for-sale investments which are recognised in other comprehensive income.

Income taxes

Current tax is the amount payable on the taxable income for the year and any adjustment in respect of prior years. It is calculated using rates that have been enacted or substantially enacted by the balance sheet date.

In accordance with IAS 12 'Income Taxes', deferred tax is provided for using the balance sheet liability method on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases of those assets and liabilities. However, temporary differences are not recognised to the extent that they arise from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting nor taxable profit or loss; or are associated with investments in subsidiaries, joint ventures and associates where the timing of the reversal of the temporary difference can be controlled by the parent, venture or investor, respectively, and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that management believes it is probable that future taxable profit will be available against which the deferred tax assets can be recovered. Deferred tax assets and liabilities are only offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same tax authority on either the same taxable group or different taxable entities where there is an intention to settle balances on a net basis.

Tax is included in the income statement except when it relates to items recognised in other comprehensive income or directly in equity, in which case the related tax is also recognised in other comprehensive income or directly in equity respectively.

Discontinued operation

A discontinued operation is a component of the Group's business that represents a separate major line of the business that has been disposed of or is classified as held for sale. Discontinued operations are presented separately from continuing operations in both the income statement and statement of cash flows.

Share-based payment

The cost of granting share options and other share-based remuneration to employees and Directors is recognised through the income statement with reference to the fair value of the instrument at the date of grant.

The income statement is charged over the vesting period of the options with a corresponding increase in equity. An option pricing model is used applying assumptions around expected yields, forfeiture rates, exercise price and volatility.

Upon eventual exercise, a reserves transfer occurs with no further charge reflected in the income statement.

Own shares held in connection with employee share plans and other share-based payment arrangements are treated as treasury shares and deducted from equity.

1 PRINCIPAL ACCOUNTING POLICIES CONTINUED

Investment and development property

Investment and development property is owned or leased by the Group and held for long-term rental income and capital appreciation.

The Group has chosen to use the fair value model. Property and any related obligations are initially recognised when the significant risks and rewards attached to the property have transferred to the Group. Payments made in respect of the future acquisition of investment and development property, as is the case for the CLSA, are initially recognised as prepayments until the recognition criteria outlined above have been met. Investment and development property is recorded at cost and subsequently revalued at the balance sheet date to fair value as determined by professionally qualified external valuers on the basis of market value.

The fair value of property is arrived at by adjusting the market value as above for directly attributable tenant lease incentives and fixed head leases.

Property held under leases is stated gross of the recognised finance lease liability.

The valuation is based upon assumptions as outlined within the property portfolio note. These assumptions conform with the Royal Institution of Chartered Surveyors ("RICS") Valuation Professional Standards. The cost of properties includes capitalised interest and other directly attributable outgoings associated with developments and refurbishments, including surrender premiums paid to remove existing tenants to allow for redevelopment, with the exception of properties and land where no development is imminent in which case no interest is included. Interest is capitalised (before tax relief) on the basis of the weighted average cost of debt outstanding until the date of practical completion.

When the Group redevelops a property for continued future use, that property is classified as investment and development property during the redevelopment period and continues to be measured at fair value.

Gains or losses arising from changes in the fair value of investment and development property are recognised in the income statement in the period in which they arise. Depreciation is not provided in respect of investment property including plant and equipment integral to such investment property. Investment and development properties cease to be recognised as investment and development property when they have been disposed of or when they cease to be held for the purpose of generating rental income or for capital appreciation.

Disposals are recognised on completion. Gains or losses arising are recognised in the income statement. The gain on disposal is determined as the difference between the net sales proceeds and the carrying amount of the asset at the commencement of the accounting period plus capital expenditure in the period.

A property ceases to be recognised as investment and development property and is transferred at its fair value to trading property when in the Directors' judgement, development commences with the intention of sale. Criteria considered in this assessment include the Board's stated intention, contractual commitments and physical, legal and financial viability.

When the use of a property changes from trading property to investment and development property, the property is transferred at fair value with any resulting gain recognised in the income statement.

Trading property

Trading property comprises those properties that in the Directors' view are not held for long-term rental income or capital appreciation and are expected to be disposed of within one year of the balance sheet date or to be developed with the intention to sell.

Such property is constructed, acquired, or if transferred from investment and development property, transferred at fair value which is deemed to represent cost. Subsequently trading property is carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling costs. Net realisable value approximates market value as determined by professionally qualified external valuers at the balance sheet date.

The amount of any write down of trading property to market value is recognised as an expense in the period the write down occurs. Should a valuation uplift occur in a subsequent period, the amount of any reversal shall be recognised as a reduction in the previous write down in the period in which the uplift occurs. This may not exceed the property's cost.

The sale of trading property is recognised as revenue when the buyer obtains control of the property. Total costs incurred in respect of trading property are recognised simultaneously as an expense.

Leases

Leases are classified according to the substance of the transaction.

A lease that transfers substantially all the risks and rewards of ownership to the lessee is classified as a finance lease. All other leases are classified as operating leases.

Group as a lessee:

In accordance with IAS 40 'Investment Property', property held under finance and operating leases may be accounted for as investment property. Finance leases are recognised as both an asset and an obligation to pay future minimum lease payments. The investment property asset is included in the balance sheet at the lower of fair value and the present value of minimum lease payments, gross of the recognised finance lease liability. Lease payments are allocated between the liability and finance charges so as to achieve a constant financing rate.

Other finance leased assets are capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments and depreciated over the shorter of the lease term and the useful life of the asset.

Rental expenses under operating leases are charged to the income statement on a straight-line basis over the lease term.

Plant and equipment

Plant and equipment consist of fixtures, fittings and other office equipment. Plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes the original purchase price of the asset plus any attributable cost in bringing the asset to its working condition for its intended use. Depreciation is charged to the income statement on a straight-line basis over an asset's estimated useful life. Currently, the maximum life of the Group's plant and equipment is five years.

Investment in Group companies

Investment in Group companies, which eliminates on consolidation, is stated in the Company's separate financial statements at cost less impairment losses, if any. Impairment losses are determined with reference to the investment's fair value less estimated selling costs. Fair value is derived from the subsidiary's, and their subsidiaries', net assets at the balance sheet date. On disposal, the difference between the net disposal proceeds and its carrying amount is included in the income statement.

1 PRINCIPAL ACCOUNTING POLICIES CONTINUED

Investment in joint ventures

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. Investments in joint ventures are accounted for using the equity method. On initial recognition the investment is recognised at cost, and the carrying amount is subsequently increased or decreased to recognise the Group's share of the profit or loss of the joint venture after the date of acquisition. Goodwill, if any, on acquisition is included in the carrying amount of the investment.

The Group's investment in joint ventures is presented separately on the balance sheet and the Group's share of the joint venture's post-tax profit or loss for the period is also presented separately in the income statement.

Where there is an indication that the Group's investment in joint ventures may be impaired the Group evaluates the recoverable amount of its investment, being the higher of the joint venture's fair value less costs to sell and value in use. If the recoverable amount is lower than the carrying value an impairment loss is recognised in the income statement.

If the Group's share of losses in a joint venture equals or exceeds its investment in the joint venture, the Group does not recognise further losses, unless it has legal or constructive obligations to make payments on behalf of the joint venture.

Derivative financial instruments

The Group uses non-trading derivative financial instruments to manage exposure to interest rate risk. They are initially recognised on the trade date at fair value and subsequently remeasured at fair value based on market price. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Instruments that have not been designated as qualifying for hedge accounting are classified as held for trading. Changes in fair value of these instruments are recognised directly in the income statement.

The Group designates certain derivatives as hedges of a highly probable forecast transaction (cash flow hedge). For hedging instruments, the Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost. The methodology for assessment of impairment is defined in the following paragraph.

Impairment of financial assets

The Group applies the IFRS 9 'Financial Instruments' simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all financial assets. To measure the expected credit losses, receivables are reviewed on an individual contract basis. The expected loss rates are based on historical evidence of collection. The historical loss rates are adjusted to reflect current and future information such as estimated future cash flows or by using fair value where this is available through observable market prices and review of macroeconomic factors which may affect the counterparty's ability to settle the receivables. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the original impairment was recognised, the impairment reversal is recognised in the income statement on a basis consistent with the original charge.

Cash and cash equivalents

Cash and cash equivalents are recognised at fair value. Cash and cash equivalents comprise cash on hand, deposits with banks and other short-term highly liquid investments with original maturities of three months or less.

Trade and other payables

Trade payables are obligations for goods or services acquired in the ordinary course of business. Trade and other payables are recognised at fair value and subsequently measured at amortised cost until settled.

Deposits

Property deposits and on account receipts are held within trade and other payables.

Provisions

Provisions are recognised when the Group has a current obligation arising from a past event and it is probable that the Group will be required to settle the obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date.

Borrowings

Borrowings are ordinarily recognised initially at their net proceeds as an approximation of fair value.

If the transaction price is not an approximation of fair value at initial recognition, the Group determines the fair value as evidenced by a quoted price in an active market for an identical instrument or based on a valuation technique that uses data from observable markets. Where equity holders of the Group are party to the transaction the difference between the net proceeds and fair value is recognised within equity. Borrowings are subsequently carried at amortised cost. Any transaction costs, premiums or discounts are capitalised and recognised over the contractual life of the loan using the effective interest rate method; or on a straight-line basis where it is impractical to do so.

In the event of early repayment, transaction costs, premiums or discounts paid or unamortised costs are recognised immediately in the income statement.

Pensions

The costs of the defined contribution scheme and the Group's personal pension plans are charged against profits or losses in the year in which they fall due.

1 PRINCIPAL ACCOUNTING POLICIES CONTINUED

Contingent liabilities and capital commitments

Contingent liabilities are disclosed where there are present or possible obligations arising from past events, but the economic impact is uncertain in timing, occurrence or amount. A description of the nature and, where possible, an estimate of the financial effect of contingent liabilities are disclosed.

Capital commitments are disclosed when the Group has a contractual future obligation which has not been provided for at the balance sheet date. Amounts are only provided for where such obligations are onerous.

Share capital

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

2 SEGMENTAL REPORTING

Management has determined the operating segments based on reports reviewed by the Executive Directors, who are deemed to be the chief operating decision makers. The principal performance measures have been identified as net rental income and net asset value.

For management and reporting purposes the Group is organised into three divisions:

- Covent Garden;
- Earls Court Properties represents the Group's interests in the Earls Court area, comprising properties held in ECPL, Lillie Square, the Empress State Building (up until disposal on 26 March 2018) and a number of smaller properties in the Earls Court area; and
- Other comprises Innova, the discontinued activity of Venues (up until disposal on 7 April 2017) and The Great Capital Partnership, other head office companies and investments, including the payment of internal rent.

Management information is reported to the chief operating decision makers on a Group share basis. Outlined below is the Group share by segment:

Segment	Group share
Covent Garden	**100%**
Earls Court Properties	
ECPL	**63%**
Lillie Square	**50%**
Empress State[1]	**0%**
Other	**100%**
Other	
Innova	**50%**
GCP	**50%**
Venues[2]	**0%**
Other	**100%**

1 Empress State was 100 per cent owned until 26 March 2018. Subsequent to this the Group share ownership is nil.

2 Venues was 100 per cent owned until 7 April 2017. Subsequent to this the Group share ownership is nil.

Segmental reporting has been presented in line with management information and therefore consolidation adjustments are presented to reconcile segmental performance and position to the IFRS total.

The Group's operating segments derive their revenue primarily from rental income from lessees.

Unallocated expenses consist primarily of costs incurred centrally which are neither directly nor meaningfully attributable to individual segments.

2 SEGMENTAL REPORTING CONTINUED

Reportable segments

Continuing operations	2018 Covent Garden £m	Earls Court Properties £m	Other £m	Group total £m	Consolidation adjustments £m	IFRS total £m
Rental income	71.3	7.9	–	79.2	0.9	80.1
Proceeds from sale of trading property	–	31.0	–	31.0	(31.0)	–
Other income	–	–	1.8	1.8	1.6	3.4
Revenue	71.3	38.9	1.8	112.0	(28.5)	83.5
Rent receivable	66.9	6.7	–	73.6	0.9	74.5
Service charge income	4.4	1.2	–	5.6	–	5.6
Rental income	71.3	7.9	–	79.2	0.9	80.1
Rental expenses[1]	(13.8)	(1.6)	(0.3)	(15.7)	–	(15.7)
Net rental income/(expense)	57.5	6.3	(0.3)	63.5	0.9	64.4
Profit on sale of trading property	–	6.7	–	6.7	(6.7)	–
Other income	–	–	1.8	1.8	1.6	3.4
Gain/(loss) on revaluation and sale of investment and development property	39.4	(118.2)	–	(78.8)	(67.3)	(146.1)
Impairment of other receivables	–	(3.8)	–	(3.8)	(19.4)	(23.2)
Profit on sale of subsidiaries	–	29.5	–	29.5	–	29.5
Write down of trading property	–	(0.5)	–	(0.5)	0.5	–
Segment profit/(loss)	96.9	(80.0)	1.5	18.4	(90.4)	(72.0)
Unallocated costs:						
Administration expenses				(41.6)	(0.9)	(42.5)
Operating loss				(23.2)	(91.3)	(114.5)
Net finance costs[2]				(17.1)	12.3	(4.8)
Loss before tax				(40.3)	(79.0)	(119.3)
Taxation				(4.3)	–	(4.3)
Loss for the year from continuing operations				(44.6)	(79.0)	(123.6)
Loss attributable to:						
Owners of the Parent				(44.6)	(12.3)	(56.9)
Non-controlling interest				–	(66.7)	(66.7)
Summary balance sheet						
Total segment assets[3]	2,642.7	751.3	40.9	3,434.9	205.2	3,640.1
Total segment liabilities[3]	(603.8)	(98.0)	(8.6)	(710.4)	29.9	(680.5)
Segmental net assets	2,038.9	653.3	32.3	2,724.5	235.1	2,959.6
Unallocated assets[2]				24.0	–	24.0
Net assets				2,748.5	235.1	2,983.6
Other segment items:						
Depreciation	(0.4)	(1.2)	(0.2)	(1.8)	(0.1)	(1.9)
Capital expenditure	(60.3)	(49.6)	–	(109.9)	24.6	(85.3)

1 Comprises service charge and other non-recoverable costs.

2 The Group operates a central treasury function which manages and monitors the Group's finance income and costs on a net basis and the majority of the Group's cash balances.

3 Total segmental assets and total segmental liabilities exclude loans between and investments in Group undertakings.

2 SEGMENTAL REPORTING CONTINUED

Reportable segments

Continuing operations	Covent Garden £m (2017)	Earls Court Properties £m (2017)	Other £m (2017)	Group total £m (2017)	Consolidation adjustments £m (2017)	IFRS total £m (2017)
Rental income	61.8	18.5	(0.5)	79.8	0.2	80.0
Proceeds from sale of trading property	3.9	95.1	–	99.0	(95.1)	3.9
Other income	–	–	2.3	2.3	1.5	3.8
Revenue	65.7	113.6	1.8	181.1	(93.4)	87.7
Rent receivable	57.7	18.2	(0.5)	75.4	0.5	75.9
Service charge income	4.1	0.3	–	4.4	(0.3)	4.1
Rental income	61.8	18.5	(0.5)	79.8	0.2	80.0
Rental expenses[1]	(12.9)	(0.7)	–	(13.6)	0.5	(13.1)
Net rental income/(expense)	48.9	17.8	(0.5)	66.2	0.7	66.9
Profit on sale of trading property	0.9	13.6	–	14.5	(13.6)	0.9
Other income	–	–	2.3	2.3	1.5	3.8
Gain/(loss) on revaluation and sale of investment and development property	93.4	(121.4)	–	(28.0)	(62.9)	(90.9)
Write down of trading property	–	(0.6)	–	(0.6)	0.6	–
Impairment of other receivables	–	–	–	–	(1.3)	(1.3)
Segment profit/(loss)	143.2	(90.6)	1.8	54.4	(75.0)	(20.6)
Unallocated costs:						
Administration expenses				(38.7)	(0.1)	(38.8)
Operating profit/(loss)				15.7	(75.1)	(59.4)
Net finance costs[2]				(15.5)	12.4	(3.1)
Profit/(loss) before tax				0.2	(62.7)	(62.5)
Taxation				(6.7)	–	(6.7)
Loss for the year from continuing operations				(6.5)	(62.7)	(69.2)
Discontinued operation						
Profit for the year from discontinued operation				6.1	–	6.1
Loss for the year				(0.4)	(62.7)	(63.1)
Loss attributable to:						
Owners of the Parent				(0.4)	–	(0.4)
Non-controlling interest				–	(62.7)	(62.7)
Summary balance sheet						
Total segment assets[3]	2,565.4	1,056.0	40.8	3,662.2	275.7	3,937.9
Total segment liabilities[3]	(773.5)	(103.1)	(9.1)	(885.7)	30.1	(855.6)
Segmental net assets	1,791.9	952.9	31.7	2,776.5	305.8	3,082.3
Unallocated assets[2]				23.3	–	23.3
Net assets				2,799.8	305.8	3,105.6
Other segment items:						
Depreciation	(0.3)	(1.5)	(0.3)	(2.1)	0.2	(1.9)
Capital expenditure	(177.3)	(56.2)	(0.1)	(233.6)	15.2	(218.4)

1 Comprises service charge and other non-recoverable costs.

2 The Group operates a central treasury function which manages and monitors the Group's finance income and costs on a net basis and the majority of the Group's cash balances.

3 Total segmental assets and total segmental liabilities exclude loans between and investments in Group undertakings.

3 PROFIT ON SALE OF TRADING PROPERTY

Continuing operations	2018 £m	2017 £m
Proceeds from the sale of trading property	–	3.9
Cost of sale of trading property	–	(2.9)
Agent, selling and marketing fees	–	(0.1)
Profit on sale of trading property	**–**	0.9

4 LOSS ON REVALUATION AND SALE OF INVESTMENT AND DEVELOPMENT PROPERTY

Continuing operations	2018 £m	2017 £m
Loss on revaluation of investment and development property	**(148.2)**	(90.8)
Gain/(loss) on sale of investment and development property	**2.1**	(0.1)
Loss on revaluation and sale of investment and development property	**(146.1)**	(90.9)

5 IMPAIRMENT OF OTHER RECEIVABLES

Continuing operations	2018 £m	2017 £m
Impairment of other receivables	**23.2**	1.3

Following an impairment review of amounts receivable from joint ventures by the Group, a net impairment of £19.4 million has been recognised (2017: £1.3 million). The Lillie square joint venture incurs amortisation charges on deep discount bonds that were issued to the Group and Kwok Family Interests ("KFI") which has contributed to the cumulative losses. The Group has recognised £12.0 million (2017: £11.7 million) finance income on these deep discount bonds.

An impairment assessment was performed in accordance with IFRS 9 'Financial instruments' comparing the carrying amount of the intercompany debtor and deep discount bonds to the present value of the estimated future cash flows. This has resulted in a write down of £19.4 million, of which £1.8 million has been recognised against the intercompany debtor (2017: write back of £8.2 million) and £17.6 million against the deep discount bonds (2017: £9.5 million).

The impairment of amounts receivable from joint ventures recognised by the Group in the year of £19.4 million (cumulative £67.0 million) and the finance income on the Lillie Square deep discount bonds of £12.0 million have been calculated based on the requirements under IFRS 9 'Financial instruments'. Had the impairments been calculated taking into consideration the Group's economic position with reference to the Group's share of losses in the Lillie Square joint venture the impairment of amounts receivable from joint venture would have been £5.5 million (cumulative £53.2 million) and the finance income on the deep discount bonds would have been £10.4 million in the year. The total current year difference between the IFRS 9 basis and economic position basis of £12.3 million (cumulative £12.3 million) are adjusted from EPRA adjusted earnings and EPRA NAV measures as the difference does not reflect the operational performance or the assets and liabilities expected to crystallise in normal circumstances.

During the year costs of £3.8 million relating to intensifying the planning consent of the CLSA have been written off due to uncertainty surrounding the inclusion of the CLSA within an intensified scheme.

6 PROFIT ON SALE OF SUBSIDIARIES

On 26 March 2018, the Group completed the sale of the Empress State Building for total cash consideration of £250.0 million. The disposal was effected by way of a sale of the entire issued share capital of Empress Holdings Limited and its subsidiaries ("Empress Holdings Group") which held the freehold interest in the Empress State Building. The disposal was in line with the Group strategy of realising value at Earls Court over time. After transaction related costs, net proceeds received were £248.9 million. Based on the net assets at the date of disposal a profit has been recognised on the sale of £29.5 million.

Net assets at the date of disposal were as follows:

Continuing operations	26 March 2018 £m
Investment and development property	**220.0**
Other non-current liabilities	**(0.6)**
Net assets	**219.4**
Net consideration[1]	**248.9**
Profit on sale of subsidiaries	**29.5**

1 Sale of subsidiaries per the consolidated statement of cash flows at 31 December 2018 is £250.7 million. This differs to the net consideration above of £248.9 million by £1.8 million due to deferred consideration relating to the disposal of The Brewery by EC&O Limited on 9 February 2012.

7 EMPLOYEE INFORMATION

(a) Employee costs

Continuing operations	2018 £m	2017 £m
Wages and salaries	**15.9**	17.6
Social security costs[1]	**2.0**	2.2
Other pension costs	**0.8**	1.0
Share-based payment	**2.4**	2.0
Total employee costs from continuing operations	**21.1**	22.8
Discontinued operation		
Employee costs from discontinued operation	**–**	4.1
Total employee costs	**21.1**	26.9

1 Included in social security costs is a credit of £0.1 million for national insurance on share options (2017: credit of £0.1 million). The credit for both years is due to changes in vesting and forfeiture assumptions.

(b) Employee numbers

Average monthly number of people (including Executive Directors) employed	2018	2017
Venues[1]	**–**	49
Capco head office including Earls Court Properties & Covent Garden	**102**	122
Total average headcount	**102**	171

1 Average headcount for Venues relates to the period of ownership, up to 7 April 2017.

The details of individual Directors' remuneration and pension benefits as set out in the tables contained in the Directors' Remuneration Report on pages 64 to 82 form part of these consolidated financial statements.

8 AUDITORS' REMUNERATION

Continuing operations	2018 £m	2017 £m
Remuneration to the principal auditors in respect of audit fees:		
Parent Company and Group consolidated financial statements	**0.2**	0.2
Audit of the financial statements of the Company's subsidiaries	**0.1**	0.1
Fees related to the audit of the Company and its subsidiaries	**0.3**	0.3
Audit related assurance services including interim review	**0.1**	0.1
Total fees for audit and audit related services	**0.4**	0.4
Reporting accountant assurance services[1]	**1.7**	–
Total auditors' remuneration	**2.1**	0.4

1 Fees payable to the principal auditor in relation to reporting accountant assurance services for the Group's possible demerger. PwC were selected to undertake this work as, given their prior knowledge of the Group's activities, they were best placed to carry out the work, taking into account general efficiency and effectiveness. Consideration was given to the effect this may have on their independence, which it was concluded would not be impacted by undertaking this work.

The Group's auditors, PricewaterhouseCoopers LLP, are engaged on assignments additional to their audit engagement duties where their expertise and experience of the Group are important. 2018 non-audit fees, including the interim review, represented 84.4 per cent of the total fee. Excluding the reporting accountant assurance services for the Group's possible demerger the non-audit fees, including the interim review, represented 16.0 per cent (2017: 15.2 per cent). Further details on the Audit Committee's non-audit services policy can be found on pages 59 and 60.

9 FINANCE INCOME

Continuing operations	2018 £m	2017 £m
Finance income:		
On deposits and other	**0.3**	0.8
Finance income	**0.3**	0.8
Other finance income:		
On deep discount bonds	**12.0**	11.7
Other finance income[1]	**12.0**	11.7

1 Excluded from the calculation of underlying earnings as deep discount bonds eliminate on a Group share basis.

10 FINANCE COSTS

Continuing operations	2018 £m	2017 £m
Finance costs:		
On bank overdrafts, loans and other	**22.3**	22.7
On obligations under finance leases	**0.7**	0.5
Gross finance costs	**23.0**	23.2
Interest capitalised on property under development	**(3.7)**	(3.3)
Finance costs	**19.3**	19.9

Interest is capitalised, before tax relief, on the basis of the weighted average cost of debt of 2.9 per cent (2017: 2.8 per cent) applied to the cost of property under development during the year.

11 TAXATION

Continuing operations	2018 £m	2017 £m
Current income tax:		
Current income tax charge excluding non-underlying items	**1.4**	0.9
Current income tax	**1.4**	0.9
Deferred income tax:		
On accelerated capital allowances	**1.1**	1.0
On fair value of derivative financial instruments	**1.2**	1.9
On Group losses	**0.9**	1.6
On other temporary differences	**(0.6)**	0.7
Deferred income tax	**2.6**	5.2
Current income tax charge on non-underlying items	**0.8**	0.8
Adjustments in respect of previous years – deferred income tax	**(0.5)**	(0.2)
Total income tax charge reported in the consolidated income statement	**4.3**	6.7

Factors affecting the tax charge for the year

The tax assessed for the year is £4.3 million against a loss of £119.3 million. A reconciliation against the standard rate of corporation tax in the United Kingdom ("UK") is explained below:

Continuing operations	2018 £m	2017 £m
Loss before tax	**(119.3)**	(62.5)
Loss on ordinary activities multiplied by the standard rate in the UK of 19% (2017: 19.25%)	**(22.7)**	(12.0)
Unrecognised deferred income tax on revaluation losses	**28.2**	17.4
Adjustments in respect of previous years	**(0.5)**	(0.2)
Expenses disallowed	**4.4**	0.5
Non-taxable items[1]	**(6.3)**	–
Group relief	**–**	0.8
Other temporary differences	**0.4**	0.2
Reduction in deferred income tax following change in corporation tax rate	**0.8**	–
Total income tax charge reported in the consolidated income statement	**4.3**	6.7

1 The majority of this amount relates to the sale of the Empress State Building.

Tax arising on items recognised in other comprehensive income is also reflected within other comprehensive income. This includes deferred tax on movements on the cash flow hedge. Tax arising on items recognised directly in equity is reflected in equity. This includes deferred tax on an element of the share-based payment.

Following the enactment of Finance (No. 2) Act 2015 and Finance Act 2016, the main rate of corporation tax reduced to 19 per cent from April 2017 and will reduce further to 17 per cent from April 2020.

Following an announcement during Budget 2017 and a consultation period, legislation has now been enacted (Finance Act 2019) that will impact the Group as follows:

- UK tax will be charged on gains made by non-resident entities on direct and certain indirect disposals of UK immovable property, with effect from April 2019;
- non-UK resident companies that carry on a UK property business or have UK property income will be charged to UK corporation tax, rather than UK income tax, with effect from 6 April 2020.

12 DISCONTINUED OPERATION

On 7 April 2017, the Group completed the sale of Venues, its exhibition business, comprising Olympia London together with certain related property assets for a total gross cash consideration of £296.0 million. The disposal was in line with the Group strategy following the successful transition of shows from the former Earls Court Exhibition Centres to Olympia. After the repayment of debt, working capital adjustments and transaction related costs, net proceeds received were £230.2 million. Based on the net assets at the date of disposal a profit has been recognised on the sale of £2.1 million. As part of the sale, the defined benefit scheme the Group previous held was sold to the purchaser and therefore the Group has no outstanding liability in relation to the scheme.

The net assets at the date of disposal were as follows:

	7 April 2017 £m
Investment and development property	**292.8**
Other non-current assets	**0.8**
Pension asset	**1.4**
Cash and cash equivalents[1]	**10.8**
Other current assets	**8.9**
Other current liabilities	**(15.9)**
Deferred tax	**(15.7)**
Borrowings	**(55.0)**
Net assets	**228.1**
Net consideration[2]	**230.2**
Profit on disposal	**2.1**

1 Cash and cash equivalents include £6.0 million of restricted cash and cash equivalents.

2 Sale of discontinued operation as per the consolidated statement of cash flows as at 31 December 2017 is £226.0 million. This differs to the net consideration above of £230.2 million by £4.2 million. This is due to accrued transaction costs of £0.6 million less unrestricted cash and cash equivalents disposed of with the transaction of £4.8 million. £0.3 million of costs relating to this disposal were incurred in 2018.

The Venues results, which have been included in the income statement as a discontinued operation, were:

Summarised income statement	Period ended 7 April 2017 £m
Revenue	**10.2**
Net rental income	**7.2**
Administration expenses	**(2.7)**
Operating profit	**4.5**
Net finance costs	**(0.5)**
Profit on disposal	**2.1**
Profit for the period from discontinued operation	**6.1**
Underlying earnings adjustments	
Change in fair value of derivative financial instruments	**0.1**
Profit on disposal	**(2.1)**
Underlying earnings from discontinued operation	**4.1**

12 DISCONTINUED OPERATION CONTINUED

The Venues cash flows, which have been included in the statement of cash flow as a discontinued operation, were:

Summarised cash flows	Note	**Period ended 7 April 2017 £m**
Cash flows from operating activities	31(b)	**8.0**
Interest paid		**(0.4)**
Net cash inflow from operating activities		**7.6**
Purchase and development of property, plant and equipment		**(0.1)**
Pension funding		**(2.3)**
Net cash outflow from investing activities		**(2.4)**
Transactions with Group by discontinued operation		**(5.4)**
Net cash outflow from financing activities		**(5.4)**
Net decrease in unrestricted cash and cash equivalents from discontinued operation		**(0.2)**
Unrestricted cash and cash equivalents at 1 January		**5.0**
Unrestricted cash and cash equivalents at period end		**4.8**

13 DIVIDENDS

Group and Company	**2018 £m**	2017 £m
Ordinary shares		
Prior year final dividend of 1.0p per share (2017: 1.0p)	**8.5**	8.5
Interim dividend of 0.5p per share (2017: 0.5p)	**4.2**	4.2
Dividend expense	**12.7**	12.7
Bonus issue in lieu of cash dividends[1]	**(4.5)**	(6.0)
Cash dividends paid	**8.2**	6.7
Proposed final dividend of 1.0p per share (2017:1.0p)	**8.5**	8.5

1 Adjustments for bonus issue arise from those shareholders who elect to receive their dividends in scrip form prior to the declaration of dividend which occurs at the Company's Annual General Meeting and shareholders who elect to receive their shares on an evergreen basis. These shares are treated as a bonus issue and allotted at nominal value.

14 EARNINGS PER SHARE AND NET ASSETS PER SHARE

(a) Earnings per share

	2018			2017		
	(Loss)/ earnings £m	**Shares[1] million**	**(Loss)/ earnings per share (pence)**	(Loss)/ earnings £m	Shares[1] million	(Loss)/ earnings per share (pence)
Continuing and discontinued operations attributable to owners of the Parent						
Basic loss	**(56.9)**	**850.8**	**(6.7)**	(0.4)	850.4	(0.1)
Dilutive effect of contingently issuable share option awards[2]	**–**	**0.9**	**–**	–	0.6	–
Dilutive effect of contingently issuable deferred share awards[2]	**–**	**0.2**	**–**	–	0.2	–
Dilutive effect of contingently issuable matching nil cost options awards[2]	**–**	**0.1**	**–**	–	0.1	–
Dilutive effect of deferred bonus share option awards[2]	**–**	**0.6**	**–**	–	0.6	–
Diluted loss	**(56.9)**	**852.6**	**(6.7)**	(0.4)	851.9	(0.1)
Continuing operations attributable to owners of the Parent						
Basic loss	**(56.9)**	**850.8**	**(6.7)**	(6.5)	850.4	(0.8)
Diluted loss	**(56.9)**	**852.6**	**(6.7)**	(6.5)	851.9	(0.8)
Discontinued operation attributable to owners of the Parent						
Basic profit	**–**	**–**	**–**	6.1	850.4	0.7
Diluted profit	**–**	**–**	**–**	6.1	851.9	0.7
Continuing operations attributable to owners of the Parent						
Basic loss	**(56.9)**			(6.5)		
Group adjustments:						
Profit on sale of trading property	**–**			(0.9)		
Profit on sale of subsidiaries[3]	**(29.5)**			–		
Impairment of other receivables[4]	**16.1**			–		
Loss on revaluation and sale of investment and development property	**146.1**			90.9		
Change in fair value of derivative financial instruments	**(2.2)**			(4.3)		
Deferred tax adjustments	**2.3**			2.9		
Non-controlling interest in respect of the Group adjustments	**(67.3)**			(62.6)		
Joint venture adjustments:						
Profit on sale of trading property[5]	**(6.7)**			(13.6)		
Gain on revaluation and sale of investment and development property	**–**			(0.3)		
Write down of trading property	**0.5**			0.6		
EPRA adjusted earnings on continuing operations[6]	**2.4**	**850.8**	**0.3**	6.2	850.4	0.7
Administration expenses – non-underlying[7]	**4.9**			–		
Tax adjustments	**0.7**			1.1		
Underlying earnings from continued operations	**8.0**	**850.8**	**0.9**	7.3	850.4	0.9
Underlying earnings from discontinued operation	**–**		**–**	4.1		0.4
Underlying earnings[6]	**8.0**	**850.8**	**0.9**	11.4	850.4	1.3

1 Weighted average number of shares in issue has been adjusted by 1.7 million (2017: 2.1 million) for the issue of bonus shares in connection with the scrip dividend scheme.

2 Further information on these potential ordinary shares can be found in note 33 'Share-Based Payments'.

3 In the Interim Results for the six months ended 30 June 2018 profit on sale of subsidiary of £29.6 million was included within EPRA adjusted earnings on continuing operations of £34.2 million. Profit on sale of subsidiary should be removed from EPRA adjusted earnings; had this been represented in the Interim Results for the six months ended 30 June 2018 the EPRA adjusted earnings on continuing operations would have been £4.6 million.

4 Impairment of other receivables consists of £3.8 million relating to intensifying the planning consent of the CLSA and £12.3 million impairment under IFRS 9 of amounts receivable from joint ventures above the Group's share of losses in the Lillie Square joint venture. Further details are disclosed within Note 5 'Impairment of Other Receivables'.

5 Profit on sale of trading property relates to Lillie Square sales and includes £0.2 million (2017: £3.0 million) of marketing and selling fees on a Group share basis. Marketing fees include costs for units that have not yet completed.

6 EPRA earnings and underlying earnings have been reported on a Group share basis.

7 Non-underlying administration expenses totalled £4.9 million (2017: £nil) which relates to corporate transactions, being the potential demerger and potential sale of the Group's interests in Earls Court. These costs have been classified as non-underlying as they do not represent the recurring, underlying performance of the Group.

14 EARNINGS PER SHARE AND NET ASSETS PER SHARE CONTINUED

Headline earnings per share is calculated in accordance with Circular 2/2015 issued by the South African Institute of Chartered Accountants ("SAICA"), a requirement of the Group's Johannesburg Stock Exchange ("JSE") listing. This measure is not a requirement of IFRS.

(a) Earnings per share continued

	2018			Restated[1] 2017		
	(Loss)/ earnings £m	Shares[2] million	(Loss)/ earnings per share (pence)	(Loss)/ earnings £m	Shares[2] million	(Loss)/ earnings per share (pence)
Continuing and discontinued operations attributable to owners of the Parent						
Basic loss	**(56.9)**	**850.8**	**(6.7)**	(0.4)	850.4	(0.1)
Group adjustments:						
Loss on revaluation and sale of investment and development property	**146.1**			90.9		
Profit on disposal of discontinued operation	**–**			(2.1)		
Deferred tax adjustments	**0.9**			0.8		
Non-controlling interest in respect of the Group adjustments	**(67.3)**			(62.6)		
Joint venture adjustment:						
Gain on revaluation of investment and development property	**–**			(0.3)		
Headline earnings	**22.8**	**850.8**	**2.7**	26.3	850.4	3.1
Dilutive effect of contingently issuable share option awards[3]	**–**	**0.9**		–	0.6	
Dilutive effect of contingently issuable deferred share awards[3]	**–**	**0.2**		–	0.2	
Dilutive effect of contingently issuable matching nil cost options awards[3]	**–**	**0.1**		–	0.1	
Dilutive effect of deferred bonus share option awards[3]	**–**	**0.6**		–	0.6	
Diluted headline earnings	**22.8**	**852.6**	**2.7**	26.3	851.9	3.1

1 The comparative has been restated to include profit on disposal of discontinued operation as an adjustment to headline earnings.

2 Weighted average number of shares in issue has been adjusted by 1.7 million (2017: 2.1 million) for the issue of bonus shares in connection with the scrip dividend scheme.

3 Further information on these potential ordinary shares can be found in note 33 'Share-Based Payments'.

(b) Net assets per share

	2018			2017		
Group	Net assets £m	Shares million	NAV per share (pence)	Net assets £m	Shares million	NAV per share (pence)
Net assets attributable to owners of the Parent	**2,736.2**	**850.8**	**321.6**	2,799.8	849.1	329.7
Effect of dilution on exercise of contingently issuable share option awards[1]	**–**	**0.8**		–	0.6	
Effect of dilution on vesting of contingently issuable deferred share awards[1]	**–**	**0.3**		–	0.2	
Effect of dilution on exercise of contingently issuable matching nil cost option awards[1]	**–**	**0.1**		–	0.1	
Effect of dilution on exercise of deferred bonus share option awards[1]	**–**	**0.6**		–	0.6	
Diluted NAV	**2,736.2**	**852.6**	**320.9**	2,799.8	850.6	329.2
Group adjustments:						
Fair value of derivative financial instruments	**(0.7)**			5.5		
Unrecognised surplus on trading property – Joint venture	**25.7**			31.8		
Revaluation of other non-current assets[2]	**12.3**			–		
Deferred tax adjustments	**3.5**			1.9		
EPRA NAV	**2,777.0**	**852.6**	**325.7**	2,839.0	850.6	333.8
Fair value of derivative financial instruments	**0.7**			(5.5)		
Excess fair value of debt over carrying value	**14.0**			(9.2)		
Deferred tax adjustments	**(3.5)**			(1.9)		
EPRA NNNAV	**2,788.2**	**852.6**	**327.0**	2,822.4	850.6	331.8

1 Further information on these potential ordinary shares can be found in note 33 'Share-Based Payments'.

2 This relates to the impairment under IFRS 9 of amounts receivable from joint ventures above the Group's share of losses in the Lillie Square joint venture. Further details are disclosed within Note 5 'Impairment of Other Receivables'.

15 PROPERTY PORTFOLIO

(a) Investment and development property

Group	Property portfolio				Tenure	
	Covent Garden £m	Earls Court Properties £m	Venues £m	Total £m	Freehold £m	Leasehold £m
At 1 January 2017	2,229.2	1,298.0	292.7	3,819.9	1,875.4	1,944.5
Additions from acquisitions	99.2	2.1	–	101.3	14.5	86.8
Additions from subsequent expenditure	78.1	38.9	0.1	117.1	72.9	44.2
Sale of discontinued operation	–	–	(292.8)	(292.8)	(292.8)	–
Disposals	(6.2)	(2.7)	–	(8.9)	(8.9)	–
Gain/(loss) on revaluation[1]	93.4	(184.3)	–	(90.9)	59.4	(150.3)
At 31 December 2017	**2,493.7**	**1,152.0**	**–**	**3,645.7**	**1,720.5**	**1,925.2**
Additions from acquisitions	**18.7**	**10.6**	**–**	**29.3**	**19.2**	**10.1**
Additions from subsequent expenditure	**41.6**	**14.4**	**–**	**56.0**	**23.2**	**32.8**
Disposals	**(17.3)**	**(221.6)**	**–**	**(238.9)**	**(238.1)**	**(0.8)**
Classified as held for sale[2]	**(8.4)**	**–**	**–**	**(8.4)**	**(8.4)**	**–**
Gain/(loss) on revaluation[1]	**37.3**	**(185.5)**	**–**	**(148.2)**	**5.7**	**(153.9)**
At 31 December 2018	**2,565.6**	**769.9**	**–**	**3,335.5**	**1,522.1**	**1,813.4**

(b) Trading property

Group	Property portfolio				Tenure	
	Covent Garden £m	Earls Court Properties £m	Venues £m	Total £m	Freehold £m	Leasehold £m
At 1 January 2017	2.9	–	–	2.9	2.9	–
Disposals	(2.9)	–	–	(2.9)	(2.9)	–
At 31 December 2017[3]	–	–	–	–	–	–
At 31 December 2018[3]	**–**	**–**	**–**	**–**	**–**	**–**

1 Loss on revaluation of £148.2 million (2017: loss £90.9 million) is recognised in the consolidated income statement within loss on revaluation and sale of investment and development property. This loss is unrealised and relates to assets held at the end of the year.

2 This relates to three apartments at The Floral Court Collection in Covent Garden which had exchanged pre year end. These units have completed since the year end.

3 The value of trading property carried at net realisable value was £nil (2017: £nil).

15 PROPERTY PORTFOLIO CONTINUED

(c) Market value reconciliation of total property

Group	Covent Garden £m	Earls Court Properties £m	Total £m
Carrying value of investment and development property at 31 December 2018[1]	**2,565.6**	**769.9**	**3,335.5**
Adjustment in respect of fixed head leases	**(6.1)**	**–**	**(6.1)**
Adjustment in respect of tenant lease incentives	**50.5**	**–**	**50.5**
Market value of investment and development property at 31 December 2018	**2,610.0**	**769.9**	**3,379.9**
Joint venture:			
Carrying value of joint venture investment, development and trading property at 31 December 2018	**–**	**133.4**	**133.4**
Unrecognised surplus on joint venture trading property[2]	**–**	**25.7**	**25.7**
	2,610.0	**929.0**	**3,539.0**
Non-controlling interest adjustment:			
Market value of non-controlling interest in investment, development and trading property at 31 December 2018	**–**	**(270.7)**	**(270.7)**
Market value of investment, development and trading property on a Group share basis at 31 December 2018	**2,610.0**	**658.3**	**3,268.3**

Group	Covent Garden £m	Earls Court Properties £m	Total £m
Carrying value of investment and development property at 31 December 2017[1]	2,493.7	1,152.0	3,645.7
Adjustment in respect of fixed head leases	(6.1)	–	(6.1)
Adjustment in respect of tenant lease incentives	57.8	–	57.8
Market value of investment and development property at 31 December 2017	2,545.4	1,152.0	3,697.4
Joint ventures:			
Carrying value of joint venture investment, development and trading property at 31 December 2017	–	124.7	124.7
Unrecognised surplus on joint venture trading property[2]	–	31.8	31.8
	2,545.4	1,308.5	3,853.9
Non-controlling interest adjustment:			
Market value of non-controlling interest in investment, development and trading property at 31 December 2017	–	(329.4)	(329.4)
Market value of investment, development and trading property on a Group share basis at 31 December 2017	2,545.4	979.1	3,524.5

1 Included within investment and development property is £3.7 million (2017: £3.3 million) of interest capitalised during the year on property under development.

2 The unrecognised surplus on trading property is shown for informational purposes only and is not a requirement of IFRS. Trading property continues to be measured at the lower of cost and net realisable value in the consolidated financial statements.

15 PROPERTY PORTFOLIO CONTINUED

At 31 December 2018, the Group was contractually committed to £22.4 million (2017: £57.3 million) of future expenditure for the purchase, construction, development and enhancement of investment, development and trading property. Refer to note 29 'Capital Commitments' for further information on capital commitments.

The fair value of the Group's investment, development and trading property at 31 December 2018 was determined by independent, appropriately qualified external valuers, JLL for Earls Court Properties and CBRE Ltd for the remainder of the Group's property portfolio. The valuations conform to the Royal Institution of Chartered Surveyors ("RICS") Valuation Professional Standards. Fees paid to valuers are based on fixed price contracts.

Each year the Executive Directors, on behalf of the Board, appoint the external valuers. The valuers are selected based upon their knowledge, independence and reputation for valuing assets such as those held by the Group.

Valuations are performed bi-annually and are performed consistently across all properties in the Group's portfolio. At each reporting date appropriately qualified employees of the Group verify all significant inputs and review computational outputs. Valuers submit and present summary reports to the Group's Audit Committee, with the Executive Directors reporting to the Board on the outcome of each valuation round.

Valuations take into account tenure, lease terms and structural condition. The inputs underlying the valuations include market rent or business profitability, likely incentives offered to tenants, forecast growth rates, yields, EBITDA, discount rates, construction costs including any site specific costs (for example Section 106), professional fees, planning fees, developer's profit including contingencies, planning and construction timelines, lease re-gear costs, planning risk and sales prices based on known market transactions for similar properties or properties similar to those contemplated for development. As at 31 December 2018 all Covent Garden properties are valued under the income capitalisation technique. The majority of Earls Court properties are valued under the residual development approach.

Valuations are based on what is determined to be the highest and best use. When considering the highest and best use a valuer will consider, on a property by property basis, 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 will consider the cost and the likelihood of achieving and implementing this change in arriving at its valuation.

A number of the Group's properties have been valued on the basis of their development potential which differs from their existing use. In respect of development valuations, the valuer ordinarily considers the gross development value of the completed scheme based upon assumptions of capital values, rental values and yields of the properties which would be created through the implementation of the development. Deductions are then made for anticipated costs, including an allowance for developer's profit, before arriving at a valuation.

There are often restrictions on both freehold and leasehold property which could have a material impact on the realisation of these assets. The most significant of these occur when planning permission is required or when a credit facility is in place. These restrictions are factored into the property's valuation by the external valuer. Refer to disclosures surrounding property risks on page 19.

Non-financial assets carried at fair value, as is the case for investment and development property held by the Group, are required to be analysed by level depending on the valuation method adopted under IFRS 13 'Fair Value Measurement' ("IFRS 13"). Trading property is exempt from IFRS 13 disclosure requirements. The different valuation levels are defined as:

Level 1: valuation based on quoted market prices traded in active markets;

Level 2: valuation based on inputs other than quoted prices included within Level 1 that maximise the use of observable data either directly or from market prices or indirectly derived from market prices; and

Level 3: where one or more inputs to valuation are not based on observable market data. Valuations at this level are more subjective and therefore more closely managed, including sensitivity analysis of inputs to valuation models.

When the degree of subjectivity or nature of the measurement inputs changes, consideration is given as to whether a transfer between fair value levels is deemed to have occurred. Unobservable data becoming observable market data would determine a transfer from Level 3 to Level 2. All investment and development properties held by the Group are classified as Level 3.

15 PROPERTY PORTFOLIO CONTINUED

The following table sets out the valuation techniques used in the determination of market value of investment and development property on a property by property basis, as well as the key unobservable inputs used in the valuation models.

Property portfolio	Market value 2018 £m	Market value 2017 £m	Valuation technique	Key unobservable inputs	Range (weighted average) 2018	Range (weighted average) 2017
Covent Garden	**2,610.0**	2,545.4	Income capitalisation	Estimated rental value per sq ft[1] per annum ("p.a.")	**£20 – £369 (£92)**	£18 – £362 (£91)
				Equivalent yield	**2.2% – 6.0% (3.6%)**	2.2% – 6.0% (3.6%)
Earls Court Properties	**26.9**	23.8	Income capitalisation	Estimated rental value per sq ft[1] p.a.	**£15 – £52 (£34)**	£15 – £52 (£35)
				Equivalent yield	**2.8% – 5.8% (4.6%)**	2.7% – 5.9% (4.6%)
	4.0	4.5	Discounted cash flow approach	Pre-tax discount rate	**14.0%**	12.5%
	739.0	1,123.7	Residual development method	Construction costs including site specific costs per sq ft[1]	**£205 – £603 (£586)**	£204 – £588 (£534)
				Developer's profit	**20.0% – 24.0% (23.8%)**	16.0% – 22.0% (20.8%)
				Capital value per sq ft[1]	**£215 – £1,956 (£1,551)**	£217 – £2,006 (£1,454)
				Finance rate	**4.0% – 5.5% (4.1%)**	4.0% – 5.5% (4.3%)
At 31 December	**3,379.9**	3,697.4				

1 Estimated rental value and capital value are expressed per square foot on a net internal area basis. Construction costs including site specific costs expressed per square foot on a gross external area basis.

For properties valued under the income capitalisation method, if all other factors remained equal, an increase in estimated rental value of five per cent would result in an increased asset valuation of £119.7 million (2017: £119.5 million). A decrease in the estimated rental value of five per cent would result in a decreased asset value of £114.3 million (2017: £115.8 million). Conversely, an increased equivalent yield of 25 basis points would result in a decreased asset valuation of £173.7 million (2017: £174.3 million). A decreased equivalent yield of 25 basis points would result in an increased asset valuation of £198.6 million (2017: £199.4 million). These inputs are interdependent, partially determined by market conditions. The impact on the valuation could be mitigated by the interrelationship between the two inputs. An increase in estimated rental value occurring in conjunction with an increase in equivalent yield could result in no net impact to the valuation.

For properties valued under the residual development method, an increase in the estimated construction costs of 10 per cent would result in a decrease in the asset valuation of £170.9 million (2017: £224.5 million) and a decrease of 10 per cent would result in an increase in the asset valuation of £170.6 million (2017: £225.1 million). An increase in the developer's profit of one percentage point would result in a decrease in the asset valuation of £18.6 million (2017: £24.8 million) and a decrease of one percentage point would result in an increase in the asset valuation of £18.8 million (2017: £24.8 million). An increased finance rate of 25 basis points would result in a decreased asset valuation of £18.1 million (2017: £25.2 million) and a decrease of 25 basis points would result in an increased asset valuation of £17.3 million (2017: £25.0 million). Conversely, an increase in the capital value per square foot of five per cent would result in an increase in the asset valuation of £107.8 million (2017: £144.8 million) and a decrease of five per cent would result in a decrease in the asset valuation of £107.9 million (2017: £145.8 million). The above inputs are interdependent, partially determined by market conditions. The impact on the valuation could be mitigated by the interrelationship between these inputs.

An increase in the discount rate included in a discount cash flow valuation of 10 per cent would result in a decrease in the asset valuation of £0.2 million (2017: £0.2 million). A decrease in the discount rate included in a discount cash flow valuation of 10 per cent would result in an increase in the asset valuation of £0.3 million (2017: £0.2 million).

16 INVESTMENT IN GROUP COMPANIES

Company	2018 £m	2017 £m
At 1 January	**516.4**	516.4
Additions	**0.9**	–
Impairment	**(0.9)**	–
At 31 December	**516.4**	516.4

Investments in Group companies are carried at cost less impairment losses, if any. An impairment test is performed on an annual basis. An impairment charge of £0.9 million was recorded in the current year (2017: £nil).

17 INVESTMENT IN JOINT VENTURES

Investment in joint ventures is measured using the equity method. All joint ventures are held with other joint venture investors on a 50:50 basis.

At 31 December 2018, joint ventures comprise the Lillie Square joint venture ("LSJV"), Innova Investment ("Innova") and The Great Capital Partnership ("GCP"). On 29 April 2013, the Group exchanged contracts for the disposal of the final asset, Park Crescent West, in GCP which has since been accounted for as a discontinued operation.

LSJV

LSJV was established as a joint venture arrangement with the Kwok Family Interests ("KFI") in August 2012. The joint venture was established to own, manage and develop land interests at Lillie Square. LSJV comprises Lillie Square LP, Lillie Square GP Limited, acting as general partner to the partnership, and its subsidiaries. All major decisions regarding LSJV are taken by the Board of Lillie Square GP Limited, through which the Group shares strategic control.

The summarised income statement and balance sheet of LSJV are presented below.

LSJV	2018 £m	2017 £m
Summarised income statement		
Revenue	**62.3**	190.3
Net rental income	**0.1**	–
Gain on revaluation of investment and development property	**–**	0.6
Proceeds from the sale of trading property	**62.0**	190.1
Cost of sale of trading property	**(48.2)**	(156.8)
Agent, selling and marketing fees	**(0.4)**	(6.1)
Write down of trading property	**(1.0)**	(1.2)
Administration expenses	**(2.4)**	(4.4)
Finance costs[1]	**(21.2)**	(24.9)
Loss for the year after taxation	**(11.1)**	(2.7)

1 Finance costs of £20.9 million (2017: £23.5 million) relates to the amortisation of deep discount bonds that were issued by LSJV to the Group and KFI. The bonds are redeemable at their nominal value of £276.1 million on 24 August 2021. The discount applied is unwound over the period to maturity using an effective interest rate. Finance income receivable to the Group of £12.0 million (2017: £11.7 million) is recognised in the consolidated income statement within other finance income.

LSJV	2018 £m	2017 £m
Summarised balance sheet		
Investment and development property	**3.7**	3.7
Other non-current assets	**4.6**	4.1
Trading property	**263.1**	245.7
Cash and cash equivalents[1]	**40.2**	49.8
Other current assets	**0.2**	0.7
Borrowings	**(59.5)**	(63.6)
Other non-current liabilities[2]	**(239.7)**	(218.9)
Amounts payable to joint venture partners[3]	**(73.7)**	(71.9)
Other current liabilities[1]	**(45.3)**	(44.8)
Net liabilities	**(106.4)**	(95.2)
Capital commitments	**64.8**	14.0
Carrying value of investment, development and trading property	**266.8**	249.4
Unrecognised surplus on trading property[4]	**51.4**	63.6
Market value of investment, development and trading property[4]	**318.2**	313.0

1 Includes restricted cash and cash equivalents of £34.3 million (2017: £30.6 million) relating to amounts received as property deposits that will not be available for use by LSJV until completion of building work. There is a corresponding liability of £34.3 million (2017: £30.6 million) within other current liabilities.

2 Other non-current liabilities relate to deep discount bonds. Recoverable amounts receivable by the Group, net of impairments, of £94.4 million (2017: £100.0 million) are recognised on the consolidated balance sheet within non-current trade and other receivables.

3 Amounts payable to joint venture partners relate to working capital funding advanced by the Group and KFI.

4 The unrecognised surplus on trading property and the market value of LSJV's property portfolio are shown for informational purposes only and are not a requirement of IFRS. Trading property continues to be measured at the lower of cost and net realisable value.

17 INVESTMENT IN JOINT VENTURES CONTINUED

Innova

On 29 June 2015, the Group acquired a 50 per cent interest in Innova, a joint venture arrangement with Network Rail Infrastructure Limited ("NRIL"). Total acquisition costs were £14.5 million, £2.0 million of which is contingent on achieving consent to develop specific railway sites with NRIL. The joint venture will explore opportunities for future redevelopments on and around significant railway station sites in London.

Innova comprises Innova Investment Limited Partnership and Innova Investment GP Limited, acting as general partner to the partnership. All major decisions regarding Innova are taken by the Board of Innova Investment GP Limited, through which the Group shares strategic control.

The summarised income statement and balance sheet of Innova are presented below.

Innova	2018 £m	2017 £m
Summarised balance sheet		
Other receivables	**5.4**	3.1
Cash and cash equivalents	**0.5**	1.6
Other current liabilities	**(0.4)**	–
Net assets	**5.5**	4.7

Reconciliation of summarised financial information:

The table below reconciles the summarised joint venture financial information previously presented to the carrying value of investment in joint ventures as presented on the consolidated balance sheet.

	GCP £m	LSJV £m	Innova £m	Total £m
Net assets/(liabilities) of joint ventures at 31 December 2017	0.1	(95.2)	4.7	(90.4)
Elimination of joint venture partners' interest	–	47.6	(2.4)	45.2
Cumulative losses restricted[1]	–	47.6	–	47.6
Goodwill on acquisition of joint venture[2]	–	–	14.5	14.5
Carrying value at 31 December 2017	0.1	–	16.8	16.9
Net assets/(liabilities) of joint ventures at 31 December 2018	**0.1**	**(106.4)**	**5.5**	**(100.8)**
Elimination of joint venture partners' interest	**–**	**53.2**	**(2.8)**	**50.4**
Cumulative losses restricted[1]	**–**	**53.2**	**–**	**53.2**
Goodwill on acquisition of joint venture[2]	**–**	**–**	**14.5**	**14.5**
Carrying value at 31 December 2018	**0.1**	**–**	**17.2**	**17.3**

1 Cumulative losses restricted represent the Group's share of losses in LSJV which exceed the Group's investment in the joint venture. As a result the carrying value of the investment in LSJV is £nil (2017: £nil) in accordance with the requirements of IAS 28.

2 In accordance with the initial recognition exemption provisions under IAS 12 'Income Taxes', no deferred tax is recognised on goodwill.

Reconciliation of investment in joint ventures:

The table below reconciles the opening to closing carrying value of investment in joint ventures as presented on the consolidated balance sheet.

Investment in joint ventures	GCP £m	LSJV £m	Innova £m	Total £m
At 1 January 2017	0.1	–	14.9	15.0
Loss for the year[1]	–	(1.3)	–	(1.3)
Loss restricted[1]	–	1.3	–	1.3
Issue of equity loan notes	–	–	1.9	1.9
At 31 December 2017	**0.1**	**–**	**16.8**	**16.9**
Loss for the year[1]	**–**	**(5.6)**	**–**	**(5.6)**
Loss restricted[1]	**–**	**5.6**	**–**	**5.6**
Issue of equity loan notes	**–**	**–**	**0.4**	**0.4**
At 31 December 2018	**0.1**	**–**	**17.2**	**17.3**

1 Share of post-tax loss from joint ventures in the consolidated income statement of £nil (2017: £nil) comprises loss for the year of £5.6 million (2017: £1.3 million) and loss restricted totalling £5.6 million (2017: £1.3 million).

18 NON-CONTROLLING INTEREST

TTL Earls Court Properties Limited, a subsidiary of TfL, holds a 37 per cent non-controlling interest in ECPL, a subsidiary of the Group. The principal place of business of ECPL is within the UK.

The accumulated non-controlling interest is presented below.

	2018 £m	2017 £m
At 1 January	**305.8**	368.2
Loss and total comprehensive expense for the year attributable to non-controlling interest	**(66.7)**	(62.7)
Unsecured loan notes issued to non-controlling interest	**8.3**	0.3
At 31 December	**247.4**	305.8

Unsecured, non-interest bearing loan notes have been issued by ECPL to TTL Earls Court Properties Limited. As the transaction price of the loan notes was not an approximation of their fair value, the Group determined the fair value by using data from observable inputs. As a result, the initial fair value of the loan notes was valued at less than £0.1 million (2017: less than £0.1 million) and therefore £411.2 million (2017: £402.9 million) has been classified as equity.

Set out below is summarised financial information, before intercompany eliminations, for ECPL.

ECPL	2018 £m	2017 £m
Summarised income statement		
Revenue	**3.1**	2.3
Net rental income	**2.6**	1.8
Administration expenses	**(1.2)**	(2.1)
Loss on revaluation and sale of investment and development property	**(181.8)**	(169.2)
Loss for the year after taxation	**(180.4)**	(169.5)

ECPL	2018 £m	2017 £m
Summarised balance statement		
Investment and development property	**731.3**	890.0
Cash and cash equivalents	**8.0**	5.4
Other current assets	**0.8**	0.4
Other non-current assets	**–**	0.5
Other current liabilities[1]	**(5.7)**	(8.5)
Borrowings	**(65.8)**	(61.4)
Net assets	**668.6**	826.4

1 Includes amounts payable to a Group undertaking, EC Properties LP Limited, of £1.3 million.

ECPL	2018 £m	2017 £m
Summarised cash flows		
Operating cash inflow after interest and tax	**1.5**	0.5
Sale of property	**1.6**	–
Purchase and development of property, plant and equipment	**(25.7)**	(34.0)
Net cash outflow before financing	**(22.6)**	(33.5)
Financing[1]	**25.2**	29.5
Net increase/(decrease) in cash and cash equivalents	**2.6**	(4.0)

1 Financing comprises £22.4 million (2017: £0.8 million) of unsecured, non-interest bearing loan notes and £2.8 million (2017: £28.7 million) of external borrowings.

19 DERIVATIVE FINANCIAL INSTRUMENTS

Group **Derivative assets**	2018 £m	2017 £m
Non-current		
Interest rate collars	**0.7**	–
Derivative financial assets	**0.7**	–

Group **Derivative liabilities**		
Non-current		
Interest rate collars	**–**	(5.5)
Derivative financial liabilities	**–**	(5.5)

20 TRADE AND OTHER RECEIVABLES

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Non-current				
Other receivables[1]	**83.5**	71.1	**–**	–
Prepayments and accrued income[2]	**44.9**	53.4	**–**	–
Amounts receivable from joint ventures[3]	**94.4**	100.0	**–**	–
Trade and other receivables	**222.8**	224.5	**–**	–
Current				
Amounts owed by subsidiaries	**–**	–	**1,537.4**	1,529.6
Rent receivable	**6.7**	3.3	**–**	–
Other receivables	**16.6**	16.4	**0.4**	–
Prepayments and accrued income[2]	**15.0**	13.4	**–**	0.1
Trade and other receivables	**38.3**	33.1	**1,537.8**	1,529.7

1 Includes £75.0 million (2017: £60.0 million) payment to LBHF which forms part of the CLSA.

2 Includes tenant lease incentives, comprising surrender premia paid and incentives offered to new tenants, of £50.5 million (2017: £57.8 million).

3 Non-current amounts receivable from joint ventures relate to deep discount bonds that were issued by LSJV to the Group. The bonds are redeemable at their nominal value of £138.1 million on 24 August 2021. This balance has been impaired by £27.0 million (2017: £9.5 million). Current amounts of £40.0 million due from LSJV in relation to working capital funding advanced by the Group have been impaired in full.

21 CASH AND CASH EQUIVALENTS

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Cash at hand	**4.6**	8.0	**–**	–
Cash on short-term deposit	**27.9**	20.6	**–**	–
Cash and cash equivalents	**32.5**	28.6	**–**	–

22 TRADE AND OTHER PAYABLES

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Rent received in advance	**16.7**	18.4	**–**	–
Accruals and deferred income	**22.9**	32.2	**1.0**	0.3
Trade payables	**0.1**	–	**–**	–
Other payables	**15.5**	15.4	**–**	–
Other taxes and social security	**3.7**	3.1	**–**	–
Trade and other payables	**58.9**	69.1	**1.0**	0.3

23 BORROWINGS, INCLUDING FINANCE LEASES

	2018						
Group	**Carrying value £m**	**Secured £m**	**Unsecured £m**	**Fixed rate £m**	**Floating rate £m**	**Fair value £m**	**Nominal value £m**
Current							
Finance lease obligations	**0.7**	**0.7**	**–**	**0.7**	**–**	**0.7**	**0.7**
Borrowings, including finance leases	**0.7**	**0.7**	**–**	**0.7**	**–**	**0.7**	**0.7**
Non-current							
Bank loans	**63.4**	**65.8**	**(2.4)**	**–**	**63.4**	**66.4**	**66.4**
Loan notes	**547.7**	**–**	**547.7**	**547.7**	**–**	**530.7**	**550.0**
Borrowings	**611.1**	**65.8**	**545.3**	**547.7**	**63.4**	**597.1**	**616.4**
Finance lease obligations	**5.4**	**5.4**	**–**	**5.4**	**–**	**5.4**	**5.4**
Borrowings, including finance leases	**616.5**	**71.2**	**545.3**	**553.1**	**63.4**	**602.5**	**621.8**
Total borrowings, including finance leases	**617.2**						
Cash and cash equivalents	**(32.5)**						
Net debt	**584.7**						

23 BORROWINGS, INCLUDING FINANCE LEASES CONTINUED

Group	Carrying value £m	Secured £m	Unsecured £m	Fixed rate £m	Floating rate £m	Fair value £m	Nominal value £m
	2017						
Current							
Finance lease obligations	0.7	0.7	–	0.7	–	0.7	0.7
Borrowings, including finance leases	0.7	0.7	–	0.7	–	0.7	0.7
Non-current							
Bank loans	223.4	61.4	162.0	–	223.4	227.1	227.1
Loan notes	547.4	–	547.4	547.4	–	552.9	550.0
Borrowings	770.8	61.4	709.4	547.4	223.4	780.0	777.1
Finance lease obligations	5.4	5.4	–	5.4	–	5.4	5.4
Borrowings, including finance leases	776.2	66.8	709.4	552.8	223.4	785.4	782.5
Total borrowings, including finance leases	776.9						
Cash and cash equivalents	(28.6)						
Net debt	748.3						

The market value of investment and development property secured as collateral against borrowings at 31 December 2018 was £731.3 million (2017: £890.0 million).

Undrawn facilities and cash attributable to the Group at 31 December 2018 were £834.0 million (2017: £666.5 million).

The fair values of the Group's borrowings have been estimated using the market value for floating rate borrowings, which approximates nominal value, and discounted cash flow approach for fixed rate borrowings, representing Level 2 fair value measurements as defined by IFRS 13. The different valuation levels are defined in note 15 'Property Portfolio'.

Analysis of movement in net debt	**Current borrowings £m**	**Non-current borrowings £m**	**Cash and cash equivalents £m**	**Net debt £m**
	2018			
Balance at 1 January	**0.7**	**776.2**	**(28.6)**	**748.3**
Borrowings drawn	**–**	**22.8**	**(22.8)**	**–**
Borrowings repaid	**–**	**(185.0)**	**185.0**	**–**
Other net cash movements	**–**	**–**	**(166.1)**	**(166.1)**
Other non-cash movements	**–**	**2.5**	**–**	**2.5**
Balance at 31 December	**0.7**	**616.5**	**(32.5)**	**584.7**

Analysis of movement in net debt	Current borrowings £m	Non-current borrowings £m	Cash and cash equivalents £m	Net debt £m
	2017			
Balance at 1 January	18.5	827.8	(30.9)	815.4
Borrowings drawn	–	558.7	(558.7)	–
Borrowings repaid	(12.0)	(563.5)	575.5	–
Other net cash movements	(6.0)	(52.0)	(14.5)	(72.5)
Other non-cash movements	0.2	5.2	–	5.4
Balance at 31 December	0.7	776.2	(28.6)	748.3

The maturity profile of gross debt (excluding finance leases) is as follows:

	2018 £m	2017 £m
Wholly repayable within one year	**–**	–
Wholly repayable in more than one year but not more than two years	**–**	–
Wholly repayable in more than two years but not more than five years	**–**	165.0
Wholly repayable in more than five years	**616.4**	612.1
	616.4	777.1

Certain borrowing agreements contain financial and other covenants that, if contravened, could alter the repayment profile.

24 FINANCE LEASE OBLIGATIONS

(a) Minimum lease payments under finance leases obligations

Group	2018 £m	2017 £m
Not later than one year	**0.7**	0.7
Later than one year and not later than five years	**2.9**	2.9
Later than five years	**18.0**	18.0
	21.6	21.6
Future finance charges on finance leases	**(15.5)**	(15.5)
Present value of finance lease obligations	**6.1**	6.1

(b) Present value of minimum finance lease obligations

Group	2018 £m	2017 £m
Not later than one year	**0.7**	0.7
Later than one year and not later than five years	**2.3**	2.3
Later than five years	**3.1**	3.1
	6.1	6.1

Finance lease liabilities are in respect of leasehold interests in investment and development property. Certain leases provide for payment of contingent rent, usually a proportion of rental income, in addition to the minimum lease payments above. £1.2 million contingent rent has been paid during the year (2017: £1.3 million).

A 999 year leasehold interest is held for the air rights above the West London Line as detailed in note 30 'Contingent Liabilities'. Any further payments payable at the time of development or disposal of each phase of the Earls Court Masterplan will be accounted for as contingent rent when incurred.

Finance lease liabilities are effectively secured obligations, as the rights to the leased asset revert to the lessor in the event of default.

25 OPERATING LEASES

The Group earns rental income by leasing its investment property to tenants under operating leases.

In the United Kingdom standard commercial leases vary considerably between markets and locations but typically are for a term of five to fifteen years at market rent with provisions to review every five years.

The future minimum lease amounts receivable under non-cancellable operating leases are as follows:

Group	2018 £m	2017 £m
Not later than one year	**62.1**	76.9
Later than one year and not later than five years	**188.2**	185.3
Later than five years	**259.3**	259.0
	509.6	521.2

The consolidated income statement includes £1.0 million (2017: £0.2 million) recognised in respect of expected increased rent resulting from outstanding reviews where the actual rent will only be determined on settlement of the rent review.

The future minimum lease amounts payable under non-cancellable operating leases are as follows:

Group	2018 £m	2017 £m
Not later than one year	**0.9**	0.9
Later than one year and not later than five years	**3.7**	3.7
Later than five years	**1.1**	2.1
	5.7	6.7

26 FINANCIAL RISK MANAGEMENT

The Group's financial risk management strategy seeks to set financial limits for treasury activity to ensure they are in line with the risk appetite of the Group. The Group is exposed to a variety of risks arising from the Group's operations: market risk (principally interest rate risk), liquidity risk and credit risk.

The following tables set out each class of financial assets and financial liabilities as at 31 December 2018 and 31 December 2017.

Categories of financial instruments

Group	Notes	2018 Carrying value £m	2018 (Loss)/gain to income statement £m	Restated[1] 2017 Carrying value £m	Restated[1] 2017 (Loss)/gain to income statement £m
Derivative financial assets	19	**0.7**	**(1.6)**	–	(0.1)
Total held for trading assets		**0.7**	**(1.6)**	–	(0.1)
Cash and cash equivalents	21	**32.5**	**–**	28.6	–
Other financial assets[1,2]		**117.8**	**–**	119.6	–
Total cash and other financial assets		**150.3**	**–**	148.2	–
Derivative financial liabilities	19	**–**	**3.8**	(5.5)	4.4
Total held for trading liabilities		**–**	**3.8**	(5.5)	4.4
Borrowings, including finance leases	23	**(617.2)**	**–**	(776.9)	–
Other financial liabilities[1,3]		**(44.6)**	**–**	(52.8)	–
Total borrowings and other financial liabilities		**(661.8)**	**–**	(829.7)	–

1 The comparative has been restated to remove a non-financial asset and liability.

2 Includes rent receivable, amounts due from joint ventures and other receivables.

3 Includes trade and other payables (excluding rents received in advance) and tax liabilities.

The majority of the Group's financial risk management is carried out by Group Treasury under policies approved by the Board of Directors. The policies for managing each of these risks and the principal effects of these policies on the results for the year are summarised below.

Market risk

Interest rate risk

Interest rate risk comprises both cash flow and fair value risks. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Fair value risk is the risk that the fair value of financial instruments will fluctuate as a result of changes in market interest rates.

The Group's interest rate risk arises from borrowings issued at variable rates that expose the Group to cash flow interest rate risk, whereas borrowings issued at fixed interest rates expose the Group to fair value interest rate risk.

It is Group policy, and often a requirement of our lenders, to eliminate substantially all short and medium-term exposure to interest rate fluctuations in order to establish certainty over medium-term cash flows by using fixed interest rate derivatives. Interest rate swaps have the economic effect of converting borrowings from floating to fixed rates. Interest rate caps protect the Group by capping the maximum interest rate payable at the caps ceiling. Interest rate collars protect the Group by capping the maximum interest rate payable at the collar's ceiling but sacrifices the profitability of interest rate falls below a certain floor.

The table below shows the effects of derivative contracts that are linked to the drawn external borrowings profile of the Group and joint ventures. The table is calculated on a Group share basis in line with the reporting of this information internally to management.

Group	Fixed/Capped 2018 £m	Floating 2018 £m	Fixed/Capped 2017 £m	Floating 2017 £m
Nominal value of Group borrowings excluding finance leases	**550.0**	**66.4**	550.0	227.1
Nominal value of joint venture borrowings excluding finance leases	**–**	**30.0**	–	31.9
Nominal value of non-controlling interest borrowings excluding finance leases	**–**	**(24.6)**	–	(23.0)
	550.0	**71.8**	550.0	236.0
Derivative impact (nominal value of derivative contracts)	**–**	**–**	165.0	(165.0)
Borrowings profile net of derivative impact	**550.0**	**71.8**	715.0	71.0
Interest rate protection		**88%**		91%

Group policy is to ensure that interest rate protection on Group external debt is greater than 25 per cent.

In 2016, the Group entered into a forward starting interest rate swap to hedge the variability in specified hedged interest cash flows arising on £60.0 million of outstanding debt from 2016 to 2026. The loss recognised in other comprehensive income in the year was £nil (2017: £nil). This loss will be reclassified from other comprehensive income to the consolidated income statement over the term of the designated debt. The fair value of the designated hedging instrument at 31 December 2018 is £nil (2017: £nil). The hedge was 100 per cent effective; therefore no charge for an ineffective portion has been taken to the consolidated income statement.

26 FINANCIAL RISK MANAGEMENT CONTINUED

The sensitivity analysis below illustrates the impact of a 50 basis point ("bps") shift, upwards and downwards, in the level of interest rates on the movement in fair value of derivative financial instruments.

Group	**Increase in interest rates by 50 bps 2018 £m**	**Decrease in interest rates by 50 bps 2018 £m**	Increase in interest rates by 50 bps 2017 £m	Decrease in interest rates by 50 bps 2017 £m
Effect on profit before tax (change in fair value of derivative financial instruments):				
Increase/(decrease)	**5.3**	**(5.3)**	6.6	(6.6)

The sensitivity analysis above is a reasonable illustration of the possible effect from the changes in slope and shifts in the yield curve that may actually occur and represents management's assessment of possible changes in interest rates. The fixed rate derivative financial instruments are matched by floating rate debt, therefore such a movement would have a very limited effect on Group cash flow overall.

Liquidity risk

Liquidity risk is managed to ensure that the Group is able to meet future payment obligations when financial liabilities fall due.

The Group's policy is to seek to minimise its exposure to liquidity risk by managing its exposure to interest rate risk and to refinancing risk. The Group seeks to borrow for as long as possible at the lowest cost.

Liquidity analysis is intended to provide sufficient headroom to meet the Group's operational requirements and investment commitments.

The Group's policy also includes maintaining adequate cash, as well as maintaining adequate committed and undrawn facilities.

A key factor in ensuring existing facilities remain available to the Group is the borrowing entity's ability to meet the relevant facility's financial covenants. The Group has a process to monitor regularly both current and projected compliance with the financial covenants.

The Group regularly reviews the maturity profile of its financial liabilities and will seek to avoid concentrations of maturities through the regular replacement of facilities and by staggering maturity dates. Refinancing risk may be reduced by reborrowing prior to the contracted maturity date, effectively switching liquidity risk for market risk. This is subject to credit facilities being available at the time of the desired refinancing.

The tables below set out the maturity analysis of the Group's financial liabilities based on the undiscounted contractual obligations to make payments of interest and to repay principal. Where interest payment obligations are based on a floating rate, the rates used are those implied by the par yield curve.

	2018										
	Carrying Value	**1 yr**		**Between 1-2 yrs**		**Between 2-5 yrs**		**Over 5 yrs**		**Total**	
Group	**£m**	**Interest £m**	**Principal £m**	**Interest £m**	**Principal £m**	**Interest £m**	**Principal £m**	**Interest £m**	**Principal £m**	**Interest £m**	**Principal £m**
Asset-specific secured borrowings	**65.8**	**1.5**	**–**	**1.8**	**–**	**5.6**	**–**	**4.5**	**62.1**	**13.4**	**62.1**
Unsecured borrowings	**545.3**	**20.0**	**–**	**18.6**	**–**	**52.7**	**–**	**63.1**	**550.0**	**154.4**	**550.0**
Finance lease obligations	**6.1**	**–**	**0.7**	**–**	**0.6**	**–**	**1.7**	**–**	**3.1**	**–**	**6.1**
Other payables	**15.6**	**–**	**15.6**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**15.6**
	632.8	**21.5**	**16.3**	**20.4**	**0.6**	**58.3**	**1.7**	**67.6**	**615.2**	**167.8**	**633.8**

	2017										
	Carrying Value	1 yr		Between 1-2 yrs		Between 2-5 yrs		Over 5 yrs		Total	
Group	£m	Interest £m	Principal £m	Interest £m	Principal £m	Interest £m	Principal £m	Interest £m	Principal £m	Interest £m	Principal £m
Asset-specific secured borrowings	61.4	1.3	–	1.6	–	5.3	–	6.4	62.1	14.6	62.1
Unsecured borrowings	709.4	20.8	–	21.2	–	64.6	165.0	78.8	550.0	185.4	715.0
Finance lease obligations	6.1	–	0.7	0.1	0.6	0.5	1.7	14.9	3.1	15.5	6.1
Other payables	15.7	–	15.4	–	0.3	–	–	–	–	–	15.7
Interest rate derivatives payable	5.5	1.0	–	0.3	–	–	–	–	–	1.3	–
	798.1	23.1	16.1	23.2	0.9	70.4	166.7	100.1	615.2	216.8	798.9

Contractual maturities reflect the expected maturities of financial instruments.

Credit risk

The Group's principal financial assets are trade and other receivables, amounts receivable from joint ventures and cash and cash equivalents. Credit risk is the risk of financial loss if a tenant or counterparty fails to meet an obligation under a contract. Credit risk arises primarily from trade receivables relating to tenants but also from the Group's undrawn commitments and holdings of assets such as cash deposits and loans with financial counterparties. The carrying value of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk without taking into account the value of any deposits or guarantees obtained.

26 FINANCIAL RISK MANAGEMENT CONTINUED

Trade and other receivables:

Credit risk associated with trade receivables is actively managed; tenants are managed individually by asset managers, who continuously monitor and work with tenants, anticipating and wherever possible identifying and addressing risks prior to default. Trade receivables are less than one per cent of total assets at 31 December 2018 (2017: less than one per cent).

Prospective tenants are assessed through an internally conducted review process, by obtaining credit ratings and reviewing financial information. As a result, deposits or guarantees may be obtained. The amount of deposits held as collateral at 31 December 2018 was £14.0 million (2017: £13.6 million).

The Group applies the IFRS 9 'Financial Instruments' simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for trade and other receivables. Due to the nature of tenants being managed individually by asset managers, it is Group policy to measure expected credit losses on an individual contract basis. The expected loss rates are based on historical evidence of collection. The historical loss rates are adjusted to reflect current and future information such as estimated future cash flows or by using fair value where this is available through observable market prices and review of macroeconomic factors which may affect the tenants' ability to settle the receivables.

Trade receivable balances are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable recovery include, the failure of the debtor to engage in a repayment plan with the Group and a failure to make contractual payments for a period of great than 90 days past due.

The amounts of trade receivables presented in the balance sheet are net of impairment for doubtful receivables.

The ageing analysis of these trade receivables, past due but not impaired, is as follows:

Group	2018 £m	2017 £m
Up to 90 days	**5.0**	3.2
Over 90 days	**1.7**	0.1
Trade receivables	**6.7**	3.3

In 2018 there was an impairment write down on trade receivables of £nil (2017: write back of £0.5 million).

As the Group operates predominantly in central London, it is subject to some geographical risk. However, this is mitigated by the extensive range of tenants from varying business sectors and the credit review process as noted above.

Amounts receivable from joint ventures:

Included within receivables is £nil (2017: £nil) of amounts advanced to LSJV. The carrying value of the investment in LSJV is £nil (2017: £nil) as the Group's share of losses exceeds the cost of its investment. Total funding advanced to LSJV, including the deep discount bonds, of £161.4 million (2017: £147.5 million) has been impaired by £67.0 million (2017: £47.6 million).

LSJV is in a net liability position due to carrying trading property at the lower of cost and net realisable value. However, based on a market valuation undertaken by the Group's valuers, JLL, there is an unrecognised surplus of £25.7 million (Group share) as at 31 December 2018. This surplus will only be evidenced on sale of trading property when significant risks and rewards have transferred to the buyer. Therefore, while Lillie Square demonstrates positive pricing evidence commercially and funding provided is not deemed to be at risk of default, for reporting purposes the Group is required to allocate losses against amounts advanced to LSJV, to the extent that losses do not exceed the investment, until the unrecognised surplus on trading property is realised through sale.

Cash, deposits and derivative financial instruments:

The credit risk relating to cash, deposits and derivative financial instruments is actively managed by Group Treasury. Relationships are maintained with a number of institutional counterparties, ensuring compliance with Group cash investment policy relating to limits on the credit ratings of counterparties. The maximum exposure to cash, deposits and derivative financial instruments as at 31 December 2018 amounted to £32.5 million (2017: £28.6 million).

Capital structure

The Group seeks to enhance shareholder value both by investing in the business so as to improve the return on investment and by managing the capital structure. The Group uses a mix of equity, debt and other financial instruments and aims to access both debt and equity capital markets with maximum efficiency and flexibility.

The key ratios used to monitor the capital structure of the Group are the loan to value ratio ("LTV") and the interest cover ratio. The Group aims not to exceed an underlying LTV ratio of more than 40 per cent and to maintain interest cover above 125 per cent. These ratios are disclosed on a Group share basis in line with the reporting of this information internally to management. These metrics are discussed in the Financial Review on page 36.

Group **Loan to value**	2018 £m	2017 £m
Investment and development property	**3,066.7**	3,318.1
Trading property	**131.5**	122.9
	3,198.2	3,441.0
Net external debt	**(572.7)**	(733.7)
	17.9%	21.3%

The maximum loan to value ratio for the year was 21.3 per cent and occurred on 1 January 2018.

26 FINANCIAL RISK MANAGEMENT CONTINUED

Group **Interest cover**	**2018 £m**	2017 £m
Finance costs	**(19.5)**	(21.0)
Finance income	**0.3**	0.8
	(19.2)	(20.2)
Underlying operating profit	**28.6**	34.3
	149.0%	169.7%

The minimum interest coverage ratio for the year was 149.0 per cent and occurred on 31 December 2018.

Fair value estimation

Financial instruments carried at fair value are required to be analysed by level depending on the valuation method adopted under IFRS 13. The different valuation levels are defined in note 15 'Property Portfolio'.

The tables below present the Group's financial assets and liabilities recognised at fair value at 31 December 2018 and 31 December 2017. There were no transfers between levels during the year.

	2018				2017			
Group	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Derivative financial assets								
Total assets	**–**	**0.7**	**–**	**0.7**	–	–	–	–
Derivative financial liabilities								
Total liabilities	**–**	**–**	**–**	**–**	–	(5.5)	–	(5.5)

The fair values of derivative financial instruments are determined from observable market prices or estimated using appropriate yield curves at 31 December each year by discounting the future contractual cash flows to the net present values.

The fair values of the Group's cash and cash equivalents, other financial assets and other financial liabilities are not materially different from those at which they are carried in the financial statements.

27 DEFERRED TAX

The decrease in corporation tax rate referred to in note 11 'Taxation' has been enacted for the purposes of IAS 12 'Income Taxes' ("IAS 12") and therefore has been reflected in these consolidated financial statements based on the expected timing of the realisation of deferred tax.

Deferred tax on investment and development property is calculated under IAS 12 provisions on a disposals basis by reference to the properties' original tax base cost. Elements factored into the calculation include indexation relief and the Group's holding structure. The Group's recognised deferred tax position on investment and development property as calculated under IAS 12 is £nil at 31 December 2018 (2017: £nil). The Group's contingent tax liability on investment properties, calculated on the same tax base cost as above but based on a deemed market value disposal at year end, is £nil (2017: £nil). Following the enactment of Finance Act 2019, UK tax will be charged on gains made by non-resident entities on direct and certain indirect disposals of UK immovable property, with effect from April 2019.

A disposal of the Group's trading properties at their market value as per note 15 'Property Portfolio', before utilisation of carried forward losses, would result in a corporation tax charge to the Group of £4.9 million (19 per cent of £25.7 million).

Group	**Accelerated capital allowances £m**	**Fair value of investment & development property £m**	**Fair value of derivative financial instruments £m**	**Other temporary differences £m**	**Group losses £m**	**Total £m**
Provided deferred tax liabilities/(assets):						
At 1 January 2017	14.6	–	(3.1)	0.4	(9.2)	2.7
Adjustments in respect of previous years	–	–	–	–	(0.2)	(0.2)
Recognised in income	1.0	–	1.9	0.7	1.6	5.2
Recognised directly in equity	–	–	–	0.2	–	0.2
Released on discontinued operation	(12.6)	–	–	(3.1)	–	(15.7)
At 31 December 2017	**3.0**	**–**	**(1.2)**	**(1.8)**	**(7.8)**	**(7.8)**
Recognised in income	**1.1**	**–**	**1.2**	**(1.1)**	**0.1**	**1.3**
Recognised directly in equity	**–**	**–**	**–**	**0.8**	**–**	**0.8**
Reduction due to rate change	**–**	**–**	**–**	**–**	**0.8**	**0.8**
Released on discontinued operation	**(0.6)**	**–**	**–**	**–**	**–**	**(0.6)**
At 31 December 2018	**3.5**	**–**	**–**	**(2.1)**	**(6.9)**	**(5.5)**
Unprovided deferred tax assets:						
At 1 January 2018	**–**	**(64.7)**	**–**	**–**	**(8.7)**	
Movement during the year	**–**	**(31.0)**	**–**	**–**	**(0.6)**	
At 31 December 2018	**–**	**(95.7)**	**–**	**–**	**(9.3)**	

In accordance with the requirements of IAS 12, deferred tax assets are only recognised to the extent that the Group believes it is probable that future taxable profit will be available against which the deferred tax assets can be recovered.

28 SHARE CAPITAL AND SHARE PREMIUM

Group and Company

Issue type	Transaction date	Issue price (pence)	Number of shares	Share capital £m	Share premium £m
At 1 January 2017			846,121,707	211.5	215.1
Scrip dividend – 2016 final	May	290	1,653,429	0.4	4.8
Scrip dividend – 2017 interim	September	268	443,695	0.1	1.2
Share-based payment[1]			841,315	0.2	–
At 31 December 2017			**849,060,146**	**212.2**	**221.1**
Scrip dividend – 2017 final	May	265	**1,295,154**	**0.3**	**3.5**
Scrip dividend – 2018 interim	September	253	**394,791**	**0.1**	**1.0**
Share-based payment[2]			**56,165**	**0.1**	**-**
At 31 December 2018			**850,806,256**	**212.7**	**225.6**

1 In 2017 a total of 841,315 new shares were issued to satisfy employee share scheme awards.

2 In 2018 a total of 56,165 new shares were issued to satisfy employee share scheme awards.

At 26 February 2019, the Company had an unexpired authority to repurchase shares up to a maximum of 84,906,014 shares with a nominal value of £21.2 million, and the Directors had an unexpired authority to allot up to a maximum of 563,784,111 shares with a nominal value of £140.9 million of which 282,737,028 with a nominal value of £70.7 million can only be allotted pursuant to a fully pre-emptive rights issue.

29 CAPITAL COMMITMENTS

At 31 December 2018, the Group was contractually committed to £22.4 million (2017: £57.3 million) of future expenditure for the purchase, construction, development and enhancement of investment, development and trading property. All of the £22.4 million committed is committed 2019 expenditure. This includes the CLSA commitment as described in further detail below.

In November 2013, the Group exercised its option under the CLSA which it entered into with LBHF in January 2013 in relation to LBHF's land interest within the Earls Court Masterplan. Under the terms of the CLSA, the Group can draw down land in phases but no land can be transferred unless replacement homes for the residents of the relevant phase have been provided and vacant possession is given. The Group has already paid £90.0 million of the £105.0 million cash consideration payable under the CLSA. The residual £15.0 million will be settled in one remaining instalment of £15.0 million which is due on 31 December 2019.

The Group's share of joint venture capital commitments arising on LSJV amounts to £32.4 million (2017: £7.0 million).

30 CONTINGENT LIABILITIES

The Group has contingent liabilities in respect of legal claims, guarantees and warranties arising from the ordinary course of business. Contingent liabilities that may result in material liabilities are described below.

Under the terms of the CLSA the Group has certain compensation obligations relating to achieving vacant possession, which are subject to an overall cap of £55.0 million. Should any payments be made in respect of these obligations, they will be deducted from the total consideration payable to LBHF (refer to note 29 'Capital Commitments').

In March 2013, an agreement with Network Rail was signed to acquire a 999 year leasehold interest in the air rights above the West London Line where it runs within the Earls Court and West Kensington Opportunity Area. Within the terms of the agreement, the Group can exercise options during the next 50 years for further 999 year leases over the remainder of the West London Line to allow for development within the Earls Court Masterplan. Network Rail is entitled to further payments of 5.55 per cent of the residual land value which will be payable at the time of development or disposal of each phase of the Earls Court Masterplan. Any further payments to Network Rail will be treated as contingent rent as per note 24 'Finance Lease Obligations'.

Within the terms of the agreement of the acquisition of the Northern Access Road land, the vendor's successor in title is entitled to further payments until 2027 if certain conditions are met. Further payments become due following the grant of a planning permission for change of use or on disposal. In the event such planning permission is implemented, the payment is calculated at 50 per cent of the uplift in land value following the grant of the permission. In the event of a disposal, the payment is calculated as 50 per cent of the difference between the sale value against the land value without the relevant permission.

31 CASH FLOW INFORMATION

(a) Cash generated from/(used in) continuing operations

Continuing operations	Note	**Group 2018 £m**	Group 2017 £m	**Company 2018 £m**	Company 2017 £m
(Loss)/profit before tax		**(119.3)**	(62.5)	**13.3**	18.1
Adjustments:					–
Profit on sale of trading property	3	**–**	(0.9)	**–**	–
Loss on revaluation and sale of investment and development property	4	**146.1**	90.9	**–**	–
Impairment of other receivables	5	**23.2**	1.3	**–**	–
Profit on sale of subsidiaries	6	**(29.5)**	–	**–**	–
Impairment of investment in subsidiaries	16	**–**	–	**0.9**	–
Depreciation		**1.9**	1.9	**–**	–
Amortisation of tenant lease incentives and other direct costs		**(1.0)**	(2.3)	**–**	–
Share-based payment[1]		**2.4**	2.0	**–**	–
Finance income	9	**(0.3)**	(0.8)	**–**	–
Finance costs	10	**19.3**	19.9	**–**	–
Other finance income	9	**(12.0)**	(11.7)	**(19.0)**	(18.9)
Change in fair value of derivative financial instruments	26	**(2.2)**	(4.3)	**–**	–
Change in working capital:					
Change in trade and other receivables		**(21.6)**	(32.5)	**14.5**	7.5
Change in trade and other payables		**0.8**	4.8	**(0.7)**	(0.3)
Cash generated from continuing operations		**7.8**	5.8	**9.0**	6.4

1 This relates to the IFRS 2 'Share-based payment' charge. Refer to note 33 'Share-Based Payments' for further details.

(b) Cash generated from discontinued operation

Discontinued operation	Note	Period ended 7 April 2017 £m
Profit before tax	12	6.1
Adjustments:		
Profit on disposal of discontinued operation	12	(2.1)
Depreciation		0.1
Finance costs		0.4
Change in fair value of derivative financial instruments		0.1
Change in working capital:		
Change in trade and other receivables		1.7
Change in trade and other payables		1.7
Cash generated from discontinued operation		8.0

(c) Reconciliation of cash flows from financing activities

The table below sets out the reconciliation of movements of liabilities to cash flows arising from financing activities:

Group	Note	**Long-term borrowings £m**	**Short-term borrowings £m**	**Derivative financial instruments £m**	**Total liabilities from financing activities £m**
Balance at 1 January		**776.2**	**0.7**	**5.5**	**782.4**
Cash flows from financing activities					
Proceeds from loans and borrowings	23	**22.8**	**–**	**–**	**22.8**
Repayment of borrowings	23	**(185.0)**	**–**	**–**	**(185.0)**
Purchase and repayment of derivative financial instruments		**–**	**–**	**(4.0)**	**(4.0)**
Total cash flows used in financing activities		**(162.2)**	**–**	**(4.0)**	**(166.2)**
Non-cash movements from financing activities					
Facility fees amortised		**1.0**	**–**	**–**	**1.0**
Changes in fair value	26	**–**	**–**	**(2.2)**	**(2.2)**
Borrowing costs capitalised		**1.5**	**–**	**–**	**1.5**
Total non-cash flows from/(used in) financing activities		**2.5**	**–**	**(2.2)**	**0.3**
Balance at 31 December		**616.5**	**0.7**	**(0.7)**	**616.5**

32 RELATED PARTY TRANSACTIONS

(a) Transactions between the Parent Company and its subsidiaries

Transactions between the Parent Company and its subsidiaries, which are related parties, have been eliminated on consolidation for the Group.

Significant transactions between the Parent Company and its subsidiaries are shown below:

Subsidiary	Nature of transaction	2018 £m	2017 £m
Funding activities			
Capco Group Treasury Limited	Interest on intercompany loan	**19.0**	18.9
Capital & Counties Asset Management Limited	Intercompany dividend receivable	**0.9**	–

Significant balances outstanding at 31 December between the Parent Company and its subsidiaries are shown below:

	Amounts owed by subsidiaries	
Subsidiary	**2018 £m**	2017 £m
Capco Group Treasury Limited	**1,537.4**	1,529.6

The amount due from Capco Group Treasury Limited is unsecured, interest bearing at 1.25 per cent and repayable on demand.

(b) Transactions with Directors

Key management compensation[1]	2018 £m	2017 £m
Salaries and short-term employee benefits	**3.0**	3.3
Share-based payment	**1.5**	1.3
	4.5	4.6

1 Key management comprises the Directors of the Company who have been determined to be the only individuals with authority and responsibility for planning, directing and controlling the activities of the Company.

Share dealings

No Director had any dealings in the shares of any Group company between 31 December 2018 and 26 February 2019, being a date less than one month prior to the date of the notice convening the Annual General Meeting.

Other than as disclosed in these accounts, no Director of the Company had a material interest in any contract (other than service contracts), transaction or arrangement with any Group company during the year ended 31 December 2018.

(c) Transactions between the Group and its joint ventures

Transactions during the year between the Group and its joint ventures, which are related parties, are disclosed in notes 17 'Investment in Joint Ventures', 20 'Trade and other receivables' and 29 'Capital commitments'. During the year the Group recognised management fee income of £3.4 million (2017: £3.8 million) that was earned on an arm's length basis.

Property purchased by Directors of the Company

A related party of the Group, Lillie Square GP Limited, entered into the following related party transactions as defined by IAS 24 'Related Party Disclosures':

- In April 2014 Henry Staunton, Chairman of Capital & Counties Properties PLC since 5 June 2018, together with his spouse exchanged contracts to acquire an apartment for a purchase price of £1,999,000 and at 31 December 2016 had paid deposits totalling £399,800. Legal completion occurred during 2017 with a net amount of £1,596,850 received, reflecting application of a standard legal fee incentive.
- In April 2014 Ian Durant, Chairman of Capital & Counties Properties PLC until 5 June 2018, together with his spouse exchanged contracts to acquire an apartment for a purchase price of £725,000, and at 31 December 2016 had paid deposits totalling £145,000. Legal completion occurred during 2017 with a net amount of £579,000 received, reflecting application of a standard legal fee incentive and a specification enhancement.
- In April 2014 Andrew Strang, a Non-executive Director of Capital & Counties Properties PLC, exchanged contracts to acquire an apartment for a purchase price of £855,000 and at 31 December 2016 had paid deposits totalling £171,000. Legal completion occurred during 2017 with a net amount of £683,000 received, reflecting application of a standard legal fee incentive and a specification enhancement.
- In April 2014 Situl Jobanputra, Chief Financial Officer of Capital & Counties Properties PLC, together with a family member exchanged contracts to acquire an apartment for a purchase price of £710,000, and at 31 December 2016 had paid deposits totalling £142,000. Legal completion occurred during 2017 with a net amount of £566,250 received, reflecting application of a standard legal fee incentive.
- In December 2014 Graeme Gordon, a Non-executive Director of Capital & Counties Properties PLC, exchanged contracts to acquire two apartments for £1,925,000 and £2,725,000. During construction, plans were altered and the two apartments were combined into one apartment. During the year, this apartment was re-sold to a third party on behalf of Graeme Gordon for £4,900,000. Under the terms of the re-sale the net amount received from the third party by Lillie Square was £4,874,940. Graeme Gordon received £929,160 comprising the return of deposits paid and the net proceeds of the sale after the deduction of transaction costs.
- In December 2014 Blue Lillie Limited, an entity connected to Graeme Gordon, exchanged contracts to acquire two apartments for £1,975,000 and £2,825,000. During construction, plans were altered and the two apartments were combined into one apartment. The terms of the contracts were varied accordingly and assigned to Graeme Gordon. Legal completion occurred in 2018 with a total amount of £4,794,000 received (including deposits totalling £940,000 paid prior to 31 December 2016), reflecting application of standard legal fees.

32 RELATED PARTY TRANSACTIONS CONTINUED

– Upon legal completion of the above transactions, the Directors are required to pay annual ground rent and insurance premium fees and bi-annual service charge fees. During 2018, £19,790 has been received in relation to these charges. Certain payments in relation to these charges are made in advance and £15 has therefore been received for 2019 as at 31 December 2018.

The above transactions with Directors were conducted at fair and reasonable market price based upon similar comparable transactions at that time. Where applicable, appropriate approval has been provided.

Lillie Square GP Limited acts in the capacity of general partner to Lillie Square LP, a joint venture between the Group and KFI.

33 SHARE-BASED PAYMENTS

The Group operates a number of share-based payment schemes relating to employee benefits and incentives. All schemes are equity settled with the increase in equity measured by reference to the fair value of the Group's equity instruments at the grant date of the share awards. The corresponding expense is recognised on a straight-line basis over the vesting period based on Group estimates of the number of shares that are expected to vest. The total expense recognised in the consolidated income statement in respect of share-based payments for 2018 was £2.4 million (2017: £2.0 million). All options have a vesting period of three years and a maximum contractual life of ten years. The fair value of share awards is determined by the market price of the shares at the grant date.

Full details of the performance criteria, vesting outcomes and any additional holding periods for the performance share plan, and the former performance and matching share plans, are set out within the Directors' Remuneration Report on pages 64 to 82.

1. Performance share plan

Market value and nil cost options to subscribe for ordinary shares and conditional awards of free shares may be awarded under the Performance Share Plan ("PSP"), and could previously be awarded under the former Performance Share Plan ("Former PSP"). The Company may make a proportion of awards as HMRC approved market value options.

Share options outstanding at 31 December 2018 were exercisable between nil pence and 315 pence and have a weighted average remaining contractual life of eight years and are exercisable between 2019 and 2028.

(a) Market value option awards

	2018		2017	
	Number of market value options	**Weighted average exercise price (pence)**	Number of market value options	Weighted average exercise price (pence)
Outstanding at 1 January	**1,041,325**	**300.0**	1,388,304	278.0
Awarded during the year	**60,752**	**269.0**	209,124	312.0
Forfeited during the year	**(537,573)**	**380.5**	(288,183)	364.0
Exercised during the year[1]	**(104,523)**	**175.0**	(267,920)	126.0
Outstanding at 31 December	**459,981**	**231.0**	1,041,325	300.0
Exercisable at 31 December	**201,458**		305,981	

1 The weighted average share price at the date of exercise was 267.6 pence (2017: 265.4 pence).

(b) Nil cost option awards

	Number of nil cost options	
	2018	2017
Outstanding at 1 January	**2,779,013**	1,988,381
Awarded during the year	**2,233,602**	1,686,167
Forfeited during the year	**(393,864)**	(418,786)
Exercised during the year	**–**	(476,749)
Outstanding at 31 December	**4,618,751**	2,779,013
Exercisable at 31 December	**177,575**	177,575

(c) Deferred share awards

	Number of deferred share awards	
	2018	2017
Outstanding at 1 January	**3,013,802**	2,891,272
Awarded during the year	**1,685,093**	1,699,057
Forfeited during the year	**(970,353)**	(1,576,527)
Exercised during the year	**(2,885)**	–
Outstanding at 31 December	**3,725,657**	3,013,802

2. Former Matching share plan

Under the Former Matching Share Plan ("Former MSP"), nil cost option awards could be made in respect of certain shares purchased by Directors, Directors' deferred bonus, or matching of Directors' deferred bonus. No awards were made under the Former MSP in 2017 or 2018, and no further awards will be made.

33 SHARE-BASED PAYMENTS CONTINUED

(a) Deferred share awards – nil cost options

	Number of nil cost options	
	2018	2017
Outstanding at 1 January	**593,379**	693,242
Exercised during the year	**–**	(99,863)
Outstanding at 31 December	**593,379**	593,379
Exercisable at 31 December	**102,998**	102,998

(b) Deferred share awards and co-investment – matched nil cost options

	Number of matched nil cost options	
	2018	2017
Outstanding at 1 January	**1,219,628**	1,731,150
Forfeited during the year	**(328,624)**	(421,512)
Exercised during the year	**–**	(90,010)
Outstanding at 31 December	**891,004**	1,219,628
Exercisable at 31 December	**150,501**	150,501

3. Fair value of share-based payment

The fair value of share awards is calculated using the Black-Scholes option pricing model for the half that is subject to the total return performance condition and using the stochastic pricing model for the half that is subject to the total shareholder return performance condition. Inputs to the models for share awards during the year are as follows:

Year of share award	**2018**	2017	2016	2015
Closing share price at grant date	**270p**	317p	283 – 332p	404p
Exercise price	**0 – 270p**	0 – 317p	0 – 315p	403p
Expected option life	**3 – 6.5 years**	3 – 6.5 years	3 – 6.5 years	3 years
Risk-free rate	**0.9 – 1.3%**	0.2 – 0.6%	0.3 – 1.2%	0.5 – 1.2%
Expected volatility	**24.3 – 30.0%**	24.3 – 30.5%	21.5 – 28.9%	19.0 – 22.0%
Expected dividend yield	**0.6%**	0.5%	0.5%	0.4%
Average share price	**274p**	288p	323p	421p
Value per option	**33 – 115p**	38 – 135p	30 – 96p	36 – 167p

Expected dividend yield is based on public pronouncements about future dividend levels; all other measures are based on historical data.

34 RELATED UNDERTAKINGS

The Company's subsidiaries and other related undertakings at 31 December 2018 are listed below. All Group entities are included in the consolidated financial statements.

Unless otherwise stated, the Company holds 100 per cent of the voting rights and beneficial interests in the shares of the following subsidiaries. The share capital of each of the Companies, where applicable, comprises ordinary shares unless otherwise stated.

Registered address: 15 Grosvenor Street, London, W1K 4QZ

Related undertakings

20 The Piazza Limited
20 The Piazza Management Limited
22 Southampton Street Limited
22 Southampton Street Management Limited
34 Henrietta Street Limited
34 Henrietta Street Management Company Limited
Bronze Limited[1]
C&C Management Services Limited[2]
C&C Properties UK Limited[2]
Capco CG 2012 Limited
Capco CG 2012 Nominee Limited
Capco CGP 2012 LP
Capco Covent Garden Limited[2]
Capco Covent Garden Residential Limited
Capco Group Treasury Limited[2]
Capco London Limited
Capital & Counties Asset Management Limited[1, 2]
Capital & Counties CG Limited
Capital & Counties CGP
Capital & Counties CG Nominee Limited
Capital & Counties Limited[2,3]
CG Investments 2016 GP Limited
CG Investments 2016 LP
CG Investments 2016 Nominee Limited
CG Treasury Limited[2]
Covent Garden (43 Management) Limited
Covent Garden (49 Wellington Street) Limited
Covent Garden Group Holdings Limited
Covent Garden Management Services Limited[2]
Capco CG Wellington (JAH) Limited[1]
Capco CG Wellington (JAR) Limited[1]
Capco CG Wellington (O) Limited[1]
Earls Court Limited
Earls Court Partnership Limited (63%)
EC Properties GP Limited
EC Properties LP
EC Properties Management Limited
EC Properties Nominee Limited
EC&O Limited[1]
Euro Co-Ventures Limited (50%)[4,5]
Falcon House Management Limited (100%)[1, 6]
Floral Court Collection Management Limited
Floral Court Limited
Innova Investment Partnership GP Limited (50%)[4]
Innova Investment Limited Partnership (50%)[4]
Innova Investment Group Holdings GP Limited
Innova Investment Group Holdings LP
Innova Investment Group Holdings Nominee Limited
Innova Investment Management Limited
Lillie Square Clubhouse Limited (50%)[4]
Lillie Square Developments Limited (50%)[4]
Lillie Square GP Limited (50%)[4]
Lillie Square LP (50%)[4]
Lillie Square Management Limited (50%)[4]
Lillie Square Nominee Limited (50%)[4]
Newincco 1390 Limited[1]
St James Capital Seagrave Road Limited[1]

1 In liquidation.
2 Direct undertakings of the Parent.
3 Non-voting deferred shares.
4 Equity accounted joint ventures.
5 Struck-off on 5 February 2019.
6 Company limited by guarantee.

34 RELATED UNDERTAKINGS CONTINUED

Registered address: 27 Esplanade, St Helier, Jersey, JE1 1SG

Related undertakings	
Capital & Counties CG (No. 1) Limited	CG Investments 2016 Group Limited
Capital & Counties CG (No. 2) Limited	Covent Garden Limited
Capvestco 2 Limited[1]	Covent Garden LP Limited
Capvestco 3 Limited[1]	EC Group Holdings Limited
Capvestco 3 Holdings Limited	EC Holdings Limited
Capvestco Earls Court Limited	EC Properties LP Limited
Capvestco Limited[1]	Innova Investment Group Holdings LP Limited
CG Investments 2016 (No. 1) Limited	Innova Investment Holdings Limited
CG Investments 2016 (No. 2) Limited	Lillie Square LP Limited

1 Direct undertakings of the Parent.

Registered address: 33 Cavendish Square, London, W1G 0PW

Related undertakings	
Great Capital Partnership (G.P.) Limited (50%)[1]	The Great Capital Partnership (50%)[1]
Great Capital Property Limited (50%)[1]	

1 Equity accounted joint ventures.

Registered address: 25 The Avenue, Chiswick, London, England, W4 1HA

Related undertaking
1 and 3 Eardley Crescent Ltd (15%)

Analysis of property portfolio

1. PROPERTY DATA AS AT 31 DECEMBER 2018

	Market value £m	Ownership
Covent Garden	**2,610.0**	**100%**
Earls Court Properties		
ECPL	**460.7**	**63%**
Lillie Square	**159.1**	**50%**
Other	**38.5**	**100%**
Earls Court Properties (Group share)	**658.3**	
Group share of total property	**3,268.3**	
Investment and development property	***3,111.1***	
Trading property	***157.2***	

2. ANALYSIS OF CAPITAL RETURN FOR THE YEAR

Like-for-like capital	**Market value 31 December 2018 £m**	Market value 31 December 2017 £m	**Revaluation gain/(loss)[1] 31 December 2018 £m**	**Increase/(decrease)**
Covent Garden	**2,595.0**	2,529.5	**40.6**	**1.6%**
Earls Court Properties	**656.3**	731.8	**(121.3)**	**(15.6)%**
Total like-for-like capital	**3,251.3**	3,261.3	**(80.7)**	**(2.4)%**
Investment and development property	***3,094.1***	*3,133.9*	***(76.9)***	**(2.5)%**
Trading property[2]	***157.2***	*127.4*	***(3.8)***	**(2.3)%**
Non like-for-like capital				
Acquisitions	**17.0**	–	**(4.0)**	
Disposals	**–**	263.2	**–**	
Group share of total property	**3,268.3**	3,524.5	**(84.7)**	**(2.6)%**
Investment and development property	***3,111.1***	*3,369.8*	***(80.9)***	**(2.6)%**
Trading property[2]	***157.2***	*154.7*	***(3.8)***	**(2.3)%**
All property				
Covent Garden	**2,610.0**	2,545.4	**37.3**	**1.5%**
Earls Court Properties	**658.3**	979.1	**(122.0)**	**(15.6)%**
Group share of total property	**3,268.3**	3,524.5	**(84.7)**	**(2.6)%**

1 Revaluation gain/(loss) includes amortisation of lease incentives and fixed head leases.

2 Represents unrecognised surplus and write down or write back to market value of trading property. Presented for information purposes only.

Analysis of property portfolio continued

3. ANALYSIS OF NET RENTAL INCOME FOR THE YEAR

Like-for-like net rental income from continuing operations	2018 £m	2017 £m	Increase/ (decrease)
Covent Garden	**51.0**	46.6	**9.6%**
Earls Court Properties	**2.2**	1.4	**57.5%**
Other	**(0.2)**	(0.5)	**(46.1)%**
Total like-for-like net rental income	**53.0**	47.5	**11.5%**
Like-for-like investment and development property	***53.0***	*47.5*	***11.5%***
Non like-for-like net rental income			
Acquisitions	**0.3**	–	
Developments	**2.1**	1.4	
Disposals	**4.0**	16.6	
Prior year acquisitions (like-for-like capital)	**4.1**	0.7	
Group share of total net rental income	**63.5**	66.2	**(4.2)%**
Investment and development property	***63.6***	*66.3*	**(4.2)%**
Trading property	***(0.1)***	*(0.1)*	

All property			
Covent Garden	**57.5**	48.9	**17.5%**
Earls Court Properties	**6.3**	17.8	**(65.0)%**
Other	**(0.3)**	(0.5)	**(54.2)%**
Group share of total net rental income	**63.5**	66.2	**(4.2)%**

4. ANALYSIS OF COVENT GARDEN BY USE

31 December 2018

	Initial yield (EPRA)	Nominal equivalent yield	Passing rent[2] £m	Occupancy rate	Weighted average unexpired lease years	Market value £m	ERV £m	Net area million Sq ft
Retail						**2,020.8**	**81.7**	**0.7**
Office						**341.0**	**18.8**	**0.3**
Residential						**246.7**	**7.1**	**0.2**
Other[1]						**1.5**	**0.1**	**–**
Total	**2.38%**	**3.59%**	**66.1**	**97.3%**	**7.6**	**2,610.0**	**107.7**	**1.2**

1 Consists of property where the highest and best use valuation differs from the current use.

2 Non-leased income of £1.9 million is added to passing rent to arrive at gross income.

Consolidated underlying profit statement

For the year ended 31 December 2018

Group share	2018 £m	2017 £m
Continuing operations		
Net rental income	**63.5**	66.2
Other income	**1.8**	2.3
Administration expenses	**(36.7)**	(38.7)
Operating profit	**28.6**	29.8
Finance costs	**(19.5)**	(20.6)
Finance income	**0.3**	0.8
Net finance costs	**(19.2)**	(19.8)
Profit before tax	**9.4**	10.0
Taxation	**(1.4)**	(2.7)
Underlying earnings from continuing operations	**8.0**	7.3
Underlying earnings from discontinued operation	**–**	4.1
Underlying earnings	**8.0**	11.4
Underlying earnings per share (pence):		
From continuing operations	**0.9**	0.9
From discontinued operation	**–**	0.4
Underlying earnings per share (pence)	**0.9**	1.3
Weighted average number of shares	**850.8m**	850.4m

Financial covenants

For the year ended 31 December 2018

FINANCIAL COVENANTS ON NON-RECOURSE DEBT

	31 December 2018			
Group share	Maturity	Loan(s) outstanding at 31 December 2018[1] £m	LTV covenant	Interest cover covenant
Covent Garden[2]	**2022–2037**	**550.0**	**60%**	**120%**
ECPL	**2026**	**41.8**	**40%**	**n/a**
Lillie Square[3]	**2021**	**30.0**	**75%**	**n/a**
Total		**621.8**		

1 The loan values are the nominal values at 31 December 2018 shown on a Group share basis. The balance sheet value of the loans includes any unamortised fees.

2 Covent Garden comprises £705 million Revolving Credit Facility ("RCF") maturing in 2022 with £nil drawn and £550 million Private Placement unsecured notes maturing between 2024 and 2037.

3 Subject to exercise of extension option (2020 – 2021) by the borrower.

Alternative performance measures

For the year ended 31 December 2018

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

Set out below is a summary of the APMs used in this Annual Report.

Many of the APMs included are based on the EPRA Best Practice Recommendations reporting framework, a set of standard disclosures for the property industry, which aims to improve the transparency, comparability and relevance of published results of public real estate companies in Europe.

The Group also uses underlying earnings, property portfolio and financial debt ratios APMs. The Group considers the presentation of underlying earnings to be useful supplementary information as it removes unrealised and certain other items and therefore represents the recurring, underlying performance of the business. The property portfolio presents the Group share of property market value which is the economic value attributable to the owners of the Parent. Financial debt ratios are supplementary ratios which we believe are useful in monitoring the capital structure of the Group. Additionally loan to value and interest cover are covenants within many of the Group's borrowing facilities.

Internally, the Board focuses on and reviews information and reports prepared on a Group share basis, which includes the Group's share of joint ventures but excludes the non-controlling interest share of our subsidiaries.

APM	Nearest IFRS measure	Explanation and reconciliation
EPRA earnings and earnings per share	Profit for the year and basic earnings per share	Note 14
EPRA NAV and NAV per share	Net assets attributable to shareholders	
Underlying earnings and earnings per share	Basic earnings per share	
Market value of property portfolio	Investment, development and trading properties	Note 15
Loan to value	N/A	Note 26
Interest cover	N/A	
Gross debt with interest rate protection	N/A	
Weighted average cost of debt	N/A	Financial Review, page 36

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

Selected performance measures

The following is a summary of EPRA performance measures and key Group measures included within this Annual Report. The measures are defined in the Glossary.

APM	Definition of measure	Page	2018	2017
Alternative to Income Statement				
EPRA earnings	Recurring earnings from core operational activity	110	**£2.4m**	£6.2m
EPRA earnings per share	EPRA earnings per weighted number of ordinary shares	110	**0.3p**	0.7p
Underlying earnings	Profit for the year excluding unrealised and one-off items	110	**£8.0m**	£11.4m
Underlying earnings per share	Underlying earnings per weighted number of ordinary shares	110	**0.9p**	1.3p
Alternative to Balance Sheet				
Market value of property portfolio	Market value of investment, development and trading properties	113	**£3,268m**	£3,525m
EPRA NAV	Net asset value adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business model	111	**£2,777m**	£2,839m
EPRA NAV per share	EPRA NAV per the diluted number of ordinary shares	111	**326p**	334p
EPRA triple net assets	EPRA NAV amended to include the fair value of financial instruments and debt	111	**£2,788m**	£2,822m
EPRA triple net assets per share	Diluted triple net assets per the diluted number of ordinary shares	111	**327p**	332p
Other				
EPRA net initial yield	Annualised rental income less non-recoverable costs as a percentage of market value plus assumed purchaser's costs	N/A	**2.4%**	2.5%
EPRA topped-up initial yield	Net initial yield adjusted for the expiration of rent-free periods	N/A	**2.7%**	2.8%
Occupancy	ERV of occupied space as a percentage of ERV of combined portfolio	N/A	**97.3%**	97.9%
Loan to value	Net debt divided by the carrying value of the property portfolio	124	**17.9%**	21.3%
Interest cover	Underlying operating profit divided by net underlying finance costs	125	**149.0%**	169.7%
Gross debt with interest rate protection	Proportion of the gross debt with interest rate protection	122	**88%**	91%
Weighted average cost of debt	Cost of debt weighted by the drawn balance of external borrowings	107	**2.9%**	2.8%

Historical Record

CONTINUING AND DISCONTINUED OPERATIONS

Consolidated income statement	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Net rental income	**63.5**	73.4	81.5	74.9	70.1
Profit/(loss) on sale of trading property	**6.7**	14.5	4.4	2.0	(1.9)
Other income	**1.8**	2.3	2.7	2.6	1.5
(Loss)/gain on revaluation and sale of investment and development property	**(78.8)**	(28.0)	(124.8)	421.8	454.4
Profit on sale of subsidiaries	**29.5**	–	–	–	–
Non-recurring (costs)/income	**(4.3)**	1.5	(5.0)	(0.2)	1.7
Administration expenses	**(41.6)**	(41.4)	(50.5)	(52.5)	(43.2)
Operating (loss)/profit	**(23.2)**	22.3	(91.7)	448.6	482.6
Net finance costs	**(17.1)**	(16.0)	(37.8)	(20.6)	(32.4)
(Loss)/profit before tax	**(40.3)**	6.3	(129.5)	428.0	450.2
Taxation	**(4.3)**	(6.7)	10.9	3.1	(1.6)
(Loss)/profit for the year	**(44.6)**	(0.4)	(118.6)	431.1	448.6

Consolidated balance sheet					
Investment and development property	**3,066.7**	3,318.1	3,443.0	3,385.2	2,785.9
Other non-current assets	**157.2**	155.1	120.0	96.0	55.8
Cash and cash equivalents	**49.9**	52.3	64.8	91.0	111.9
Other current assets	**181.8**	158.7	231.1	173.7	144.9
Total assets	**3,455.6**	3,684.2	3,858.9	3,745.9	3,098.5
Non-current borrowings, including finance leases	**(621.9)**	(785.3)	(881.1)	(651.4)	(439.1)
Other non-current liabilities	**–**	(5.8)	(17.5)	(16.8)	(17.2)
Current borrowings, including finance leases	**(0.7)**	(0.7)	(31.1)	(18.5)	(17.5)
Other current liabilities	**(84.5)**	(92.6)	(124.2)	(125.2)	(118.4)
Total liabilities	**(707.1)**	(884.4)	(1,053.9)	(811.9)	(592.2)
Net assets	**2,748.5**	2,799.8	2,805.0	2,934.0	2,506.3

Per share information	Pence	Pence	Pence	Pence	Pence
Basic (loss)/earnings per share	**(6.7)**	(0.1)	(14.0)	51.3	55.6
Underlying earnings per share	**0.9**	1.3	1.4	0.9	1.6
Basic net assets per share	**321.6**	329.7	331.5	348.5	299.7
EPRA NAV	**325.7**	333.8	339.6	360.9	310.7
Dividend per share	**1.5**	1.5	1.5	1.5	1.5

Prepared on a Group share basis.

Board and advisers

Chairman
Henry Staunton

Executive Directors
Ian Hawksworth, Chief Executive
Situl Jobanputra, Chief Financial Officer
Gary Yardley, Managing Director & Chief Investment Officer

Non-executive Directors
Charlotte Boyle
Graeme Gordon
Gerry Murphy, Senior Independent Director
Anthony Steains
Andrew Strang

Company Secretary
Ruth Pavey

Registered office
15 Grosvenor Street
London
W1K 4QZ
Telephone: 020 3214 9150
Fax: 020 3214 9151

Registered number
7145051

Websites
www.capitalandcounties.com
www.coventgarden.london
www.myearlscourt.com

Independent auditors
PricewaterhouseCoopers LLP

Solicitors
Linklaters LLP
Webber Wentzel (South Africa)

Brokers and Financial Advisers
Bank of America Merrill Lynch
Rothschild & Co.
UBS AG London Branch

SA Sponsor
Merrill Lynch South Africa (Pty) Limited

Dividends

The Directors of Capital & Counties Properties PLC have proposed a final dividend per ordinary share (ISIN GB00B62G9D36) of 1.0 pence payable on 16 May 2019.

Dates

The following are the salient dates for payment of the proposed final dividend:

Sterling/Rand exchange rate struck	1 April 2019
Sterling/Rand exchange rate and dividend amount in Rand announced	2 April 2019
Ordinary shares listed ex-dividend on the Johannesburg Stock Exchange	10 April 2019
Ordinary shares listed ex-dividend on the London Stock Exchange	11 April 2019
Record date for final dividend in UK and South Africa	12 April 2019
Election date for scrip dividend alternative (SA) by noon	12 April 2019
Election date for scrip dividend alternative (UK) by 5:30pm	23 April 2019
Dividend payment date for shareholders	**16 May 2019**

South African shareholders should note that, in accordance with the requirements of Strate, the last day to trade cum-dividend will be 9 April 2019 and that no dematerialisation of shares will be possible from 10 April 2019 to 12 April 2019 inclusive. No transfers between the UK and South Africa registers may take place from 2 April 2019 to 12 April 2019 inclusive.

Subject to SARB approval, the Board intends to offer an optional scrip dividend alternative in respect of the 2018 final dividend.

The above dates are proposed and subject to change.

Important information for South African shareholders:

The final cash dividend declared by the Company will constitute a dividend for Dividends Tax purposes. Dividends Tax will therefore be withheld from the amount of the final cash dividend which is paid at a rate of 20 per cent, unless a shareholder qualifies for an exemption and the prescribed requirements for effecting the exemption, as set out in the rules of the Scrip Dividend Scheme, are in place by the requisite date.

It is the Company's understanding that the issue and receipt of shares pursuant to the scrip dividend alternative will not have any Dividends Tax nor income tax implications. The new shares which are acquired under the scrip dividend alternative will be treated as having been acquired for nil consideration.

This information is included only as a general guide to taxation for shareholders resident in South Africa based on Capco's understanding of the law and the practice currently in force. Any shareholder who is in any doubt as to their tax position should seek independent professional advice.

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.

BPS
Basis point is a unit equal to one hundredth of a percentage point.

Capco
Capco represents Capital & Counties Properties PLC (also referred to as "the Company" or "the Parent") and all its subsidiaries and group undertakings, collectively referred to as "the Group".

CLSA
Conditional Land Sale Agreement, an agreement with LBHF relating to its land in the Earls Court and West Kensington Opportunity Area.

Diluted figures
Reported amounts adjusted to include the dilutive effects of potential shares issuable under employee incentive arrangements.

Earls Court
The London district made up of a series of residential neighbourhoods crossing the boundaries of London Borough of Hammersmith & Fulham and Royal Borough of Kensington & Chelsea.

Earls Court Masterplan
The Earls Court Masterplan, created by Sir Terry Farrell and Partners, is the consented scheme for the transformation of Earls Court and West Kensington Opportunity Area. The London Borough of Hammersmith & Fulham and The Royal Borough of Kensington & Chelsea formally granted outline planning permission for the Earls Court Masterplan on 14 November 2013.

Earls Court Properties
The Group's interests in the Earls Court area, comprising properties held in ECPL, Lillie Square (a 50:50 joint venture partnership with the Kwok Family Interests), the Empress State Building (up until disposal on 26 March 2018) and a number of smaller properties in the Earls Court area.

EBITDA
Earnings before interest, tax, depreciation and amortisation.

EC1 & EC2
The site formerly the location of the Earls Court 1 and Earls Court 2 Exhibition Centres.

ECPL
Earls Court Partnership Limited is the investment vehicle with TfL. The Group holds 63 per cent controlling interest and TfL holds 37 per cent. ECPL holds interests in EC1 & EC2 and other adjacent property primarily located on and around Lillie Road.

EPRA
European Public Real Estate Association, the publisher of Best Practice Recommendations intended to make financial statements of public real estate companies in Europe clearer, more transparent and comparable.

EPRA earnings
Profit or loss for the year excluding gains or losses on the revaluation and sale of investment and development property, profit on sale of subsidiaries, impairment of other receivables, write down of trading property, changes in fair value of derivative financial instruments and associated close-out costs and the related tax on these items.

EPRA earnings per share
EPRA earnings divided by the weighted average number of shares in issue during the year.

EPRA net asset value (NAV)
The net assets as at the end of the year including the excess of the fair value of trading property over its cost and excluding the fair value of financial instruments, deferred tax on revaluations and diluting for the effect of those shares potentially issuable under employee share schemes divided by the diluted number of shares at the year end.

EPRA net asset value per share
EPRA net asset value divided by the diluted number of ordinary shares.

EPRA net initial yield
Annualised net rent (after deduction of revenue costs such as head rent, running void, service charge after shortfalls and empty rates) on investment and development property expressed as a percentage of the gross market value before deduction of theoretical acquisition costs.

EPRA topped-up initial yield
Net initial yield adjusted for the expiration of rent-free periods.

EPRA triple net asset value (NNNAV)
EPRA NAV adjusted to reflect the fair value of derivative financial instruments, excess fair value of debt over carrying value and deferred tax on derivative financial instruments, revaluations and capital allowances.

EPRA triple net asset value per share (NNNAV)
EPRA triple net asset value divided by the diluted number of ordinary shares.

EPRA vacancy
The ERV of un-let units expressed as a percentage of the ERV of let and under offer units plus ERV of un-let units, excluding units under development.

ESB
Empress State Building.

Estimated rental value (ERV)
The external valuers' estimate of the open market rent which, on the date of valuation, could reasonably be expected to be obtained on a new letting or rent review of the property.

FRC
Financial Reporting Council.

GCP
The Great Capital Partnership is a 50 per cent joint venture between Capital & Counties Limited and Great Portland Estates PLC.

GEA
Gross external area.

GLA
Greater London Authority.

GRESB
Global Real Estate Sustainability Benchmark.

Gross income
The Group's share of passing rent plus sundry non-leased income.

FTSE 350 Real Estate Index
London Stock Exchange index derived from real estate companies in the FTSE 100 and FTSE 250 indices.

Headline earnings
Headline earnings per share is calculated in accordance with Circular 2/2015 issued by the South African Institute of Chartered Accountants ("SAICA"), a requirement of the Group's JSE listing. This measure is not a requirement of IFRS.

HMRC
Her Majesty's Revenue and Customs.

IFRS
International Financial Reporting Standards.

Innova
Innova Investment Limited Partnership is a 50 per cent joint venture between the Group and Network Rail Infrastructure Limited.

JSE
Johannesburg Stock Exchange.

Kwok Family Interests (KFI)
Joint venture partner in the Lillie Square development.

LBHF
The London Borough of Hammersmith & Fulham.

Like-for-like property
Property which has been owned throughout both years without significant capital expenditure in either year, so income can be compared on a like-for-like basis. For the purposes of comparison of capital values, this will also include assets owned at the previous balance sheet date but not necessarily throughout the prior year.

Loan to value (LTV)
LTV is calculated on the basis of the Group's net debt divided by the carrying value of the Group's property portfolio.

LSJV
The Lillie Square joint venture is a 50 per cent joint venture between the Group and Kwok Family Interests.

MSCI
Producer of an independent benchmark of property returns. Previously known as Investment Property Databank (IPD).

NAV
Net Asset Value.

Net debt
Total borrowings less cash and cash equivalents.

NIA
Net Internal Area.

Net rental income (NRI)
Gross rental income less ground rents, payable service charge expenses and other non-recoverable charges, having taken due account of bad debt provisions and adjustments to comply with International Financial Reporting Standards regarding tenant lease incentives.

Nominal equivalent yield
Effective annual yield to a purchaser on the gross market value, assuming rent is receivable annually in arrears, and that the property becomes fully occupied and that all rents revert to the current market level (ERV) at the next review date or lease expiry.

NRIL
Network Rail Infrastructure Limited.

Occupancy rate
The ERV of let and under offer units expressed as a percentage of the ERV of let and under offer units plus ERV of un-let units, excluding units under development. This is equivalent to 100 per cent less the EPRA vacancy rate.

Opportunity Area
In September 2011 the GLA published the 'Opportunity Area Planning Frameworks Report'. Opportunity Areas are London's major reservoirs of brownfield land with significant capacity to accommodate new housing, commercial and other developments linked to existing or potential improvements to public transport accessibility. Typically, they can accommodate at least 5,000 jobs or 2,500 new homes or a combination of the two, along with other supporting facilities and infrastructure.

Passing rent
Contracted annual rents receivable at the balance sheet date. This takes no account of accounting adjustments made in respect of rent-free periods or tenant lease incentives, the reclassification of certain lease payments as finance charges or any irrecoverable costs and expenses, and does not include excess turnover rent, additional rent in respect of unsettled rent reviews or sundry income. Contracted annual rents in respect of tenants in administration are excluded.

P.A.
Per annum.

RBKC
Royal Borough of Kensington and Chelsea.

RICS
Royal Institution of Chartered Surveyors.

RIDDOR
Reporting of Injuries, Diseases and Dangerous Occurrences Regulations.

SARB
South African Reserve Bank.

SAICA
South African Institute of Chartered Accountants.

Section 106
Section 106 of the Town and Country Planning Act 1990, pursuant to which the relevant planning authority can impose planning obligations on a developer to secure contributions to services, infrastructure and amenities in order to support and facilitate a proposed development.

SMEs
Small and medium-sized enterprises.

Tenant lease incentives
Any incentives offered to tenants to enter into a lease. Typically incentives are in the form of an initial rent-free period and/or a cash contribution to fit-out the premises. Under International Financial Reporting Standards the value of incentives granted to tenants is amortised through the income statement on a straight-line basis over the lease term.

TfL
Transport for London and any subsidiary of Transport for London including Transport Trading Limited and London Underground Limited.

Total property return (TPR)
Capital growth including gains and losses on disposals plus rent received less associated costs, including ground rent.

Total return (TR)
The growth in EPRA NAV per share plus dividends per share paid during the year.

Total shareholder return (TSR)
The increase in the price of an ordinary share plus dividends paid during the year assuming re-investment in ordinary shares.

Underlying earnings
Profit for the year excluding impairment charges, net valuation gains/losses (including profits/losses on disposals), net refinancing charges, costs of termination of derivative financial instruments and non-recurring costs and income. Underlying earnings is reported on a Group share basis.

Underlying earnings per share (EPS)
Underlying earnings divided by the weighted average number of shares in issue during the year.

Weighted average unexpired lease term
The unexpired lease term to lease expiry weighted by ERV for each lease.

WCC
Westminster City Council.

Zone A
A means of analysing and comparing the rental value of retail space by dividing it in to zones parallel with the main frontage. The most valuable zone, Zone A, falls within a 6m depth of the shop frontage. Each successive zone is valued at half the rate of the zone in front of it. The blend is referred to as being 'ITZA' ("In Terms of Zone A").

Registrars
All enquiries concerning shares or shareholdings, including notification of change of address, queries regarding loss of a share certificate and dividend payments should be addressed to:

For shareholders registered in the UK:
Link Asset Services
The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU
Telephone: 0871 664 0300 (calls cost 12p per minute plus your phone company's access charge; calls outside the United Kingdom will be charged at the applicable international rate; lines are open 9.00 am – 5.30 pm Monday – Friday, excluding public holidays in England and Wales)
Telephone outside UK: +44 (0) 371 664 0300
Email: enquiries@linkgroup.co.uk
www.linkassetservices.com

For shareholders registered in South Africa:
Computershare Investor Services Proprietary Limited
Rosebank Towers, 15 Biermann Avenue, Rosebank, South Africa,
Postal address: PO Box 61051, Marshalltown 2107, South Africa
Telephone: +27 (0) 11 370 5000 or 086 1100 933 (lines are open 8.00 am – 4.30 pm Monday – Friday)
E-mail: web.queries@computershare.co.za
www.computershare.com

Payment of dividends
If you are a shareholder and wish to have your dividends paid directly into a bank or building society, please complete a mandate form which is available from the appropriate registrar.

Share price information
The latest information on the Capital & Counties Properties PLC share price is available on the Company's website www.capitalandcounties.com.

The shares are traded on the LSE with LSE code CAPC, SEDOL B62G9D3, ISIN GB00B62G9D36. The shares are traded on the JSE under the abbreviated name CAPCO and JSE code CCO.

Web-based enquiry service for shareholders
Shareholders registered in the UK can register at www.signalshares.com to access a range of online services including:

- Online proxy voting
- Electing to receive shareholder communications electronically
- Viewing your holding balance, indicative share price and valuation
- Viewing transactions on your holding including any dividend payments you have received
- Updating your address details or registering a mandate to have your dividends paid directly to your bank account
- Accessing a wide range of shareholder information, including downloadable forms

To register to use this service, you will need your investor code (IVC), which can be found on your share certificate(s).

Share dealing services
The Company's shares can be traded through most banks, building societies and stockbrokers. Additionally, UK shareholders may trade their shares using the online and telephone dealing service that Link Asset Services provide. To use this service, shareholders should contact Link: within the UK 0371 664 0445 (calls are charged at the standard geographic rate and will vary by provider; lines are open 8.00 am – 4.30 pm Monday to Friday, excluding public holidays in England and Wales); from Ireland: lo-call 1 890 946 375; or from outside UK: +44(0) 371 664 0445 (calls outside the United Kingdom are charged at the applicable international rate) or you can log on to www.linksharedeal.com. This service is only available to private individuals resident in the UK, the EEA, Channel Islands and the Isle of Man who hold shares in a company for which Link Market Services provides share registration services, or a nominee program administered by Link Market Services Trustees Limited.

Electronic communication
Capco has adopted electronic communications. This means that shareholders will receive documents from the Company electronically unless they elect to receive hard copies.

The Group's annual results and interim results will be published on the Company's website www.capitalandcounties.com. If you are a shareholder who receives hard copies of documents and you wish to elect to receive electronic communications, please contact the appropriate Registrar.

Shareholders may revoke an election to receive electronic communications at any time.

ShareGift
ShareGift is a charity share donation scheme for shareholders who may wish to dispose of a small quantity of shares where the market value makes it uneconomical to sell on a commission basis. Further information can be found on its website www.sharegift.org, by telephoning 020 7930 3737 or by emailing help@ sharegift.org.

Strate Charity Shares (SCS)
SCS is a charity share donation scheme for shareholders who may wish to dispose of small holdings of shares that are too costly to sell via a stock broker on a commission basis. Further information can be found at www.strate.co.za, by emailing charityshares@computershare.co.za or by calling 0800 202 363 or +27(0) 11 870 8207 if you are phoning from outside South Africa.

Investment scams
Shareholders are advised to be wary of any unsolicited calls, mail or emails that offer free advice, the opportunity to buy shares at a discount or to provide free company or research reports. Such approaches are often investment scams. Information on how to protect yourself from investment scams can be found at www.fca.org.uk/consumers#scams or by calling the FCA's consumer helpline on 0800 111 6768.

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Capital & Counties Properties PLC
15 Grosvenor Street, London W1K 4QZ
Telephone +44 (0)20 3214 9150
feedback@capitalandcounties.com
www.capitalandcounties.com