



Capital & Counties Properties PLC

ANNUAL REPORT & ACCOUNTS 2019



CREATING LONG-TERM VALUE

Capital & Counties Properties PLC (Capco) is one of the largest listed property companies in central London. Our key asset is the landmark Covent Garden estate. We create and grow value through a combination of creative asset management and strategic investments.

PRIME ASSETS P.04

A focus on prime central London, centred around the landmark Covent Garden estate

CLEAR AND FOCUSED STRATEGY P.14

Driving rental growth and capital value appreciation

Creative asset management and investment to drive expansion and change

STRONG CAPITAL STRUCTURE P.34

Conservative leverage and substantial liquidity

EXPERIENCED MANAGEMENT P.52

Strong track record



East Piazza at Covent Garden



STRATEGIC REPORT

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GOVERNANCE

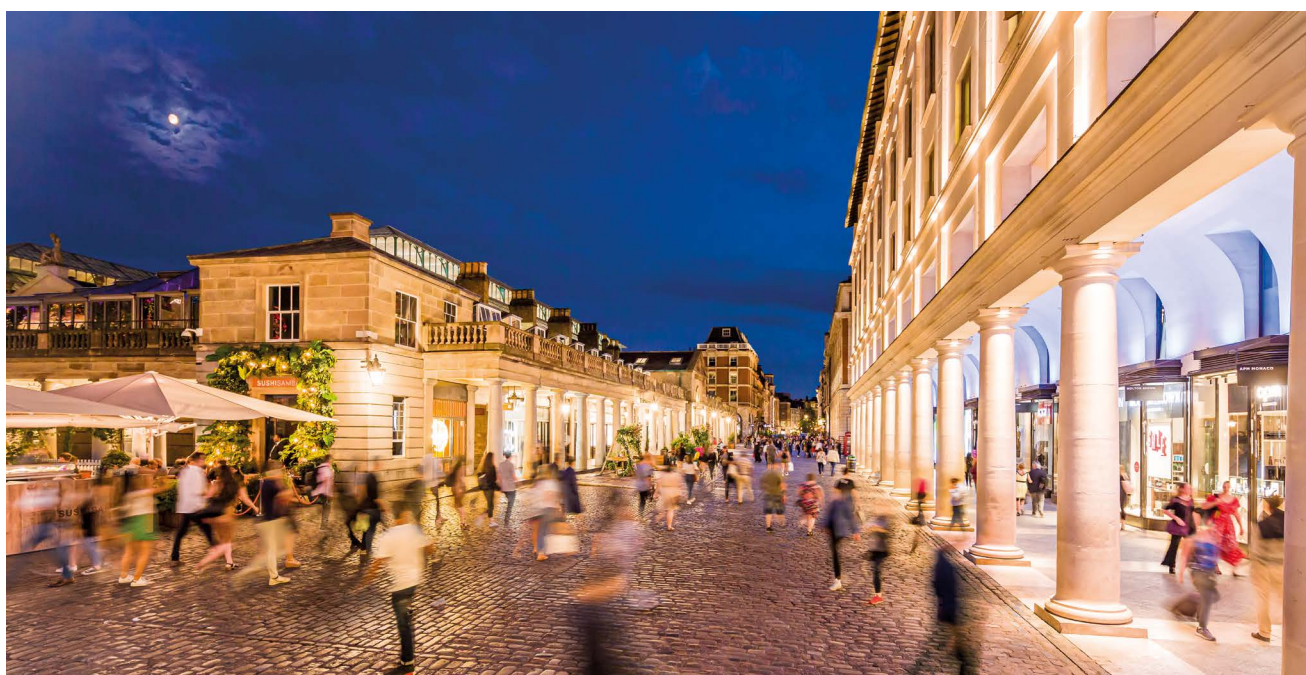
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ABOUT CAPCO

A PRIME CENTRAL LONDON REIT DRIVING LONG-TERM VALUE CREATION
CENTRED AROUND OUR LANDMARK COVENT GARDEN ESTATE



COVENT GARDEN PORTFOLIO



				
RETAIL	FOOD & BEVERAGE	OFFICE	RESIDENTIAL	LEISURE
0.4m sq ft	0.2m sq ft	0.3m sq ft	0.2m sq ft	0.1m sq ft
53%	22%	14%	8%	3%
% OF PORTFOLIO VALUE				

LETTABLE SPACE

1.2m sq ft

BUILDINGS

81

UNITS

549

1. Including Capco's 50 per cent interest in the Lillie Square joint venture, total Group property portfolio is £2.8 billion.

COMPETITIVE STRENGTHS

PRIME ASSETS

A focus on prime central London, centred around the landmark Covent Garden estate in the heart of London's West End.

For more on our assets, see page 4.

BUSINESS MODEL

A clear and focused strategy to create, grow and drive value from our assets to deliver superior long-term returns for our shareholders.

For more on our business model, see page 14.

STRONG CAPITAL STRUCTURE

Responsible approach to capital allocation, underpinned by low leverage and high liquidity.

For more on our capital structure, see page 34.

EXPERIENCED LEADERSHIP

Experienced management team with a strong track record of leading the Group in delivering its strategy.

For more on our leadership, see page 52.

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.

For more on our governance, see page 54.

DYNAMIC CULTURE

High-performance and entrepreneurial culture, reflective of our business strategy where innovation and creativity are promoted across the business.

For more on our culture, see page 48.

FINANCIAL STRENGTH

NET ASSETS

£2.5bn

LOAN TO VALUE

16%

CASH & UNDRAWN FACILITIES

£895m

2019 FINANCIAL RESULTS

NET RENTAL INCOME	£61m
UNDERLYING EARNINGS PER SHARE	1.0p
TOTAL DIVIDEND PER SHARE	1.5p
EPRA NET ASSET VALUE PER SHARE	293p
TOTAL RETURN	(9.6)%
TOTAL SHAREHOLDER RETURN	14.0%
TOTAL PROPERTY RETURN	(5.4)%

See page 35 where we discuss our alternative performance measures.

PERFORMANCE SINCE DEMERGER 2010

TOTAL RETURN	9.6% ¹
TOTAL SHAREHOLDER RETURN	10.8% ¹

1. Annualised basis.

WORLD-CLASS ESTATE IN THE HEART OF LONDON'S WEST END

LONDON – A GLOBAL CITY

London's population set to grow to 10.1m in 2031, from 8.8m

Contributes c.23% to UK Gross Value Added

Attracts talent and investment from around the world

350m domestic and international visitors per annum

THRIVING WEST END ECONOMY

24/7 economy

High-performing retail and leisure destination in London

Over 200m domestic and international visits per annum

Working population over 650,000

COVENT GARDEN – A WORLD-CLASS ESTATE

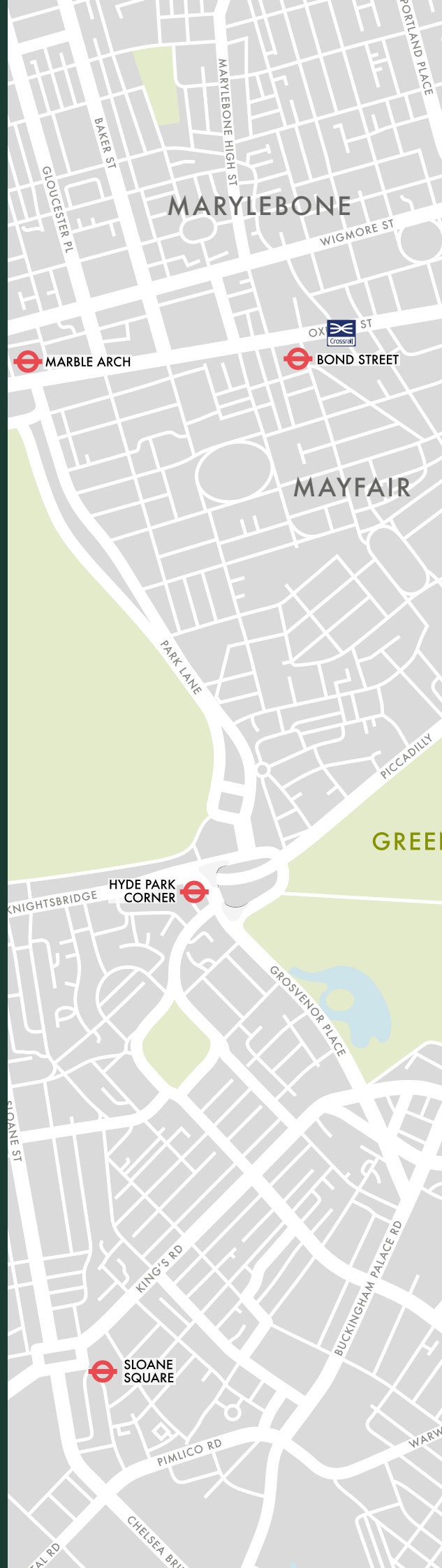
Landmark estate with global recognition in the heart of central London

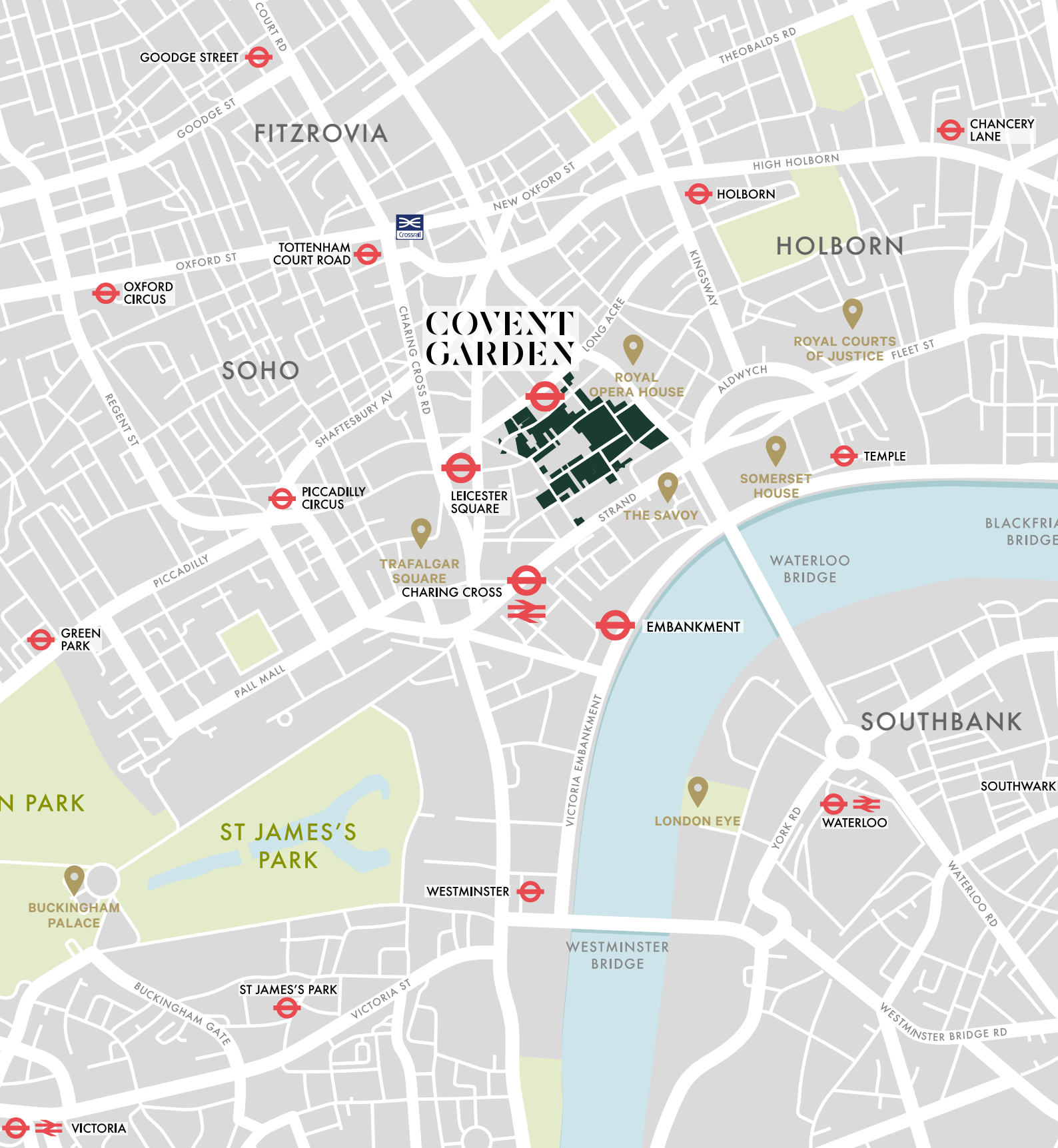
Scale and concentrated ownership

High-quality footfall location

Rich in heritage with vibrant culture and events

Attracting differentiated flagship, independent and London first brands





PORTFOLIO VALUATION	LETTABLE SPACE	BUILDINGS	UNITS	FOOTFALL PER ANNUM ¹
£2.6bn	1.2m sq ft	81	549	>40m visitors
				40% London, 40% international and 20% domestic

1. Indicative footfall numbers from CACILtd; Springboard Research Ltd; EE data.

AN ACTIVE YEAR



UPSIZING AND EXPANSION

The luxury retail operator Bucherer agrees terms to upsize offering to a more prominent flagship store within the Royal Opera House Arcade. Bucherer's re-location builds on the ongoing strategic positioning of the arcade as a premium shopping location.



STRENGTHENING RETAIL OFFER

Polo Ralph Lauren and French luxury sportswear brand Lacoste introduce new stores on King Street and James Street. These additions continue to position Covent Garden as one of London's best retail destinations, offering a wide range of high-quality brands.



REPOSITIONING OF FLORAL STREET

Repositioning of Floral Street continues with the introduction of US ethical fashion brand Free People, Parisian label A.P.C. and American Vintage. Fitness technology company Peloton continues its fit-out of its European flagship training studio, expected to open later in 2020. Danish brand Ganni signs in 2020.



UK FIRSTS

American casual men's apparel brand, UNTUCKit, agrees terms to open on Long Acre. The retailer originated online, and this is the first physical store in the UK. In addition, eyewear brand For Art's Sake opens its first stand-alone retail store in the Market Building.

JANUARY

FEBRUARY

MARCH

APRIL

MAY

JUNE



ESTATE ANIMATION

An active consumer-focused calendar of events and activations throughout the year from Godiva's Easter egg ballpit to Pimm's Wimbledon experience and a programme of pop-up events on the Piazza.



DIGITAL GROWTH

2019 sees continued growth across our digital audiences, reaching over half a million followers across social media channels. Covent Garden launches its WeChat channel in China, with further channels planned to launch in 2020.



SUCCESSFUL SALE OF AWARD WINNING FLORAL COURT RESIDENTIAL

Award winning new-build residential collection at Floral Court is named 'Best London Home – Under 100 units' at the Evening Standard Awards 2019. A successful sales programme of all 29 apartments completes at the end of 2019, generating £100 million of gross cumulative sales proceeds.



APPLE LEASE EXTENSION

Apple agrees to extend its lease, resulting in its occupation for a further 15 years. This underlines the importance of the Covent Garden location for global brands and the encouraging trading prospects of the estate.



SALE OF EARLS COURT

Capco announces the sale of its interests in Earls Court for £425 million. The sale positions Capco as a strongly capitalised prime central London REIT.



ACQUISITIONS

Capco's strong balance sheet and access to substantial liquidity provide significant financial flexibility. Over £70 million is invested through the acquisition of target properties located on the southern side of the estate, which offer significant value creation opportunities.



DINING GOES FROM STRENGTH TO STRENGTH

A significant number of restaurant openings further strengthens the dining offer. The estate welcomes Wahlburgers, Santa Nata and Italian-style boulangerie VyTA Santa Margherita. Dominique Ansel Treehouse opens on Floral Street in Q1 2020, which will be joined by Big Mamma on Henrietta Street later in 2020.



COVENT GARDEN CHRISTMAS

Actress Emilia Clarke, Dame Emma Thompson and Director Paul Feig switch on the Covent Garden Christmas lights, along with the incredible West End cast of The Snowman. The 2019 festivities are in support of Crisis. Stores across Covent Garden open late and host exclusive in-store experiences.

JULY

AUGUST

SEPTEMBER

OCTOBER

NOVEMBER

DECEMBER



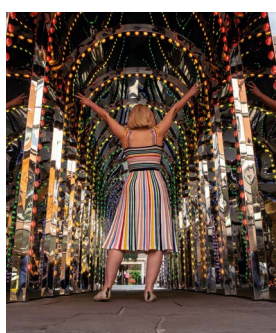
LONDON BEAUTY WEEK

The first ever London Beauty Week launches as a partnership between Covent Garden and the British Beauty Council. The week-long initiative celebrates the British beauty industry, hosting a number of consumer and trade events to mirror its sister event, London Fashion Week.



PHASE 2 LILLIE SQUARE

Construction of Phase 2 continues to progress with over 80 per cent of the units reserved or exchanged. First completions and handover of sold units expected in H1 2020.



COVENT GARDEN CELEBRATES PRIDE

Throughout July, Covent Garden celebrates all forms of love for London's Pride. The iconic Infinity Chamber turns into a rainbow to celebrate Pride. Covent Garden supports the LGBTQ+ community by donating £1 to the Albert Kennedy Trust for every social media post using #PrideinCoventGarden.



ACTIVATIONS

Cosmetic brands Glossier and Huda Beauty launch pop-up concepts on Floral Street and the East Piazza, which also hosts the Tiffany & Co. ice-skating rink.

CREATING LONG-TERM VALUE, WITH RESPONSIBLE OVERSIGHT



“ Capco is now positioned as a strongly capitalised prime central London REIT with a continued focus on driving long-term growth in income and dividends.

HENRY
STAUNTON,
CHAIRMAN

OVERVIEW

It has been an active year for Capco culminating in the separation of its two prime central London estates, through the sale of Earls Court, implementing a long-held strategic objective of the Company. Capco is now positioned as a strongly capitalised prime central London property REIT centred around its Covent Garden estate, with a focus on driving long-term rental and dividend growth. Backed by a strong balance sheet, the business has significant financial flexibility to capitalise on further investment opportunities and is well-positioned to deliver superior long-term total returns for shareholders.

STRONGLY CAPITALISED PRIME CENTRAL LONDON REIT

Having assessed the structure of the Group, the Board determined that separation of its two estates was in shareholders' interests. The Board considered the merits of various options in relation to Earls Court, focusing on value and deliverability whilst having regard to long-term shareholder value, prudent capital management and market conditions.

Towards the end of the year, Capco completed the sale of its interests in Earls Court, excluding Lillie Square, to APG and Delancey (on behalf of its client fund) for £425 million. The transaction was consistent with Capco's strategy of monetising investments at Earls Court over time with a focus on growing its central London property investment business, centred around Covent Garden.

On 21 October 2019, Candy Ventures announced that it was in the early stages of considering a possible cash offer for the Company, resulting in Capco entering into an offer period for the purposes of the Takeover Code. On 15 November 2019, following Capco's announcement concerning the sale of its interests in Earls Court, Candy Ventures confirmed that it did not intend to make an offer for Capco. No substantive approach regarding an offer was made to the Company by Candy Ventures or any other party. The Board looks forward with full confidence in the Company's strategy and management to continue to deliver significant shareholder value.

Capco converted to UK REIT status in December 2019 and will grow dividend distributions to shareholders in line with progression in underlying earnings.

PERFORMANCE

Capco's total shareholder return for the year, which comprises share price performance plus the dividends paid during the year, was 14 per cent. Total return for the year, which represents the change in net assets plus the dividends paid during the year, was -10 per cent. The total value of Capco's property portfolio fell by 1.7 per cent on a like-for-like basis to £2.8 billion.

Covent Garden continues to capture its reversionary potential, securing 7 per cent growth in net rental income. The West End remains resilient, however it is not unaffected by the well-documented challenges in the retail sector. Against this backdrop, Covent Garden's ERV remained broadly stable at -0.1 per cent like-for-like. Movements in ERV and yield have resulted in a property valuation decline of 1.4 per cent like-for-like.

The implementation of our strategy at Covent Garden has created a highly attractive destination for occupiers and visitors, which has continued to benefit from positive trading conditions with enhanced footfall and average tenants sales trending upwards. High-quality global brands including Dominique Ansel, Polo Ralph Lauren and Glossier have been introduced, further strengthening Covent Garden's attractiveness as a leading global retail and dining destination.

The sales programme for the new-build residential component of Floral Court, The Floral Court Collection, completed successfully with cumulative proceeds of over £100 million received from the sale of all 29 apartments. The Group has invested over £70 million in the acquisition of a number of properties offering significant repositioning opportunities.

Although the sale of Earls Court resulted in a loss on disposal and related one-off costs, the Board believes that separation of the two assets through sale, enhances the strategic flexibility of Capco, allowing the business to pursue a focused strategy from a position of financial strength, with modest capital commitments and access to close to £900 million of liquidity.

Other investments of Capco include a joint venture interest in the Lillie Square development which continues to progress on schedule. Handover of Phase 2 apartments is expected to complete during 2020.

FINANCIAL POSITION, SHARE BUYBACK PROGRAMME AND DIVIDENDS

Responsible capital management and a flexible funding structure with access to significant liquidity ensures Capco maintains a strong financial position. Capco maintains a disciplined approach to capital allocation in order to position the business for growth and optimise long-term returns for shareholders. Capco intends to return up to £100 million to shareholders through a share buyback programme this year.

By focusing on delivering income growth and implementing cost efficiencies, the Company will grow dividend distributions to shareholders in line with progression in underlying earnings. The Directors are proposing a final dividend of 1.0 pence per share, which brings the total dividend for 2019 to 1.5 pence per share (2018: 1.5 pence).

THE BOARD AND EMPLOYEES

The Board continued to review its composition over the course of 2019, to ensure that we have the appropriate mix of skills and experience at an appropriate cost to deliver Capco's strategy as a central London focused REIT.

Gary Yardley, a founding Executive Director and Managing Director and CIO, stepped down from the Board in June 2019, leaving the company after over nine years of service. We thank him for his outstanding contribution to the development and growth of the Company. In addition, after more than nine years' service as a Non-executive Director and representative of the Gordon family, Graeme Gordon retired from the

Board in May 2019. We are grateful for his commitment, wisdom and support of the Company. We welcomed Jonathan Lane as a Non-executive Director in March 2019.

Andrew Strang, who joined the Board on Capco's inception in 2010, and Gerry Murphy, who would have become the Chairman of the Earls Court business had a demerger been undertaken, will each retire from the Board at the forthcoming AGM. We thank Andrew for his long and valuable service and the benefit of his extensive knowledge of the market place, and Gerry for his significant contribution to the Board, not least in respect of preparations for the potential demerger. These Board changes result in a number of changes to Non-executive Directors' Committee memberships and roles, which are set out later in the Annual Report.

Following a review of Board composition after the sale of the Group's interests in Earls Court, we are delighted that Michelle McGrath, who has been a senior executive of the company for six years, most recently as Director of Covent Garden, will join the Board as an Executive Director with effect from 26 February 2020. I look forward to working with each of the Directors as we pursue our strategy to deliver long-term total returns as a central London focused REIT.

The work required during 2019 to achieve the separation of the Group's assets required very significant and intensive work from the Executive Directors and employees across the business, during a period of considerable uncertainty. It would not have been possible to deliver the desired outcome for our shareholders without these efforts, and the Board would like to thank each of them for their commitment and professionalism.

BOARD OVERSIGHT

The Board ensures that it has clear oversight of the business by receiving regular updates from Executive Directors and senior management at each of our formal Board meetings and the more informal Board updates. We also regularly visit both Covent Garden and Lillie Square to see the assets for ourselves and speak to operational management, ensuring 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.

VOTING ON AGM RESOLUTIONS

Capco is listed in London and Johannesburg, and a significant proportion of the Company's shares is held by South African investors. At 31 December 2019, the South African section of the share register accounted for 31 per cent of the total register (2018: 40 per cent). As we have previously reported, there are sometimes different market expectations in the UK and South Africa. One such example is the level of authority to issue new shares that shareholders expect to grant to Boards. The Board considers that, in order to preserve flexibility, it is appropriate to seek the level of authorities typically expected by shareholders in UK listed companies where possible. In 2019 this resulted in significant votes against two of our AGM resolutions, one of which was withdrawn prior to the meeting, and Capco's repeated inclusion in The Investment Association's public register of shareholder dissent. The Board continues to engage with shareholders to explain its rationale and ensure it understands views on this matter.

LOOKING AHEAD

2019 was a year of significant positive change. Capco ended the year in a strong position having achieved its strategic objective of separation of its two London estates. The Company is now positioned as a central London focused REIT with significant financial flexibility to capitalise on growth opportunities.

Covent Garden demonstrated resilient performance in a challenging environment. Whilst we can expect continued market uncertainty over the year ahead, we are confident about the long-term fundamentals of the Covent Garden estate, our market position and the prospects for central London. Our ambition is to build on the success of Covent Garden, to generate superior total returns for our shareholders over the long-term through creative asset management, investment and specialisation in central London real estate.

With our clear and focused strategy, world-class estate, experienced management team and creative approach, supported by strong financial resources, Capco is well-positioned to deliver income and dividend growth for our shareholders.



HENRY STAUNTON
CHAIRMAN

25 February 2020

FOCUSED STRATEGY TO DRIVE LONG-TERM VALUE CREATION



“ Capco is positioned as a strongly-capitalised REIT centred around our landmark Covent Garden estate.

IAN
HAWKSWORTH,
CHIEF EXECUTIVE

OVERVIEW

Capco entered 2020 looking forward to the next phase of growth for the business, from a position of financial strength and with a strategic focus on the West End and Covent Garden, where we have assembled and created a world-class estate.

Against a backdrop of political and economic uncertainty, the disposal of Earls Court places the Company in a strong financial position. The subsequent simplification of the Group enables a clear focus on growing the value of our investment at Covent Garden. With the ability to drive growth in net rental income, operate under a much reduced cost base, and access to significant liquidity, the Group is well-positioned to capitalise on investment opportunities and target the delivery of superior long-term total returns to shareholders.

STRATEGY, INVESTMENT AND CAPITAL ALLOCATION

Our investment strategy will focus on value creation opportunities in central London. Our track record in creative asset management has repositioned the Covent Garden estate, now comprising 81 properties, into higher value uses and helped create a world-class estate.

We are confident that this experience can be further deployed on the estate and in new acquisitions. Our strong balance sheet and access to significant liquidity provides the opportunity for expansion whilst offering insulation during uncertain economic periods.

The Group is in a strong financial position, with a loan to value ratio of 16 per cent (before receipt of the deferred consideration from the sale of Earls Court) and access to available facilities and cash of approximately £900 million. Substantially all of the Company's property value is within the Covent Garden business, with the assets currently independently valued at £2.6 billion. Capco has a track record of accretive investment and aggregation of ownership in the district and it is intended that opportunities to expand our ownership in the area will be pursued.

The Board has set balance sheet leverage parameters of up to 40 per cent loan to value, with an appropriate level of interest cover. During 2019, over £70 million of capital has been invested through a number of acquisitions, primarily on the southern side of the estate which offers significant value creation opportunities over the medium-term. Each investment is assessed on its own merits primarily, together with analysis of any wider benefits to the overall portfolio.

The Group will maintain a disciplined approach to capital allocation, assessing the merits of all capital decisions including investment in owned assets, development and repositioning opportunities, accretive acquisitions on or near the Covent Garden estate, opportunistic investments in London, the disposal of non-strategic assets and the return of surplus capital to shareholders as appropriate. The Board intends to return up to £100 million to shareholders through a share buyback programme this year.

In view of Capco's recent conversion to REIT status, its dividend distributions are expected to grow over the coming years in line with progression in underlying earnings. Capco's immediate priority is to right size the Company targeting administration costs of £20 million in 2021. Our ambition is to build on the success of Covent Garden, to grow the income and generate attractive returns for our shareholders over the long-term through investment and specialisation in central London real estate.

VALUATION AND PERFORMANCE

The total property value of the Group declined by 1.7 per cent (like-for-like) in the year to 31 December 2019 to £2.8 billion. Against a challenging retail backdrop, Covent Garden declined by 1.4 per cent (like-for-like) to £2.6 billion, driven by movements in ERV which decreased by 0.1 per cent (like-for-like) and a widening in the equivalent yield of 6 basis points.

The majority of the portfolio continues to generate positive performance, offset by negative adjustments on Long Acre and James Street, which have seen high rates of growth over recent years and have the characteristics of relatively larger store sizes and absolute rents. At the end of the year, there was a small number of units, with a concentration in retail space, available for letting on the estate representing 3.2 per cent vacancy overall.

Capco continues to capture the portfolio's reversionary potential into contracted income, reporting 7 per cent overall growth in net rental income for the year. Positive demand across all uses has resulted in 92 new lettings and renewals, securing £17.4 million of rental income at 1.3 per cent above December 2018 ERV.

Central London retail is not unaffected by the challenged environment, with examples of national retailers making group-wide decisions which are not necessarily reflective of trading performance on the estate. Capco takes a proactive approach to tenant management and closely monitors performance whilst ensuring it provides an environment for brands to thrive. Trading performance on the estate remains positive with average retail and restaurant sales continuing to grow, demonstrating Covent Garden's differentiation and strength.

Capco's investment at Lillie Square decreased in value by 5.4 per cent (like-for-like) to £178 million at 31 December 2019 due to changes in valuers' assumptions. The sale of Earls Court is consistent with Capco's long-term strategy of monetising a series of investments over time with a focus on growing its central London property investment business, centred around Covent Garden.

Although the sale of Earls Court crystallised a loss against balance sheet value, Capco has strengthened its financial flexibility and positioned the Company with significant liquidity to enable it to capitalise on further investment opportunities. The loss on sale of Earls Court and the decline in the value of Covent Garden have resulted in EPRA net asset value declining by 10 per cent over the year to 293 pence per share.

As required by the provisions of Royal Institution of Chartered Surveyors ("RICS") guidelines, the valuer has evaluated each Covent Garden property on an individual basis, rather than valuing the portfolio as a whole or in combinations of parts. The total valuation of the estate is £2.6 billion and represents the aggregated value of the individual properties, with no reflection of any additional estate premium which potential investors may ascribe to the concentrated and comprehensive nature of ownership within the estate. The predominantly freehold nature, concentrated ownership, scale of the estate as well as the portfolio mix may lead prospective purchasers to regard certain parts of the portfolio, for example by street, to have a greater value than the aggregate of the individual property values.

ENVIRONMENT, STAKEHOLDERS AND PEOPLE

As responsible owners of the estate we continue to support and preserve Covent Garden's rich heritage which is an integral part of the West End. Capco promotes a collaborative approach to working with local communities to ensure understanding and support of the business initiatives on the estate. These include minimising the impact of operations on the environment by employing an active approach to air quality, congestion, environmental and sustainability issues, and implementing initiatives that improve the quality of the environment for all, such as pedestrianisation and increasing greenery.

Capco works closely with stakeholders and collaborates on key estate initiatives, including public realm to further enhance the customer experience and accessibility of the estate, improving pedestrian flows and dwell times.

We aim to release the potential of our talented and diverse workforce, providing opportunities for leadership and responsibility whilst harnessing the creative passion we all share for Covent Garden.

COVENT GARDEN MARKET VALUE 2019

£2.6bn

2018: £2.6bn

	Market Value 2019 £m	Market Value 2018 £m	Valuation Change Like-for-Like ¹
Covent Garden	2,596	2,610	(1.4)%
Other ²	178	658	(5.4)%
Group share of total property³	2,774	3,268	(1.7)%

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 50 per cent share of the Lillie Square joint venture in 2019. 2018 includes Capco's interests in Earls Court Properties which were disposed of during 2019.
3. A reconciliation of carrying value of investment, development and trading property to the market value is shown in note 11 'Property Portfolio'.



Aerial of the Covent Garden estate 2019

COVENT GARDEN, A WORLD-CLASS ESTATE

Capco has transformed the Covent Garden estate into a prime district in the heart of London's West End with a differentiated offer, delivering an attractive environment for over 40 million visitors every year. The estate is of a scale and in single ownership which is difficult to assemble or replicate. The portfolio comprises 549 units of shops and restaurants as well as offices, hotels, museums and residential assets. Its rare attributes underpin the resilience of the estate and continue to provide a degree of insulation from broader economic

headwinds. Across the estate, 53 per cent of the value is represented by retail, 22 per cent by F&B use, 14 per cent office, 8 per cent residential and 3 per cent leisure.

Generally, trading conditions on the estate in 2019 were positive and average tenant sales continued to trend upwards. We are also encouraged by positive footfall data as the pedestrian flow across the estate continues to evolve. The demographic breakdown of consumers visiting the estate has changed significantly over time with higher levels of consumer spend on average. The customer mix is now approximately 40 per cent international, 40 per cent Londoners and

20 per cent domestic visitors which compares with an historic mix heavily oriented towards the UK and lower spend tourists. Improving the brand mix and targeted marketing initiatives have resulted in higher dwell times, frequency of visits and average spend. These positive operating fundamentals give us confidence in the long-term prospects of the business.

Retailers continue to adapt to changes in consumer shopping behaviour and evolve their physical retail offers to place more emphasis on customer experience, service and flagship retailing with better digital engagement. Capco offers a unique customer experience, utilising the historic Piazza through events and cultural installations to drive global estate recognition and footfall. Our focused digital outreach continues to drive engagement and customer insight opportunities.

Covent Garden's global positioning continues to appeal to brands to meet evolving consumer demand. During the year Apple agreed to extend its lease, resulting in its occupation for a further 15 years and luxury retail operator Bucherer agreed terms to upsize its offering underlining the importance of the Covent Garden location for global brands. We have seen strong demand for the Market Building with leasing deals agreed with premium retailers Strathberry, Happy Socks, Hawkers and L'Occitane. The repositioning of Floral Street continues with the introduction of A.P.C., American Vintage, Ganni and Glossier. Polo Ralph Lauren and Lulu Guinness have been signed to King Street as well as Pandora and Lacoste on James Street, strengthening the position of Covent Garden as one of London's most desirable retail destinations.

The range of dining concepts on the estate has been broadened further, with the introduction of differentiated concepts including Big Mamma, VyTA, The Dominique Ansel Treehouse, Santa Nata and Wahlburgers. The latest additions further enhance Covent Garden's attractiveness as a dining destination.

Demand for office space in Covent Garden remains strong as the district has become a prime office location underpinned by the appeal of the iconic estate and its excellent connectivity. The residential for lease portfolio is performing well, with a high rate of renewals recorded above previous passing rent. A successful sales programme in relation to the award winning Floral Court residential collection has resulted in the sale of all 29 apartments, at better than anticipated prices, for £100 million cumulative proceeds demonstrating our disciplined approach to capital management. This year we have invested over £70 million in the estate through targeted acquisitions on the southern side which offer value creation opportunities.

OTHER INVESTMENTS

The Lillie Square joint venture continues to progress. Handover of units sold in Phase 1 is complete, with a small number of units available. Over 80 per cent of Phase 2 has been reserved or exchanged, with gross proceeds of approximately £100 million (Capco share) expected on handover during 2020.

SIR DONALD GORDON

In November 2019, we were very sorry to learn that Sir Donald Gordon had passed away at the age of 89. Sir Donald was a remarkable man who, in addition to many philanthropic works, founded both the Liberty Life Insurance group in South Africa, and the Liberty International property group in the UK, from which the Capco business was launched in its current form. Sir Donald was the Chairman of Liberty International until 2005.

OUTLOOK

Capco has grown significantly over the last 10 years and we are proud of our achievements. The Company has extensive knowledge of investing in the central London property market which is our core business. As a result of actions in 2019, Capco is a strong and resilient company positioned for future growth from the iconic Covent Garden estate in the heart of London. Whilst there will be broader market challenges, not least as the UK transitions from exiting the EU, with new government policy directives including changes to labour access, trade regulations and movement of goods and the potential impact of the coronavirus (COVID-19), however we firmly believe that London remains a destination of choice for capital, talent and tourism.

Our investment strategy will focus on generating superior long-term returns from investing in central London, with a focus on the continued progression of value and income at Covent Garden alongside a reduced cost base. Our strong balance sheet and access to significant liquidity provides resilience, a platform for expansion and confidence in the long-term prospects of the business.



IAN HAWSWORTH
CHIEF EXECUTIVE

25 February 2020

DRIVING VALUE CREATION

PURPOSE

Our purpose is to invest in and create world-class places, focusing on central London.
Using our vision and long-term approach, we deliver value and generate benefits to stakeholders.

OUR RESOURCES

World-class
Covent Garden
estate

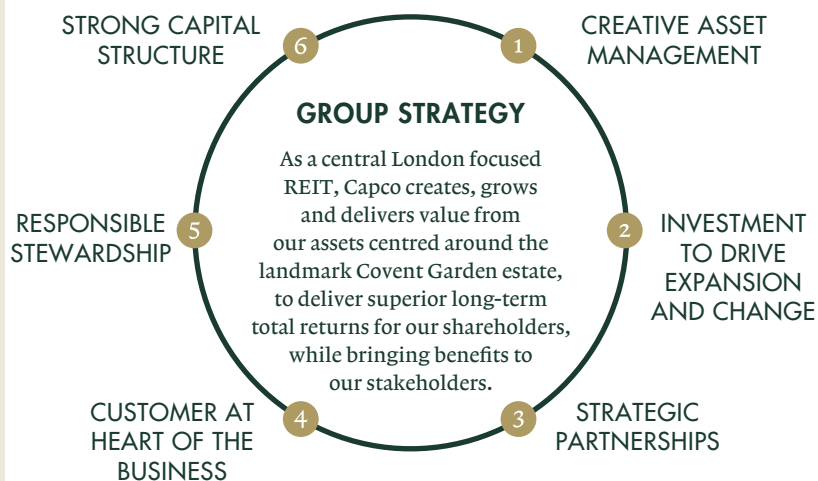
Strong financial
resources

Experienced
management

High-performing
team

Stakeholder
relationships

HOW WE DELIVER



Allocation of capital based on
assessment of risk-adjusted returns

HOW WE MEASURE

Financial
indicators

Non-financial
measures

see pages 15 and 42
to read more

UNDERPINNED BY

Culture and values
see page 48 to read more
on our culture

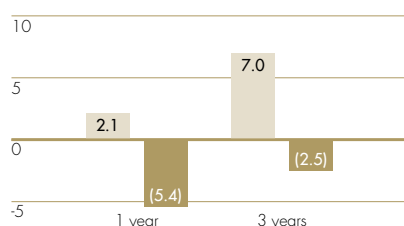
Effective governance
see page 54 to read more
on our governance

MEASURING PERFORMANCE

We measure performance against key performance indicators which are selected to reflect Group strategy. Many of these metrics are performance measures under Group remuneration arrangements, ensuring alignment with shareholder interests.

TOTAL PROPERTY RETURN

(5.4)%



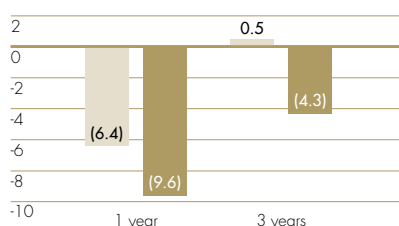
■ Comparator Group ■ Capco

Measures gains and losses on portfolio valuation including disposals, and rents received less associated costs, including ground rent. Benchmarked against the MSCI Total Return All Property Index.

During 2019 the Group generated TPR of -5.4 per cent, underperforming its benchmark of 2.1 per cent by 7.5 per cent. (Target: 1.5 percent per annum outperformance.)

TOTAL RETURN

(9.6)%



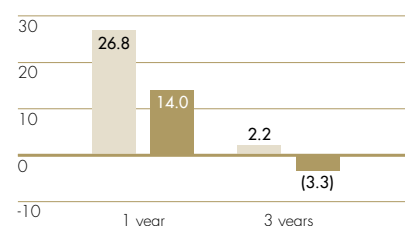
■ Comparator Group ■ Capco

Measures growth in EPRA NAV per share plus dividends per share paid during the year. Benchmarked against a bespoke group of peer companies.

The Group generated total return of -4.3 per cent per annum on a rolling three-year basis, underperforming the comparator group by 4.8 per cent.

TOTAL SHAREHOLDER RETURN

14.0%



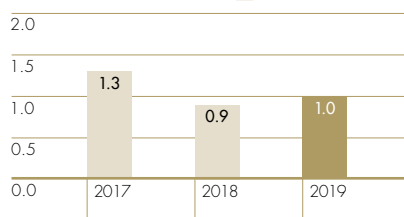
■ Comparator Group ■ Capco

Measures shareholder value creation (share price movement plus dividend per share paid during the year). Benchmarked against a bespoke group of peer companies.

The Group generated total shareholder return of -3.3 per cent per annum on a rolling three-year basis, underperforming the comparator group by 5.5 per cent.

UNDERLYING EARNINGS PER SHARE

1.0p

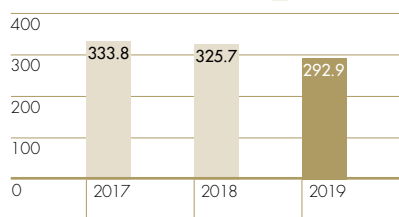


Measures income generation and cost control.

During 2019 the Group generated underlying EPS of 1.0 pence.

NET ASSET VALUE: PER SHARE

292.9p

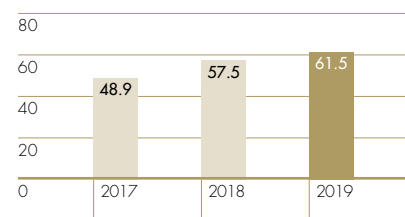


Measures the net asset value attributable to each share in the Company.

NAV per share as at 31 December 2019 was 292.9 pence, a decrease of 10.1 per cent from 31 December 2018.

NET RENTAL INCOME (COVENT GARDEN)

£61.5m



Measures gross rental income less ground rents and certain expenses and non-recoverable charges.

Covent Garden NRI for 2019 was £61.5m, an increase of 7 per cent from 31 December 2018, or 1.8 per cent on a like-for-like basis.

R A performance measure under Executive Directors' short-term or long-term incentive arrangements. Read more, including basis of calculation, in the Directors' Remuneration Report from page 68.

OTHER MEASURES

We also measure performance against a range of other financial and non-financial measures including health and safety record, HR statistics and environmental targets, and are proud to have received the following environmental accreditations:



Read more within our Responsibility reporting from page 42.

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 Group Financial Controller, Director of Covent Garden and Managing Director of Earls Court 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'.

In recent years the UK has experienced heightened economic and political uncertainty. The UK is now in a transition period after leaving the EU on 31 January 2020 with discussions around trade and other arrangements expected to continue throughout the year. Uncertainty remains as to the outcome of those discussions, in particular in relation to international trade arrangements and the overall impact on the UK economy. As a result there may be continued volatility in consumer, occupier and broader corporate behaviour and decision-making. The risk of a disorderly outcome remains and will continue to be a relevant consideration for decision-making. To date, occupier demand for the Covent Garden estate has remained resilient with tenant sales continuing to trend upwards, in contrast with much of the broader market.

Whilst the impact on our business and the market remains uncertain, the Board continues to monitor this carefully and has assessed risks to the business that may result from the UK leaving the EU. 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

Whilst it is not possible to predict the overall outcome, the Board continues to monitor external events and appropriate action is being undertaken 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, particularly for the West End.

In November 2019 the Group sold its interests in Earls Court Properties, excluding Lillie Square, and the Group's principal risks have been updated accordingly. As noted in the financial review, deferred consideration of approximately £210 million is due to be received by the Group by the end of 2021.

EMERGING RISKS

The Group monitors its emerging risks, including the impacts of climate change and more recently the spread of the coronavirus (COVID-19), and considers mitigating actions which the Group currently deploys and could deploy with regards to these emerging risks.

OUR GROUP STRATEGY

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

1

Creative asset management

2

Investment to drive expansion and change

3

Strategic Partnerships

4

Customer at heart of the business

5

Responsible Stewardship

6

Strong capital structure

CORPORATE

Risk	Impact on strategy	Mitigation	Change in 2019
Economic conditions	1 2 3 5		⊖
Decline in real estate valuations due to macro-economic conditions	Reduced return on investment and development property	Focus on prime assets	
Relative attractiveness of other asset classes or locations	Higher finance costs	Regular assessment of investment market conditions including bi-annual external valuations	
Inability of the Group to adopt the appropriate strategy or to react to changing market conditions or changing consumer behaviour	Reduced profitability	Regular strategic reviews Strategic focus on creating retail destinations and residential districts with unique attributes	

KEY  Increase  Stable  Decrease

CORPORATE CONTINUED

Risk	Impact on strategy	Mitigation	Change in 2019
Funding	1 2 3 6		—
Lack of availability or increased cost of debt or equity funding	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	2 5		—
Uncertain political climate or changes to legislation and policies, including as a result of political change or the process of elections A disorderly exit from the EU at the end of the transition period could cause an adverse impact on business and consumer confidence, increase material costs and reduce labour supply	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	
Catastrophic external event	1 5		—
Such as a terrorist attack, health pandemic or cyber crime	Diminishing London's status Heightened by concentration of investments Reduced rental income and/or capital values Business disruption or damage to property Reputational damage	Terrorism 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	1 3 4		—
Inability to retain the right people and develop leadership skills within the business	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	1 2 4 5		—
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	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	2 3 5		—
Breach of legislation, regulation or contract Inability to monitor or anticipate legal or regulatory changes	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 2019
Leasing	1 2 4		⬆
Inability to achieve target rents or to attract target tenants due to market conditions	Decline in tenant demand for the Group's properties	Quality tenant mix	The retail environment continues to present challenges for certain occupiers
Competition from other locations/formats	Reduced income and increased vacancy Reduced return on investment and development property	Strategic focus on creating retail destinations with unique attributes	
Planning and development	1 2		⬇
Unfavourable planning policy, legislation or action impacting on the ability to secure planning approvals or consents	Impact on land valuations and realisation	Engagement with local and national authorities	
Decline in returns from development due to market conditions or increased construction costs or delays	Lower development returns due to lower sales proceeds, higher costs or delay	Pre-application and consultation with key stakeholders and landowners Engagement with local community bodies 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	

VIABILITY STATEMENT

The Directors have considered the prospects of the Group over a three-year period to December 2022. The Directors have determined that this is an appropriate period over which to provide the 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 set out on pages 17-19.

In making the 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 by the Board, access to substantial liquidity, the Group's ability to raise new finance and the low level of capital commitments together with the flexibility of future 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. Sensitivity analysis was carried out which involved flexing a number of assumptions to consider alternative macroeconomic conditions.

In particular, the Group considered an economic downturn scenario with substantial declines in asset value and rental income of up to 40 per cent as well as reduced availability of debt funding and counterparties not fulfilling certain obligations. This analysis was carried out to evaluate the potential impact of certain of the Group's principal risks materialising, in particular to stress test the Group's financing covenants, 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 impact 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 2022. 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 plausible scenarios and the effectiveness of any mitigating actions.

COVENT GARDEN: A LEADING GLOBAL RETAIL AND DINING DESTINATION

Through creative asset management and investment,
Covent Garden has been transformed into a
world-class destination in the heart of London's West End,
well-positioned for long-term growth

COVENT GARDEN CAPITAL VALUE

£2.6bn

PERCENTAGE OF PORTFOLIO VALUE



RETAIL

53%



FOOD &
BEVERAGE

22%



OFFICE

14%



RESIDENTIAL

8%



LEISURE

3%



East Piazza in Covent Garden



COVENT GARDEN



King Street, Covent Garden

HIGHLIGHTS

- Total property value of £2.6 billion, a decrease of 1.4 per cent (like-for-like) (2018: £2.6 billion)
- Net rental income up 1.8 per cent (like-for-like) and 7.0 per cent (absolute terms) to £61.5 million (2018: £57.6 million)
- 92 new leases and renewals transacted representing £17.4 million of income at 1.3 per cent above 31 December 2018 ERV
- ERV decrease by 0.1 per cent (like-for-like) to £108 million (2018: £108 million)
- £70 million invested in target acquisitions, expanding ownership of the estate

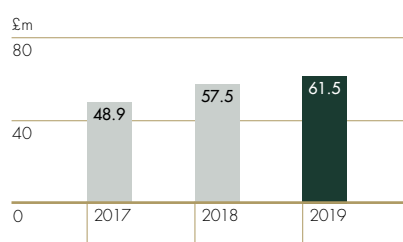
STRATEGY

- Drive rental growth and capture reversionary income potential
- Creative asset management across the portfolio
- Investment to drive expansion and change
- Attract the best brands and concepts to meet evolving consumer demand
- Emphasis on customer engagement to provide differentiated experiences
- Responsible stewardship of the estate
- Disciplined capital management – maintain a strong financial position

NET RENTAL INCOME

£61.5m

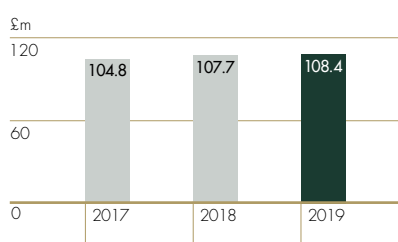
+1.8% (Lfl)



ESTIMATED RENTAL VALUE

£108.4m

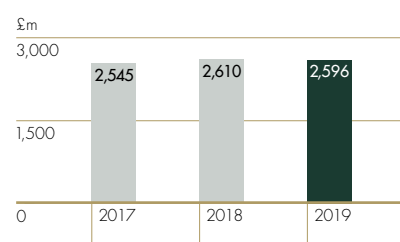
-0.1% (Lfl)



CAPITAL VALUE

£2.6bn

-1.4% (Lfl)



OPERATING PERFORMANCE

Capco's Covent Garden estate is a carefully assembled property portfolio in the heart of London's West End, comprising retail, dining, leisure and cultural space complemented by high quality offices and premium residential apartments. The assembly of the estate has been delivered through disciplined investment over time. Capco has established Covent Garden as a world-class estate of approximately 1.2 million square feet of lettable space, across 81 buildings and 549 units, currently valued at £2.6 billion, through a clear and focused strategy centred on creative asset management, focusing on the consumer and introducing high quality restaurant and retail concepts complemented by high quality office and residential accommodation.

Covent Garden is a highly attractive location, recognised as one of the world's most popular business, leisure and visitor destinations attracting over 40 million domestic and international customer visits per annum.

Despite the challenging backdrop, average tenant sales and footfall have recorded positive growth during the year. Capco continues to focus on relevant concepts and highly-productive categories such as jewellery and watches, accessories, cosmetics, health and wellbeing and there is an increasing representation from brands generating higher sales densities.

The increasing significance of online purchases by consumers and the evolving omni-channel sales strategies pursued by retailers underpin the importance for brands in choosing leading global destinations. Covent Garden is a high footfall location and offers retailers and visitors a differentiated experience in a managed estate environment, with many brands choosing Covent Garden as their first physical global or UK presence.

In researching emerging ideas and concepts, the team identifies global trends, meeting retailers, identifying brands and concepts suitable for its vision for Covent Garden. Digitally native brands which originate online are increasingly recognising the importance of a physical presence in terms of customer acquisition and retention, alongside the economic opportunity. Capco has the infrastructure and platform in place to support new to the UK or physical format retailers in order to accelerate the process of bringing target brands to London. This forward-thinking dynamic approach to

contemporary retail and dining ensures Covent Garden provides a differentiated offering to meet ever-evolving consumer expectations. Capco has a clear estate marketing strategy focusing on the consumer calendar. Capco's collaborative approach provides brands with an opportunity to participate in the estate marketing, particularly through its digital channels and activations using the Piazza. The collaborative and integrated approach helps drive footfall and tenant sales.

Capco engages actively 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 significant social media presence and is established as one of the most highly engaged destinations in the world through Instagram, Facebook and Twitter.

2019 was another active year with the portfolio delivering resilient performance. Demand for space continued to be positive. 92 leasing transactions including new leases and renewals were completed representing £17.4 million of rental income per annum transacted at 1.3 per cent above 31 December 2018 ERV (H1 2019: 40 transactions representing £13 million of rental income, H2 2019: 52 transactions representing £4.4 million of rental income).

In 2019, net rental income was £61.5 million, up 1.8 per cent (like-for-like) or 7 per cent overall compared to 2018, as the reversionary potential continued to be captured. The valuation of the estate decreased by 1.4 per cent on a like-for-like basis to £2.6 billion. ERV remained broadly stable at £108 million, a like-for-like decline over the year of -0.1 per cent. The valuation adjustment occurred mainly on Long Acre and James Street, with positive performance across the balance of the estate. The equivalent yield increased by 6 basis points to 3.65 per cent.

“

We continue to implement our strategy as we acquire target assets in key locations and introduce sought-after brands and concepts, positioning Covent Garden as a world-class destination.

IAN HAWKSWORTH,
CHIEF EXECUTIVE



1 A.P.C.

Parisian label offering menswear, womenswear and accessories opens on Floral Street



2 Dominique Ansel Treehouse

Chef Dominique Ansel brings a new bistro and bakery to Floral Street



3 Floral Court

Award winning new-build residential collection of 29 apartments now all sold



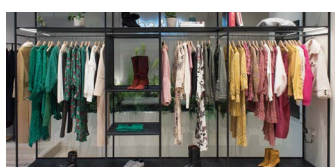
4 Glossier

Popular beauty brand opens a pop-up concept on Floral Street



5 Apple

Flagship store agrees to extend its occupation for 15 years



6 ba&sh

Parisian womenswear brand opens on King Street



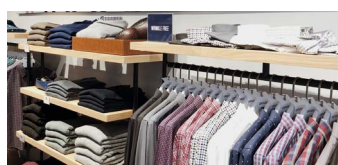
7 Polo Ralph Lauren

Menswear store opens on King Street



8 Henrietta Hotel

Design-led boutique hotel on Henrietta Street will launch an additional 22 rooms this summer



9 UNTUCKit

American casual men's apparel brand opens its first physical UK store on Long Acre



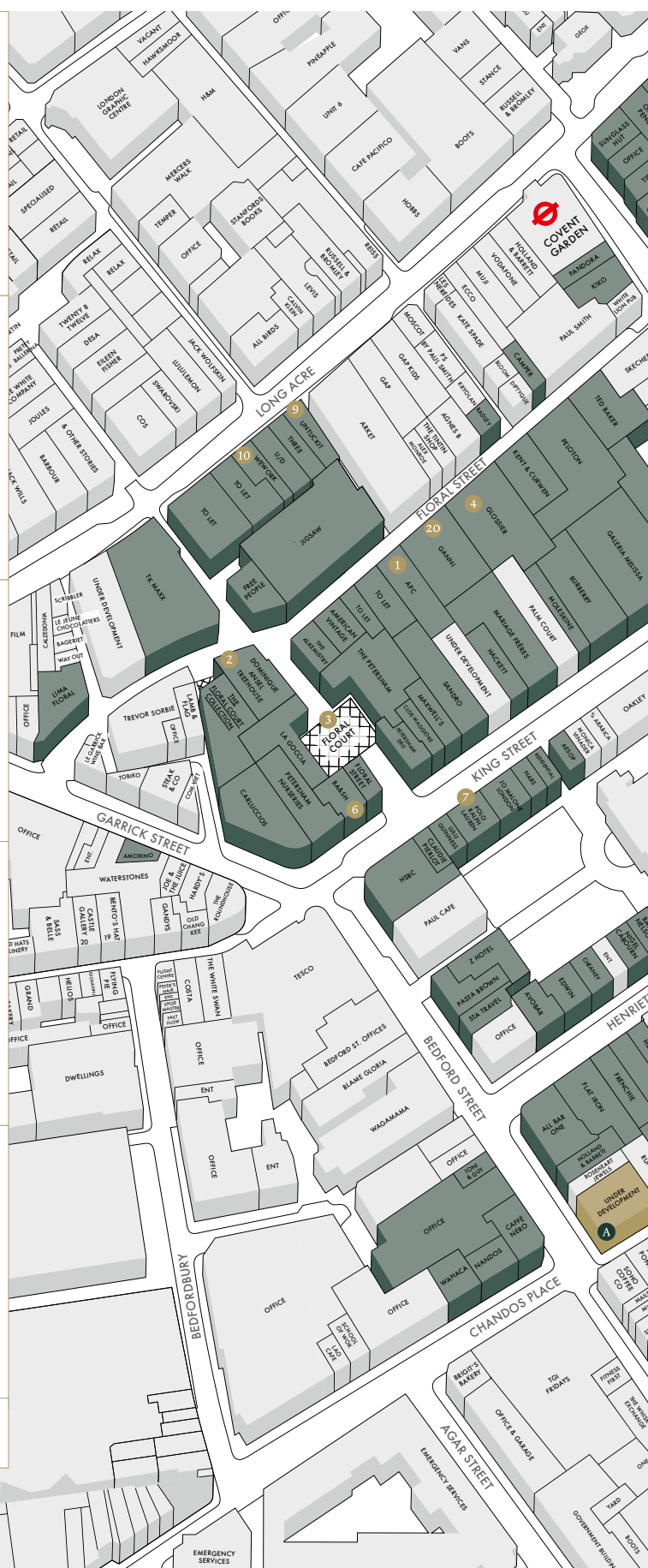
10 WeWork

Global co-working space signs on Long Acre

ACQUISITIONS

- A** 39-40 Bedford Street
- B** 5-6 Henrietta Street
- C** 36-39 Maiden Lane

■ Capco-owned as at 31 December 2019





11 Wahlburgers
Casual dining burger bar and restaurant located on James Street

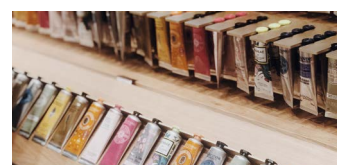


12 Lacoste
French sportswear brand opens
on James Street



13 For Art's Sake

Fashion-forward eyewear brand launches its first standalone retail store in the Market Building

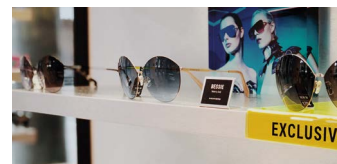


14 L'Occitane

Beauty concept opens in the Market Building



15 VyTA
Italian-style boulangerie offering all-day dining opens in the Market Building



16 Hawkers

Digital-first sunglasses brand opens UK first in the Market Building



17 Huda Beauty
Cult beauty brand opens its first ever
London pop-up on the East Piazza



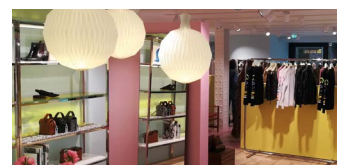
18 Bucherer

Luxury watch retailer upsizes to a more prominent flagship store within the Royal Opera House Arcade



19 Big Mamma

Restaurant Group Big Mamma brings its new London site to Maiden Lane later this year



20 GANNI
Danish brand Ganni signs to Floral Street, due to open later this year



Glossier, Floral Street



Polo Ralph Lauren, King Street

RETAIL

As one of central London's most iconic destinations, Covent Garden is home to over 140 British, global and independent retail brands. An 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. Retail space represents 53 per cent of the portfolio by value.

Demand for the Market Building continues to be strong; sunglasses brand Hawkers and beauty concept L'Occitane opened stores in the Market Building, joining Happy Socks which was introduced earlier in the year. British independent premium accessories brand Strathberry is the latest signing and will open in the coming months. In addition, eyewear brand For Art's Sake opened its first standalone retail store in the Market Building.

Polo Ralph Lauren opened a menswear store on King Street in December 2019. British brand Lulu Guinness has agreed terms to open on King Street, joining Parisian womenswear brand ba&sh which opened a store. French sportswear brand Lacoste and jewellery brand Pandora both opened new stores on James Street.

Apple carried out an extensive refurbishment of its flagship store in Covent Garden and during the year the lease was extended, resulting in occupation for a further 15 years.

Luxury retail operator Bucherer has agreed terms to upsize its offering to a more prominent flagship store within the Royal Opera House Arcade. Bucherer's re-location over the coming months builds on the ongoing strategic positioning of the arcade as a premium shopping location.

In addition, travel money specialist ChangeGroup, will open a new lounge located on Russell Street, the first of its kind in London's West End offering cash VAT refunds for shoppers from outside the EU.



Royal Opera House Arcade

Repositioning of Floral Street continues with US ethical fashion brand Free People opening its first permanent store outside of the US at 28 Floral Street. American Vintage will open this summer offering ready-to-wear and accessories collections, influenced by the founder's extensive travels throughout the US. British fashion brand Jigsaw upsized its Floral Street store to a flagship Jigsaw in Carriage Hall, replacing The Shop at Bluebird. Parisian label A.P.C. opened on Floral Street in December offering menswear, womenswear and accessories. Fitness technology company Peloton continues the fit-out of its European flagship

training studio which will live-stream classes to members worldwide. American casual men's apparel brand UNTUCKit opened on Long Acre, its first physical store in the UK. Subsequent to the year end, Danish fashion brand Ganni signed on Floral Street and is due to open in the coming months.

The new retail additions continue to position Covent Garden as one of London's best retail destinations offering a wide range of high quality brands. Capco continues to create unique customer experiences on the estate. For the Christmas trading period, cosmetics brands Glossier and Huda Beauty

launched concepts on Floral Street and the East Piazza, which also hosted the Tiffany & Co. ice-skating rink.

Glossier is a digital-first beauty company and a millennial-favourite with a cult online following. Its Floral Street store has been its most successful to date welcoming over 100,000 customers since opening in November 2019, with the highest average daily sales of any of its global stores. Due to its success, occupation has been extended for a further 12 months.

DINING

Introducing high quality innovative food concepts has been central to the dining strategy for Covent Garden. The estate offers differentiated dining experiences, from casual to premium and is one of London's best dining destinations. Dining space represents 22 per cent of the portfolio by value. The estate's transformation has been well received and recognised by consumers, with the restaurants continuing to generally report growth in turnover in contrast to well-documented issues experienced in the broader UK market.

Set within a stunning two-storey space on Floral Street, The Dominique Ansel Treehouse opened in February 2020. This new first to London restaurant from Chef Dominique Ansel, named World's Best Pastry Chef by the World's Best 50 Awards, offers a bakery boutique with a wide range of desserts and pastries on the ground floor. A cosy seated bistro is located in the 'treetop canopy' on the upper floor. The new addition anchors the western end of Floral Street, which continues its ongoing repositioning.

Santa Nata, which specialises in authentic Portuguese custard tarts opened on Russell Street and Italian restaurant VyTA Santa Margherita opened in the Market Building offering all-day dining on the Piazza. Wahlburgers, the casual dining burger restaurant and bar, opened its first restaurant outside the US on James Street, offering a classic American menu.

Big Mamma restaurant group, which is behind recently launched London venues Gloria and Circolo Popolare, plans to open a new 227-cover restaurant later this year, with dual frontage on Henrietta Street and Maiden Lane, offering a vibrant take on traditional Italian trattoria experience.

LEISURE

The broader Covent Garden area contains over 7,000 hotel rooms within a half mile radius, with over 60 per cent operating as 4-star and 5-star hotels. This reflects the spending power of visitors who stay in close proximity to the estate. The area is also home to numerous theatres containing approximately 40,000 seats, further enhancing the estate's destination and leisure status.

Hotel accommodation on the estate continues to be well received. The Henrietta Hotel will launch an additional 22 rooms this summer, in response to strong demand. The designed boutique hotel originally opened in 2017 with 18 rooms, and is home to the Henrietta bistro, offering Basque-inspired cuisine. In addition, Z Hotels operates a 111-room hotel on the estate.

OFFICE

Covent Garden is a prime office location underpinned by the appeal of the overall estate and its excellent connectivity. There is a population of over 140,000 workers within a half mile radius of the estate. Covent Garden has a contemporary office portfolio ranging from warehouses to newly refurbished space, offering both multi-tenanted and single occupancy workspace. The portfolio continues to attract financial services, technology, creative industries and SMEs maintaining high occupancy rates. Office space represents 14 per cent of the portfolio by value.

Occupants are attracted to the estate environment, which includes high quality retail and F&B options in the surrounding area as well as offering a secure environment 24-hours a day.

Flexible office space continues to be a growing component of the London office market, helping to promote small businesses and contributing to the city's growth. In recent years, the demand for greater flexibility has grown. A number of office lettings have been achieved during the year, most notably the letting of 22 Long Acre to global co-working space provider WeWork. WeWork will add to the already thriving office community in the area.

In addition, Peloton has chosen Floral Street for its London offices, extending its lease to cover approximately 4,000 square feet of office space taking its total space to 23,000 square feet in total, including the retail component.



Dominique Ansel Treehouse, Floral Street



Floral Court residential

RESIDENTIAL

Covent Garden is established as a premium residential address with over 10,000 residents living within a 15 minute walk of the estate.

During the year, there continued to be strong leasing demand for residential accommodation across the estate. Residential space represents 8 per cent of the portfolio by value. The residential portfolio is operating close to full occupancy with a high rate of renewals recorded above previous passing rent.

All 29 new-build apartments comprising the Floral Court Collection have been sold, generating over £100 million in cumulative gross proceeds, including 22 apartments representing over £80 million in 2019. Residents are attracted to the iconic location, distinctive product and high levels of customer service.

This award winning development was named 'Best London Home – Under 100 units' at the Evening Standard Awards 2019 and Best Interior Design, as well as the Development and Judges Award: Interior Design of the Year at The Sunday Times British Home Awards 2019. Global awards include Chicago Athenaeum International Architecture Award and AIA NY Design Awards Winner 'Honor'. The development has also been shortlisted for an award in the global BREEAM 2020 Awards under the category Homes: Post Construction Award.

INVESTMENT ACTIVITY

Capco's strong balance sheet and access to substantial liquidity provides significant financial flexibility. Capco's extensive knowledge of the district, close network of contacts and proven track record means Capco is often the best positioned to acquire properties, frequently off-market. Every building has a plan that is updated regularly, analysing forward-looking returns.

In 2019, over £70 million has been invested through the acquisition of target properties located on the southern side of the estate, which offer value creation opportunities. In February 2019, Capco acquired 39-40 Bedford Street which comprises 11,140 square feet of office and residential space, for £13.2 million (before purchaser's costs) located at an important entry point to the estate.

In November 2019, Capco acquired the freehold interest of Sussex Mansions, 36-39 Maiden Lane for £17.8 million (before purchaser's costs). The building comprises a restaurant let to Franco Manca, as well as office and residential space, presenting asset management opportunities. The property generates an annual rental income of £0.6 million across 13,300 square feet.

In addition, Capco also completed the acquisition of the freehold interest of 5-6 Henrietta Street for £35 million (before purchaser's costs). The multi-let building produces an annual rental income of £1.2 million across 14,300 square feet which comprises 8,200 square feet of restaurant space let to Din Tai Fung and four floors of office space which are currently vacant.

There are a number of properties on or around the estate being actively tracked for acquisition and repositioning opportunities. There are active asset management and refurbishment initiatives across the estate. Capco undertakes repurposing activities to ensure units are readily utilisable for tenants upon signing. Opportunities to implement further creative asset management initiatives are identified to improve the rental prospects and value of buildings across the portfolio, the timing of which is dependent on when vacant possession is achieved. Capco also regularly considers opportunities for value creation in the upper parts of buildings, typically through high quality office conversions for lease or premium apartments for sale or lease, or in certain cases maison-style retailing and F&B.



36-39 Maiden Lane

Redevelopment opportunities have been identified including the Wellington block and other large scale opportunities in particular on the southern side of the estate. Capco continues to review proposals for the Wellington block, a scarce island site in central London, with various planning consents in place across multiple uses including office on the upper floors with retail and restaurants on ground floor as well as consent for a hotel. Capco recently secured an enhanced hotel planning consent extending the key count to 146, with an investment decision expected to be made this year.

ENVIRONMENT AND PUBLIC REALM

Capco acts as a responsible owner of the estate. As the principal landowner of such a high footfall, globally recognised destination in London's West End, Capco has responsibilities to and works closely with a wide range of stakeholders. The heritage of Covent Garden is central to the fabric of the West End and Capco works to restore the heritage of its iconic buildings whilst also improving the energy efficiency of them. Capco promotes a collaborative approach to working with local communities

“As responsible owners of the estate we will continue to preserve its rich heritage, ensuring we minimise the impact of our operations on the environment.

IAN HAWKSWORTH,
CHIEF EXECUTIVE

to ensure understanding and support of the business initiatives on the estate and provides support for selected charity partners. Capco aims to minimise the impact of operations on the environment by employing an active approach to air quality, congestion, environmental and sustainability issues, and implementing initiatives which improve the quality of the environment for all, such as pedestrianisation and increasing greenery.

In early 2020, environmental charity Hubbub had an interactive 'Pollution Pavilion' in Covent Garden to raise public awareness of air quality issues and encourage conversation about air pollution. The unique installation displayed large balloons that changed colour reflecting annual nitrogen dioxide (NO₂) data drawn from five different locations across London, to help visitors visualise air pollution levels. As the pedestrianised heart of the capital, Covent Garden enjoys some of the best air quality in central London, and Capco continues to embrace measures to improve and maintain this. Capco was proud to support this important initiative which will help to work towards a cleaner, greener capital.

FUTURE PRIORITIES

Capco continues to implement its strategy for Covent Garden through creative asset management and investment, and attracting high quality retail brands and dining concepts to the estate. By introducing a differentiated tenant mix to address the evolving needs of the consumer, Capco aims to capture the reversionary income potential of the portfolio while continuing to drive ERV progression over the medium-term.

Further to this, Capco will continue to judge the long-term return profile of its assets and monetise value selectively as demonstrated by the sale of the new-build apartments at Floral Court, as well as continue to invest in the estate and expand its ownership through acquisitions. The southern side of the estate offers a number of opportunities to create value and an investment decision on the repositioning of the Wellington block is expected later this year. Capco is committed to consumer engagement, aiming to continue enhancing the customer environment and develop Capco's extensive ESG agenda including a commitment to air quality, greening, waste management, charitable support, community engagement and responsible ownership.



5-6 Henrietta Street

OTHER INVESTMENTS

SALE OF CAPCO'S INTERESTS IN EARLS COURT

In November 2019, having prepared the land for future development, Capco completed the sale of its interests in Earls Court, excluding Lillie Square, to APG and Delancey (on behalf of its client fund) for £425 million (the "Disposal").

Net proceeds from the initial payment were approximately £175 million (adjusting for net debt and other completion items). The balance of £210 million will be payable in two equal instalments, 12 months and

24 months after completion. The second deferred payment receivable by Capco would be accelerated in part to the extent that payments made by Capco to the London Borough of Hammersmith and Fulham pursuant to the Conditional Land Sale Agreement ("CLSA") are refunded to the Purchaser. Further consideration may be payable to Capco in limited circumstances.

This transaction is consistent with Capco's strategy of monetising investments at Earls Court over time, with a focus on growing its central London property investment business, centred around Covent Garden.

The disposal is for total consideration of £425 million, and compares to a balance sheet value at 30 June 2019 of £508 million. Taking into account revaluation movements in the first half, transaction costs and the present value adjustment on the deferred consideration, the disposal resulted in a decline in NAV of £191 million, equivalent to 22 pence per share.

The balance sheet value of the Earls Court interests at 30 June 2019 subject to the transaction (the "Disposal Group") comprised:

- 63 per cent interest in Earls Court Partnership Limited ("ECPL"): the investment vehicle with Transport for London ("TfL") in respect of the site formerly the location of the Earls Court exhibition centres and certain assets on and around Lillie Road valued at £389 million (Capco's share of ECPL net debt as at 30 June 2019 was approximately £38 million);
- Other related assets around Earls Court valued at £36 million; and
- Capco's interests in respect of the CLSA in relation to the West Kensington and Gibbs Green Estates, comprising prepayments and capitalised costs, with a carrying value of £83 million.



Earls Court site

LILLIE SQUARE

Capco owns 50 per cent in Lillie Square, a one million square foot (GEA) residential development located in West London. The development can deliver over 600 private and 200 affordable homes across three phases. Development of Lillie Square is well-progressed with over £450 million of cumulative sales contracted across Phase 1 and 2.

Handover of Phase 1 sold units is complete, with a small number of units available. £133 million (Capco share) of Phase 1 sales proceeds have been received. Over 80 per cent of Phase 2 (160 of the 186 units) have been reserved or exchanged. Handover of sold units is expected in 2020 with gross proceeds of approximately £100 million (Capco share).

Future priorities are to continue to progress Lillie Square through the delivery of Phase 2, ensuring successful completion and handover to all purchasers and continued sales of the remaining inventory.

INNOVA

Capco has a 50 per cent interest in the Innova Investment joint venture (“Innova”) with Network Rail, which explores potential opportunities for future redevelopments at significant railway station sites across London. Capco and Network Rail have funded works which has enabled significant progress in developing a technical solution to allow re-development of Clapham Junction station. With such a large, complex project, the business funding model is yet to be

determined and a detailed review by Network Rail regarding next steps is underway. There still exists an opportunity for Capco through the Innova investment to participate over the long-term, however at this stage there is no certainty and therefore Capco took the prudent approach to impair its investment in Innova in full in the first half of 2019.



Lillie Square, Phase 2

DRIVING PERFORMANCE



“The Group is well-positioned as a central London REIT to continue to grow rental value and income at Covent Garden and operate with a lower cost base, whilst maintaining a strong capital structure with a clear investment focus to deliver long-term value to shareholders.

SITUL JOBANPUTRA,
CHIEF FINANCIAL OFFICER

FINANCIAL HIGHLIGHTS

TOTAL PROPERTY VALUE	£2.8bn ¹
NET ASSETS	£2.5bn
EPRA NAV PER SHARE	293p
CASH AND UNDRAWN FACILITIES	£895m ¹
LTV	16%
NET RENTAL INCOME	£61m
TOTAL RETURN	-9.6%
TOTAL SHAREHOLDER RETURN	14.0%

1. Group share.

During 2019 the Group completed the sale of its interests at Earls Court and converted to REIT status. The Group is now well-positioned with a clear focus to grow its property investment business centred around the Covent Garden estate, supported by a strong balance sheet. With a loan to value ratio of 16 per cent and access to liquidity of £895 million the Group has the ability to capitalise on investment opportunities and deliver long-term shareholder value.

The Covent Garden estate has recorded positive performance with growth in rental income, an active period in terms of letting and asset management activity, and encouraging indicators including enhanced footfall and tenant sales. In addition, £94 million was invested into Covent Garden through £75 million of acquisitions (including costs) and £19 million of capital expenditure.

Covent Garden now accounts for 94 per cent of the portfolio value as measured by the Group's share of total investment, development and trading property. The remaining new-build Floral Court apartments, including the award winning penthouse, have been sold during the year generating £80 million of net proceeds (and

cumulative proceeds of £100 million). The property valuation of the Covent Garden estate has decreased by 1.4 per cent as a result of movements in yields and ERV. The Group has, however, continued to realise rental growth with an increase of 7.0 per cent overall in net rental income or 1.8 per cent on a like-for-like basis.

On 29 November 2019 the Group sold its interests in Earls Court Properties, retaining its interests in the Lillie Square joint venture. Headline consideration was £425 million and after the deduction of net debt and working capital, the Group received cash proceeds of £175 million on completion with £210 million to be received over the next two years. The total loss on sale, including revaluation movements and transaction costs, was £191 million. This includes £10 million representing the time-discounted value of the deferred consideration, which will be recognised as income as the balance of the consideration is received.

Handover and completion in relation to the sale of Phase 2 apartments at Lillie Square is expected during the course of 2020, with proceeds of £100 million (Group share) expected to be received by the joint venture.

Overall net assets of the Group were £2.5 billion. EPRA net asset value per share decreased by 10.1 per cent during the year, from 325.7 pence at 31 December 2018 to 292.9 pence. Combined with the 1.5 pence dividend paid to shareholders during the year, the total return for 2019 is -9.6 per cent. Total shareholder return for the year, reflecting movement in the share price together with the value of dividends, is 14 per cent.

Underlying earnings from continuing activities were £9.5 million compared to £9.8 million for 2018, with continued net rental income growth at Covent Garden offset by an increase in administration expenses.

As a REIT and with a simpler organisational structure, the Group will focus on growing rental income and achieving operating efficiencies to develop dividend distributions in line with underlying earnings, whilst maintaining an appropriate capital structure and investing strategically to grow the business and deliver shareholder value.

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 and report on 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 is shown on page 145.

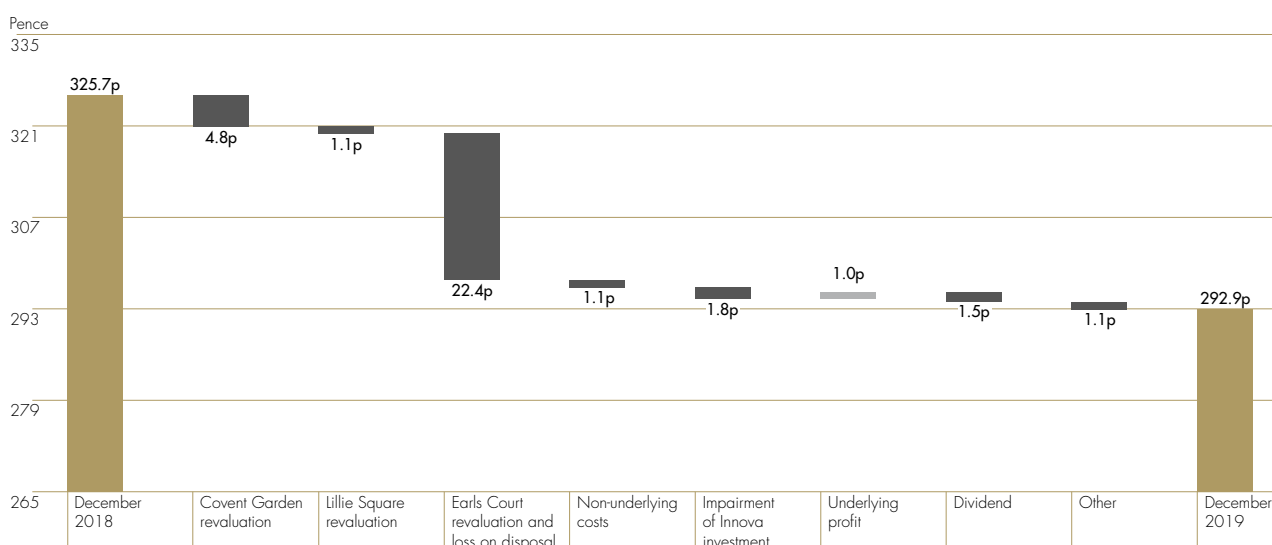
Internally the Board focuses on and reviews information and reports prepared on a Group share basis, which includes the Group's share of joint ventures but excludes the non-controlling interest share of our subsidiaries, as this represents the economic value attributable to the Company's shareholders. In order, 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.

DISCONTINUED OPERATION

On 29 November 2019 the Group completed the sale of its interests in Earls Court, excluding Lillie Square, to APG and Delancey (on behalf of its client fund) for £425 million. As Earls Court Properties represented a major line of business, its results and cash flows have been reported for the period 1 January 2019 to 29 November 2019 as having arisen from a discontinued operation. This extends to the prior period comparative which has been re-presented to reflect the disposal. The Empress State Building which was sold on 26 March 2018 was previously part of the Earls Court Properties business and therefore has also been classified as a discontinued operation in the comparative period. Further information on the disposal of the Earls Court Properties business is set out in note 10 'Discontinued Operation'.

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 -10.1% TO 292.9 PENCE



FINANCIAL POSITION

At 31 December 2019 the Group's EPRA net asset value was £2.5 billion (31 December 2018: £2.8 billion) representing 293 pence per share (31 December 2018: 326 pence).

Summary adjusted balance sheet

	2019				2018			
	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	2,706.8	(161.3)	–	2,545.5	3,198.2	(133.4)	270.7	3,335.5
Net debt	(441.8)	38.0	–	(403.8)	(572.7)	9.4	(21.4)	(584.7)
Other assets and liabilities ³	222.1	113.7	–	335.8	123.0	111.7	(1.9)	232.8
Non-controlling interest	–	–	–	–	–	–	(247.4)	(247.4)
Net assets attributable to owners of the Parent	2,487.1	(9.6)	–	2,477.5	2,748.5	(12.3)	–	2,736.2
Adjustments:								
Fair value of derivative financial instruments				3.6				(0.7)
Unrecognised surplus on trading property				15.6				25.7
Revaluation of other non-current assets				9.6				12.3
Deferred tax adjustments				(0.8)				3.5
EPRA net asset value				2,505.8				2,777.0
EPRA net asset value per share (pence)⁴				293				326

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 2019 was 855.5 million (2018: 852.6 million).

INVESTMENT, DEVELOPMENT AND TRADING PROPERTY

The Group share of investment, development and trading property carrying value, excluding the discontinued Earls Court Properties business, has increased from £2,700.4 million at 31 December 2018 to £2,706.8 million. This movement comprises acquisitions of £74.9 million and capital expenditure of £51.5 million offset by disposals at Floral Court and Lillie Square of £78.9 million, and a revaluation loss of £41.1 million.

The acquisitions were located mainly in the southern side of the estate at Covent Garden, enhancing the Group's position in the area and providing medium term repositioning and asset management opportunities. Capital expenditure of £19.4 million at Covent Garden relates to a number of smaller projects and the Lillie Square spend of £32.1 million was in relation to construction and fit out of Phase 2 of the development.

The IFRS loss on revaluation of investment and development property was £41.1 million which relates to the Covent Garden portfolio, driven by movements in yield and ERV. Including the revaluation loss on Earls Court Properties for the period to 29 November 2019 of £96.6 million (Group share), the total loss on revaluation of investment and development property from continuing and discontinued operations was £137.7 million. The unrecognised surplus on trading property declined by £10.2 million, and together with the revaluation on investment and development property the total revaluation loss was £147.9 million representing a 5.2 per cent decrease in value, which compares with the MSCI Capital Return for the equivalent period of a 3.1 per cent loss.

Total property return, including the loss on disposal of Earls Court Properties, was a 5.4 per cent loss. The MSCI Total Return Index recorded a 2.1 per cent gain for the corresponding period.

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 £1.4 million of the unrealised trading property surplus has been realised. At 31 December 2019, the unrecognised surplus on trading property was £15.9 million (31 December 2018: £25.7 million) which arises solely on the Group's share of trading property at Lillie Square.

DEBT AND GEARING

The Group maintains a strong balance sheet with diversified sources of funding, a relatively low loan to value ratio, significant headroom against debt covenants, access to substantial liquidity, limited capital commitments, a balanced debt maturity profile and appropriate hedging against movements in interest rates. This enables the Group to deploy capital on the estate and in new acquisitions as well as the ability to return surplus capital to shareholders. The Company intends to return up to £100 million to shareholders through a share buyback programme in 2020.

The Group's cash and undrawn committed facilities at 31 December 2019 were £895.2 million (31 December 2018: £854.4 million). A reconciliation between Group share and IFRS is shown in the table below.

Net debt decreased by £131 million to £442 million, principally as a result of receiving the initial disposal proceeds from the sale of Earls Court Properties. Further proceeds of £210 million are expected to be received over the next two years. As set out in the summary adjusted balance sheet, net debt on an IFRS basis was £404 million.

During the year the Lillie Square joint venture exercised a one-year extension to its credit facility. As a result the Group's earliest repayment date on its facilities is May 2021.

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 16.3 per cent remains comfortably within the Group's limit of no more than 40 per cent with the level of interest cover expected to improve as rental income growth and cost efficiencies are delivered.

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 2019 the proportion of gross debt with interest rate protection was 91 per cent (31 December 2018: 88 per cent) and the £705 million revolving credit facility was undrawn.

The Group remains compliant with all of its debt covenants, details of which are set out on page 144, and has significant levels of headroom against its covenants across all of its debt facilities.

At 31 December 2019 the Group had capital commitments of £13.6 million (£53.4 million at 31 December 2018), of which £7.0 million related to Covent Garden and £6.6 million to Lillie Square.

	2019				2018			
	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	170.6	(17.5)	–	153.1	49.9	(20.4)	3.0	32.5
Undrawn committed facilities	724.6	(9.6)	–	715.0	804.5	(35.0)	32.0	801.5
Cash and undrawn committed facilities	895.2	(27.1)	–	868.1	854.4	(55.4)	35.0	834.0

1. Primarily Lillie Square.

2. Non-controlling interest represents Tfl's 37 per cent share of ECPL.

	2019		2018	
Loan to value	16.3%		17.9%	
Interest cover	130.8%		149.0%	
Weighted average debt maturity	4.9 years		6.0 years	
Weighted average cost of debt	3.0%		2.9%	
Gross debt with interest rate protection	91%		88%	

	2019				2018			
	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	13.6	(6.6)	–	7.0	53.4	(32.4)	1.4	22.4

1. Primarily Lillie Square.

2. Non-controlling interest represents Tfl's 37 per cent share of ECPL.

CASH FLOW

A summary of the Group's cash flow for the year ended 31 December 2019 is presented below:

SUMMARY CASH FLOW

	2019			Re-presented 2018		
	Group Share £m	Joint ventures ¹ £m	IFRS £m	Group Share £m	Joint ventures ¹ £m	IFRS £m
Operating cash flows after interest and tax from continuing activities	(14.0)	(5.4)	(19.4)	3.2	2.5	5.7
Purchase and development of property, plant and equipment	(126.5)	32.1	(94.4)	(91.5)	33.4	(58.1)
Transactions with joint venture partners and non-controlling interests	(0.8)	(0.7)	(1.5)	(1.1)	(1.1)	(2.2)
Net sales proceeds from discontinued operation	168.9	–	168.9	250.0	–	250.0
Net sales proceeds from subsidiaries	0.2	–	0.2	1.8	–	1.8
Net sales proceeds from property	84.3	(4.7)	79.6	50.1	(30.8)	19.3
Net cash flow before financing from continuing activities	112.1	21.3	133.4	212.5	4.0	216.5
Issue of shares	0.5	–	0.5	0.1	–	0.1
Financing	25.5	(25.5)	–	(168.2)	3.2	(165.0)
Transactions with discontinued operation	–	–	–	(37.3)	–	(37.3)
Dividends paid	(9.5)	–	(9.5)	(8.2)	–	(8.2)
Other	(1.8)	–	(1.8)	(4.0)	–	(4.0)
Net cash flow from continuing activities²	126.8	(4.2)	122.6	(5.1)	7.2	2.1
Net cash flow from discontinued operation	(2.0)	–	(2.0)	1.8	–	1.8
Net cash flow	124.8	(4.2)	120.6	(3.3)	7.2	3.9

1. Primarily Lillie Square.

2. 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 £4.1 million (2018: £1.9 million).

Operating cash outflows of £14.0 million are as a result of changes in net working capital requirements and transaction-related costs.

During the year, £94.4 million was invested at Covent Garden for the purchase of three properties and subsequent expenditure for the development of property. At Lillie Square, £32.1 million was incurred for the construction of Lillie Square Phase 2.

The sale of 22 apartments at Covent Garden, including three that were classified as held for sale as at 31 December 2018, generated £79.6 million of net sales proceeds from

property with a further £4.7 million received on Lillie Square Phase 1 disposals. The completion of Lillie Square Phase 2 handovers is expected during 2020.

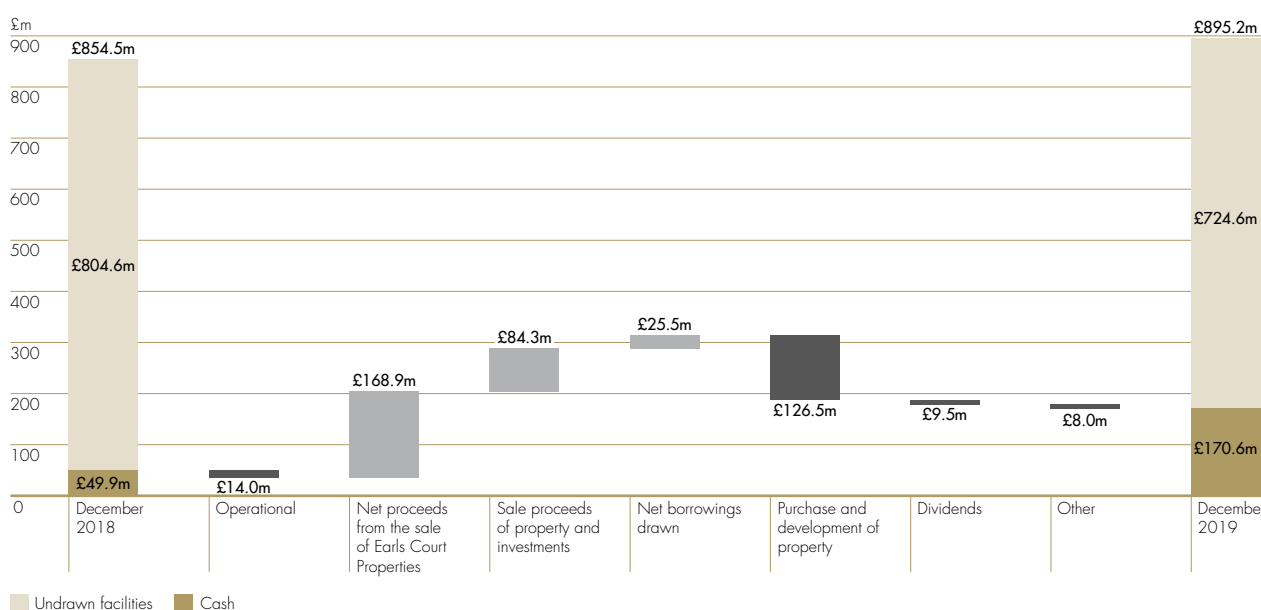
The disposal of the discontinued operation Earls Court Properties resulted in a net inflow of £168.9 million after taking into account the transfer of the disposal Group's bank accounts.

An additional £25.5 million was drawn on the Lillie Square facility to fund the construction of Phase 2, resulting in a year end debt position of £55.5 million (Capco share).

Dividends paid of £9.5 million reflect the final dividend payment made in respect of the 2018 financial year and the interim dividend paid in September 2019. This was higher than the previous year due to a lower level of take-up of the scrip dividend alternative, 25 per cent versus 35 per cent for the dividends in 2018.

IFRS cash and cash equivalents increased by £120.6 million to £153.1 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

	2019			Re-presented 2018		
	Group Share £m	Joint ventures ¹ £m	IFRS £m	Group Share £m	Joint ventures ¹ £m	IFRS £m
Net rental income	61.2	(0.1)	61.1	57.5	(0.1)	57.4
(Loss)/profit on revaluation and sale of investment and development property	(43.3)	–	(43.3)	39.2	–	39.2
Administration expenses	(42.6)	(0.8)	(43.4)	(33.7)	(0.5)	(34.2)
Net finance costs	(20.9)	0.2	(20.7)	(19.2)	0.2	(19.0)
Taxation	(1.0)	–	(1.0)	(4.3)	–	(4.3)
Other ²	(18.3)	3.3	(15.0)	10.1	(11.9)	(1.8)
Loss for the year attributable to owners of the Parent from continuing operations	(64.9)	2.6	(62.3)	49.6	(12.3)	37.3
Adjustments ³ :						
Loss/(profit) on revaluation and sale of investment and development property			43.3			(39.2)
Administration expenses – non-underlying			9.7			4.9
Other			16.6			3.8
Taxation on non-underlying items			2.2			3.0
Underlying earnings from continuing operations			9.5			9.8
Underlying earnings from discontinued operation			(0.5)			(1.8)
Underlying earnings			9.0			8.0
Underlying earnings per share (pence):						
From continuing operations			1.1			1.1
From discontinued operation			(0.1)			(0.2)
Underlying earnings per share (pence)			1.0			0.9
Weighted average number of shares			853.0m			852.4m

1. Lillie Square and Innova.

2. Includes impairment of other receivables and other finance income.

3. Further details regarding the EPRA and Company specific adjustments are disclosed within note 12 'Earnings Per Share and Net Assets Per Share' within the consolidated financial statements.

INCOME

Net rental income has increased by £3.7 million due to £0.7 million of like-for-like growth and £3.0 million through current and prior year acquisitions and developments. The Group continues to convert reversionary potential into contracted rents resulting in like-for-like net rental income growth at Covent Garden of 1.8 per cent. ERV at Covent Garden decreased

like-for-like by 0.1 per cent though due to acquisitions has increased overall from £107.7 million to £108.4 million. Rental collection metrics continue to be strong with limited bad debt provisions and a small number of units available for letting, representing a vacancy rate of 3.2 per cent. CVAs and tenant failures have not been a material feature at Covent Garden, however actions in relation to a small number of tenancies have had an impact on net rental income in 2019.

LOSS ON REVALUATION AND SALE OF INVESTMENT AND DEVELOPMENT PROPERTY

The loss on revaluation of the Group's investment and development property was £41.1 million. The loss is predominantly as a result of an outward yield movement of six basis points, resulting in an equivalent yield of 3.65 per cent at 31 December 2019.

The sale of all 22 remaining new-build apartments at Floral Court, including the three apartments which were accounted for as held for sale at 31 December 2018, completed with gross proceeds of £81.0 million. This resulted in a loss for the year of £2.2 million when compared to 2019 opening valuation, taking into account marketing and other costs. The successful residential sales programme marks the completion of an important project for the Covent Garden estate, which has contributed to enhanced footfall patterns and the repositioning of Floral Street.

ADMINISTRATION EXPENSES

Underlying administration expenses have increased by £4.1 million from £28.8 million to £32.9 million. £9.7 million (2018: £4.9 million) of costs were incurred during the year in relation to the possible demerger and related activities. The allocation of administration expenses to the discontinued operation has been based primarily on asset value. The consolidation of Group central and business activities, including the rationalisation of office locations, is ongoing. The Group is targeting underlying administration costs of £20 million for the 2021 financial year, and encouraging early progress towards this has been made.

NET FINANCE COSTS

Net finance costs increased to £20.9 million from £19.2 million, due in part to interest being capitalised on the Floral Court scheme in the prior year. The principal components of interest costs relate to the Covent Garden private placement notes and revolving credit facility together with commitment fees, offset in part by interest income on cash balances.

TAXATION

The Group's tax policy, which has been approved by the Board and has been disclosed to HM Revenue & Customs, 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 adversely impact our reputation as a responsible taxpayer. As a Group, we are committed to acting in an open and transparent manner.

The Group elected for UK tax purposes to convert to a UK Real Estate Investment Trust ("REIT"), with effect from 9 December 2019. As a result the Capco group will therefore no longer pay UK direct tax on profits and gains arising from its qualifying property rental business provided that certain conditions are met.

Consistent with the Group's policy of complying with relevant tax obligations and its goal in respect of its 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. The Group maintains a low risk rating from HMRC.

The total tax charge for the year, made up of both underlying tax and non-underlying tax, is £1.0 million.

Tax on underlying profits of the Group was a tax credit of £1.2 million which arose mainly from the reversal of a £3.4 million deferred tax liability following conversion to a UK REIT. The main rate of corporation tax remained unchanged at 19 per cent throughout the period. The corporation tax rate is set to fall to 17 per cent with effect from 1 April 2020.

Contingent tax, the amount of tax that would become payable on a theoretical disposal of all investment property held by the Group, was nil (31 December 2018: nil). A disposal of the Group's trading properties at their market value, before the utilisation of carried forward available losses, would result in a corporation tax charge to the Group of £3.0 million (19 per cent of £15.9 million).

The provisions of IAS 12 provide for the recognition of a deferred tax asset where it is probable 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 certain losses carried forward.

DIVIDENDS AND SHARE BUYBACK

The Board has proposed a final dividend of 1.0 pence per share to be paid on 14 May 2020 to shareholders on the register at 17 April 2020. Subject to SARB approval, the Board intends to offer a scrip dividend alternative.

As a REIT, the Group is required to distribute at least 90 per cent of its net rental income (calculated with reference to tax rules) to shareholders as a PID. The Board intends that the interim dividend for 2020 will include an element which will be treated as a PID, for tax purposes, in respect of the qualifying rental profits arising in 2019. The Group is targeting a progressive dividend policy in line with growth in underlying earnings as a result of delivering growth in net rental income, reduction of cost and capital efficiency.

The Group is in a strong financial position and maintains a disciplined approach to capital allocation. It is well-positioned to invest in existing assets through creative asset management, repositioning and development initiatives, as well as in new assets through acquisitions. In addition, surplus capital will be returned to shareholders as appropriate. As part of its capital management activities in 2020, Capco intends to return up to £100 million to shareholders through an on-market share buyback programme.

GOING CONCERN

At 31 December 2019 the Group had cash and undrawn committed facilities of £895.2 million and its capital commitments were £13.6 million. With a weighted average debt maturity of five years, loan to value ratio of 16 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 2019 Annual Report & Accounts.



SITUL JOBANPUTRA
CHIEF FINANCIAL OFFICER

25 February 2020

RESPONSIBILITY

It is important to us that we conduct our business in a responsible way, and it is our intention to benefit the communities in which our assets are located and minimise the impact of our operations.

OUR APPROACH

Our programme of responsibility initiatives sits at the core of Capco's business, with a focus on three themes: environment, community and people. This is underpinned by a commitment to the highest standards of health and safety and ethical practices in areas such as modern slavery, tax evasion and bribery and corruption, and we expect our suppliers to adopt the same approach.

ENVIRONMENT

MINIMISING OUR IMPACT

We are committed to improving the energy efficiency of our portfolio, lowering our carbon emissions and managing our resources responsibly.

RESPONSIBLE DEVELOPMENT

We are committed to integrating responsible and sustainable practices into the delivery of projects and developments.

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").

For more on our environmental initiatives, see pages 44-45.

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 around Covent Garden, designed to introduce school children to specific issues affecting their areas of London.

CHARITY PROGRAMMES

We have long-standing relationships with selected charities which are aligned with our aim to support young people, ex-Services personnel and the homeless.

For more on our activities within the community, see pages 46-47.

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.

We promote initiatives to support employee well-being.

For more on our people, see pages 48-49.

GIVING BACK

We 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 responsibility programme.

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, occupiers, supply chain partners and members of the public who interact with our business operations.

For more on health and safety, see pages 50-51.

STAKEHOLDER ENGAGEMENT

Working with, and understanding the needs of, our stakeholders is key to the delivery of our Group strategy. Information on our key stakeholder groups and some of the ways we work in partnership with them is set out below.

OUR APPROACH

We engage with our stakeholders in a variety of ways, including feedback to our asset management teams, occupier surveys, meetings with joint venture partners and government bodies, and community events.

EMPLOYEES

Our employees are key to our business and we provide the culture and resources to allow them to reach their potential.

Read more on page 48.

OCCUPIERS

We provide excellent premises to allow our retail, food and beverage and office occupiers' businesses to flourish. Our residential properties are of high quality, with a focus on environmental standards and user experience.

Read more on page 46.

INVESTORS

We engage regularly with our shareholders to understand their priorities and concerns.

Read more on page 59.

COMMUNITIES

We work closely with the communities in and around our assets to understand their needs. We promote initiatives to improve the environment, including air quality and greening, and provide support to our selected charity partners.

Read more on page 46.

DEBT PROVIDERS

We have well-established relationships with a range of finance providers, and operate on a transparent basis.

VISITORS

We create world-class places in central London, and have a customer-focused approach to estate management, which creates unique and attractive destinations.

Read more on page 46.

SUPPLIERS

We value our established relationships with our suppliers and operate a responsible procurement policy which requires consideration of ethical matters, such as modern slavery. We require that providers of managed services to our offices and estates pay the London Living Wage to those working with Capco. We aim to pay invoices within 30 days.

JOINT VENTURE PARTNERS

We work closely with our joint venture partners to deliver projects that benefit both parties, working in line with Capco's strategy and ethos.

LOCAL AUTHORITIES AND CONSERVATION BODIES

As responsible stewards, we engage with local councils and conservation bodies when developing our proposals.

COMPANIES ACT 2006 – S172 STATEMENT

When taking Board decisions, the Directors give careful consideration to the likely impact of any recommended proposal, to ensure that the decision aligns with Group strategy and is likely to promote the success of the business, whilst giving consideration to the potential impact of any decision on the Company's stakeholders.

The precise matters considered by the Directors will depend on the nature of the proposal, but will often include factors such as the likely long-term consequences of a decision, the interests of the Company's

employees, the fostering of relationships with our suppliers, operational impacts on the community and environment, maintaining the Company's reputation for high standards of business conduct and treating our shareholders fairly. To allow the Board to consider these matters effectively, Directors receive regular updates on stakeholder views from the Executive Directors and senior management, and we include a dedicated section within Board approval papers which sets out the likely impact of the proposed recommendation on relevant stakeholders.

Whilst it is not always possible to meet the preferences of all stakeholders, which may

diverge, the Board aims to ensure there is an appropriate balance. For example, when considering the sale of the Group's interest in the Earls Court business, matters considered by the Directors included the relative merits of the proposed sale versus a demerger taking into account views of shareholders, the reputation of the proposed purchaser and their acceptability as a counterparty to the Group's business partner, local authorities and residents in the Earls Court area, and the impact of the disposal on Group employees. Having considered all of these matters, the Board concluded that the sale was in the best interests of the Company and its shareholders as a whole.

ENVIRONMENT

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

2019 ACHIEVEMENTS

Energy efficiency

At least 70 per cent of landlord areas in Covent Garden now have energy-efficient LED lighting.

Diversion from landfill

100% of non-hazardous waste diverted from landfill at the Covent Garden Market Building, with a recycling rate of 44 per cent.

Promoting recycling

Proactively engaged with food and beverage occupiers to increase awareness of recycling opportunities.

Shortlisted for BREEAM award

Floral Court was shortlisted for a global BREEAM award in the Homes category.

EPRA Gold Award

Achieved a Gold Award in EPRA Sustainability Best Practice Recommendations for Reporting.

OUR 2020 COMMITMENTS

Energy efficiency

Lower the energy used in our managed areas by 3.5 per cent on a like-for-like basis, and maintain this target until 2021.

Carbon reduction

Set a long-term science-based carbon reduction target.

Climate-related risks

Seek to better understand climate-related risks to the business and prepare a response in alignment with the Taskforce for Climate-related Financial Disclosures ("TCFD").

Diversion from landfill

Target at least 90 per cent of waste being diverted from landfill across our operational assets, and projects.

Water consumption

Strive to set a water consumption intensity target where possible and identify opportunities to reduce water consumption in managed assets.

ENERGY MANAGEMENT

In 2019 we lowered our energy usage and met our target to reduce energy use by 3.5 per cent on a like-for-like basis compared with 2018.

Initiatives in 2019 included extending our installation of energy-efficient LED lighting, with new lamps fitted to street lamps owned by Westminster City Council on Floral Street. 70 per cent of landlord areas in Covent Garden now use LED lighting.

We completed our auditing activities for Phase Two of the UK Government's Energy Savings Opportunities Scheme ("ESOS") and the outcomes of the audit will be considered in future plans to reduce Capco's energy consumption. We also completed our participation in the Carbon Reduction Commitment.

We have continued to target improvement of the energy performance of our assets in response to the Minimum Energy Efficiency Standards ("MEES"). At least 67 per cent of the commercial assets at Covent Garden achieve an EPC rating of at least C. Certain new-build schemes incorporate a building management system to more accurately measure a building's energy efficiency and certain properties within our portfolio have been fitted with smart meters. Such measures are designed to assist with lowering energy usage across our portfolio.

ADDRESSING AIR QUALITY

In 2019, we continued to raise awareness of ways in which air quality within the Covent Garden district can be improved by installing more signage to encourage drivers to turn off engines, rather than idling, and by installing an 'air quality level' advisory board at the Market Building visitor information hub. We also continued to liaise with Westminster City Council to identify opportunities for increasing pedestrianisation of the area.

Work has commenced on the installation of 15 electric vehicle charging points in the car park on Floral Street.

GREENING OUR PLACES

Throughout 2019 additional bio-diverse planting was introduced to Floral Street, King Street and James Street. We also sought to reduce our environmental impact by using sustainability sourced planting products, materials and compost.

WASTE AND WATER MANAGEMENT

To support our aim of improving recycling rates across the Covent Garden portfolio, in partnership with our waste contractor, Veolia, we visited all food and beverage occupiers to raise awareness of recycling opportunities. We also upgraded recycling facilities at the Jubilee Market, promoted a water bottle refill initiative and introduced designated coffee cup recycling points. 100 per cent of non-hazardous waste from the Covent Garden Market Building operations was diverted from landfill, with waste either being recycled or going to an 'energy from waste' plant.

We continue to monitor water usage across the assets we control and have incorporated water-efficient appliances and fittings into our refurbishment and development projects. No fines or penalties related to non-compliant actions that harmed the environment were incurred by Capco during the most recent financial year.



EXTENSIVE GREENING

Bio-diverse greening is in place throughout the Covent Garden estate

GREENHOUSE GAS EMISSIONS

In 2019, our absolute Greenhouse Gas ("GHG") emissions reduced compared with 2018. We switched additional electricity supplies to renewable energy tariffs and took steps to better understand our Scope 3 emissions, particularly in relation to business travel. We continue to report GHG emissions in accordance with UK legislation, the GHG protocol Greenhouse Gas ("GHG") Protocol Corporate Accounting and Reporting Standard, and use conversion factor data published by the Department for Environment, Food & Rural Affairs ("DEFRA") to calculate emissions.

Following the Government's 2019 announcement that the scope of mandatory carbon reporting was to be extended, we have expanded our disclosure to report in alignment with the Streamlined Energy and Carbon Reporting Regulations.

Capco has engaged Ramboll UK Limited to provide independent verification of the calculation of 2019 GHG emissions assertion, in accordance with the industry recognised standard ISO 14064-3.

Further details of our methodology to calculate GHG emissions can be found on page 150.

CARBON OFFSET

To reduce our carbon footprint, we carbon offset all directly booked business-related travel during 2019.

RESPONSIBLE DEVELOPMENT

In 2019 we carried out a review of our Sustainability Framework for Projects and Development with the aim of updating the criteria to reflect the evolving standards required of new construction and major refurbishment projects.

At Lillie Square, Phase 2 of the development remains on track to achieve Code for Sustainable Homes Level 4 certification.

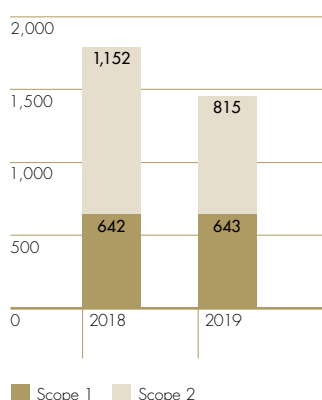
Floral Court has been shortlisted in the 'Homes' category of the global BREEAM Post Construction Awards. The shortlist comprises highly complex projects in urban contexts, all aiming to deliver homes with a focus on comfort and sustainable living.

We achieved our first Gold SKA sustainability certification for our refurbishment works at 14 Floral Street and Tower House.

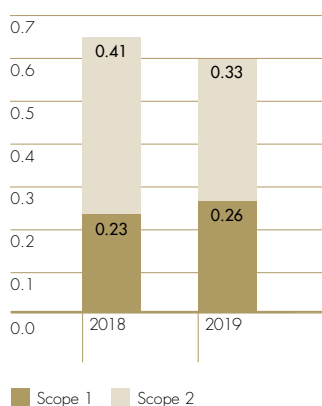
Capco remains an active member of the UK Green Building Council.

GREENHOUSE GAS ("GHG") EMISSIONS DATA FOR YEAR ENDED DECEMBER 2019

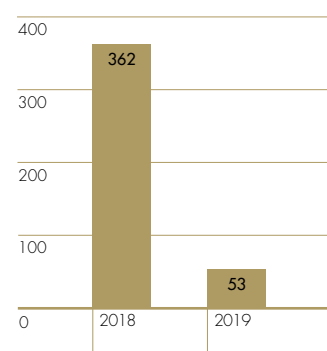
Total Scope 1 & 2 GHG Emissions (Location-based Method)¹



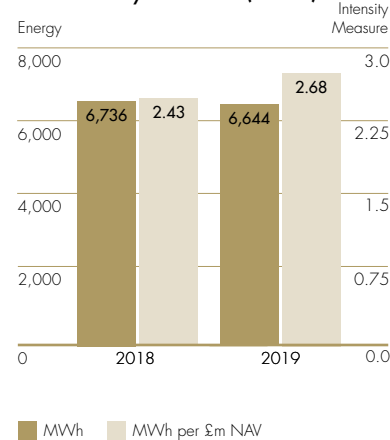
Intensity Measure: Tonnes of CO₂e per £m NAV



Total Scope 2 GHG Emissions (Market-based Method)²



Total Energy Consumption and Intensity Measure (MWh)



1. The location-based method reports emissions as tonnes of carbon dioxide equivalent (tCO₂e).
2. The market-based method reports emissions as tonnes of carbon dioxide (tCO₂).

SUSTAINABILITY INDICES

We continue to participate in external sustainability indices and benchmarks to help us monitor our performance and identify opportunities for improvement. We achieved our first Gold award for reporting in line with the EPRA Sustainability Best Practice Recommendations for Reporting, retained our CDP score of B and improved our GRESB and FTSE4GOOD scores during the year. For more information on our reporting visit www.capitalandcounties.com/responsibility/environment.



COMMUNITY

During 2019, Capco continued to work to benefit the communities in which we operate and to support our chosen charities.

2019 ACHIEVEMENTS

Education programme

We increased the number of schools that participated in Capco's Education Programme, building further on our success with school children of all ages.

Community facility

We continued to make community space available at Lillie Road for use by local stakeholder groups.

Volunteering programme

We continued to promote a volunteering programme with the Construction Youth Trust, LandAid and the Urban Land Institute.

Employee CR engagement

Capco staff remain committed to participating in CR-related activities and undertook 452 hours of CR-related activity during the year.

OUR COMMITMENTS IN 2020

Education programme

Continue to engage with schools participating in the Capco Education Programme and identify new initiatives that will be of benefit to young people in the district.

Employee responsibility engagement

Continue to encourage our employees to engage in responsibility initiatives by participating in responsibility projects and volunteering.

DISTRICT STEWARDSHIP – A SAFER, CLEANER AND GREENER ENVIRONMENT

Capco continues to fund additional security for the Covent Garden estate due to the ongoing high national security threat level. This includes upgraded CCTV, which is monitored 24 hours a day, and extensive patrolling of the estate throughout the day and night. Capco also funds the 'Covent Guardians' who assist with safety and standards on the estate.

Capco has extended its initiatives to further improve the air quality in Covent Garden by promoting the 'No Idling' campaign, and hosting meetings of the Cross River Partnership's 'Clean Air Villages', which is funded by DEFRA.

Most recently, an interactive air quality installation called the 'Pollution Pavilion' was hosted on the Piazza for the environmental charity Hubbub. The unique installation, designed in collaboration with artists Climate and Cities and King's College London, displayed balloons that changed colour reflecting annual nitrogen dioxide (NO₂) data drawn from five Air Quality Network stations across London to help visitors visualise air pollution levels.

Building on our existing greening, we worked with our Head Gardener to install more bio-diverse greening on Floral Street, King Street and James Street. Our Head Gardener has also implemented a number of initiatives to reduce plastic waste and recycle plants.

Capco has improved accessibility across the estate by funding the installation of disabled pathways and facilities.

HOMELESSNESS

CRISIS AT CHRISTMAS

For a second year, Capco supported Crisis, the national charity for homeless people, as our charity partner for Covent Garden's Christmas campaign. Nearly £1,500 was raised for the charity over the Christmas period and employees volunteered their time to collect donations. Capco donated £30,000 to the Crisis at Christmas campaign.

OTHER ACTIVITIES

During the year Capco supported St Mungo's, a charity which is working in the Covent Garden district to support marginalised people in accessing recovery services.

Capco also supported the Single Homeless Project, a London-wide charity working to prevent homelessness and help vulnerable and socially excluded people, by working with individuals to tackle the underlying causes of homelessness, such as poor mental health or drug and alcohol dependency.

EDUCATIONAL PROGRAMMES

CONSTRUCTION YOUTH TRUST

Capco continued to work with the Construction Youth Trust to support their programme targeted at local schools with a high proportion of socially or economically disadvantaged students, to introduce students to career opportunities in construction. Initiatives during 2019 included a targeted coaching programme working with school leaver-age students, work placements at large construction companies, a speed networking event, and a session to help develop interview skills.

A number of our employees volunteered their time in the Trust's Budding Brunels programme.

YOUNG WESTMINSTER FOUNDATION

Capco supported the Foundation's 'Mastering your Future' programme, which aims to foster positive interactions between local young people and local businesses, and targets young people at risk of becoming not in education, employment or training.

APPLE MARKET CHALLENGE

Capco facilitated the Apple Market Challenge for its thirteenth year. The initiative continues to be hugely successful and has now involved 6,820 children since its inception. Pupils from 10 schools, including both the primary schools located in Covent Garden, presented an eco-friendly educational product that could be sold from the Apple Market in the Covent Garden Market Building.



INTERACTIVE AIR QUALITY INSTALLATION

The 'Pollution Pavilion' was hosted on Covent Garden's Piazza for Hubbub



#PRIDEINCOVENTGARDEN

Rainbow bollards on Floral Street

CHARITABLE SUPPORT

EVENT SPACE

During the year Capco provided event space with a value of £20,000 to charitable events, including a Red Nose Day installation for Comic Relief and a food truck event for Magic Breakfast.

BEAUTY BANKS

We partnered with the charity Beauty Banks for Covent Garden's inaugural London Beauty Week, which was hosted in September in conjunction with the British Beauty Council. Beauty Banks is working to make 'hygiene poverty' history in the UK, by supporting those living in poverty with personal care and hygiene essentials. A donation point for unused beauty products was installed on the Piazza and £4,300 was raised for the charity through ticket sales and donations.

TURN TO STARBOARD

Capco supported this charity, which uses sailing training to support Armed Forces personnel and their families affected by military operations. An Armistice commemoration event was held on the Covent Garden Piazza.

ALBERT KENNEDY TRUST

We supported the Albert Kennedy Trust ('akt') as part of London's Pride activities during the summer. akt is the national LGBTQ+ youth homelessness charity which aims to provide safe homes and better futures for LGBTQ+ young people. The 'infinity chamber' at Floral Court was transformed into a rainbow and £1 was donated for every social media post using #PrideinCoventGarden. We also introduced rainbow bollards on Floral Street.

Capco is a patron of the British Fashion and Beauty Councils to support education and young talent within these industries.

COMMUNITY EVENTS

Capco continued to support a range of community events at Covent Garden, with our employees volunteering their time to organise and host events. During 2019 these included hosting a Christmas lunch and a day trip to the coast with local senior citizens, and sponsorship of the Covent Garden Community Association's Christmas carol concert, at which an employee gave a reading.

EARLS COURT

Capco continued its community investment and engagement in Earls Court until the Group's interests in Earls Court were sold. Activities included sponsorship of the fifth Earls Court Film Festival, which was nominated for a community award by BAFTA, and continued support of the local community magazine 'The Court', which was distributed directly to over 16,000 local stakeholders. An Open Day at the Project Room saw stakeholders participate in arts and crafts workshops, and enjoy live music.

Our collaboration with the London Community Foundation continued. We donated £135,000 to provide grants to support community activity with local stakeholders in the Earls Court area.

Capco also became a corporate sponsor of Glass Door, a homelessness charity which supports initiatives in the Chelsea, Fulham and Hammersmith areas.

We also supported Urbanwise London in their work with students from Servite RC Primary School, St Cuthbert with St Matthias Primary, Bousfield Primary School and Fulham Primary School in 2019. The students were involved in an Urban Pioneers project where they learnt about landmarks in the local area and considered the changes at Earls Court over the past 150 years.

We continued to work with the Urban Land Institute on its Urban Plan Project. During the year we worked with students from Chelsea Academy. The programme helps young people understand the role real estate plays in renewing and regenerating urban areas and brings the urban environment to life through a series of interactive real-life workshops and team-working challenges.

PEOPLE

People are the key to our success.
We aim to develop careers by promoting talented individuals to positions of leadership.

2019 ACHIEVEMENTS

Well-being

Capco employees participated in a month-long well-being challenge that focused on all areas of health. This included weekly challenges on hydration, healthy eating, exercise and sleep.

A health programme was launched that featured sessions on men's health and sports exercise.

Leadership development

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

Diversity and inclusion

Capco has continued to support a number of diversity initiatives throughout the year, including Real Estate Balance.

OUR COMMITMENTS IN 2020

Performance

Recognising that our people are our most valuable asset, in 2020 we will seek to further improve employee performance, development and professional standards across the Company.

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.

Health and well-being

We will encourage and inspire our employees to look after their health and well-being by building on our educational sessions with a continued focus on mental health and financial well-being.

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 guides 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 2019, our employees recorded 580 hours of training activity.

We sponsor individuals undertaking further professional qualifications, and encourage continuous learning, reflecting our commitment to a knowledge-based 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.



EMPLOYEE WELL-BEING

Winners of the month-long well-being challenge

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 currently 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, and we offer a flexible leave policy.

LIFESTYLE AND WELL-BEING

In 2019, our lifestyle programme covered matters including health and well-being, and personal finance. A range of educational seminars were provided for our employees, on a wide range of topics from mental wellness to musculoskeletal issues. In addition, a month-long employee well-being challenge with daily health goals took place during the summer and free fruit baskets were made available in all our offices.

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 annually 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.

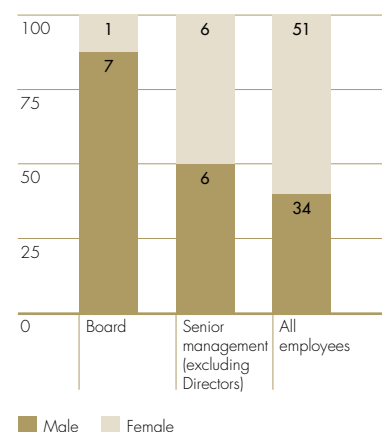
DIVERSITY

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 as at 31 December 2019 is set out to the right. We are pleased that, following the appointment of Michelle McGrath to the Board, 33 per cent of our Executive Directors, and 29 per cent of the reduced Board (after the AGM), will be female. With gender and ethnic diversity considered together, this will be 67 per cent and 43 per cent respectively.

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 a supporter of the Pathways to Property work experience programme. Capco is a corporate member of the British Property Federation ("BPF") and supports the BPF Futures programme. In addition, Capco is a member of the BPF Diversity and Inclusion Champions network. A number of employees are involved with the Urban Land Institute ("ULI") and the ULI Next and Young Leaders Programmes. We have a policy to promote equality in relation to race, religion, gender, age, sexual orientation, disability and nationality amongst our employees.

GENDER DIVERSITY (%)¹



1. As at 31 December 2019.

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 to provide goods and services.

During 2019, we continued to raise awareness of modern slavery matters with those responsible for procurement.

WE SUPPORT A NUMBER OF DIVERSITY INITIATIVES



HEALTH AND SAFETY

We are committed to providing the highest standards of health and safety at our assets and offices, 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.

2019 ACHIEVEMENTS

Across our projects we attained a 0.00 Accident Frequency Rate (“AFR”).

IOSH Leading Safely training was completed by our senior management.

We launched and implemented our Group Fire Safety Policy.

We continued our focus on health and well-being, including mental health awareness, amongst our employees.

ACTIVITIES DURING THE YEAR

During 2019, Capco continued to embed best practice health and safety standards within our business and on our development sites, this is illustrated by our accident frequency rate (“AFR”) and lost time incident frequency rate (“LTIFR”), which were both 0.00 for the year. The major construction activity during 2019 was focused on Phases 2 and 4 at Lillie Square. With our oversight the scheme continues to demonstrate the highest standards of health and safety on site. During the year the milestone of one million man-hours was achieved without a reportable or lost time incident since the Principal Contractor commenced work on site. We undertook a client ‘Constructing Excellence’ health and safety assessment for Phases 2 and 4 and the Principal Contractor attained a score of 89 per cent. This confirmed that the standard of health and safety management on the project are exemplary.

As a business we focused on enhancing our visible leadership on health and safety and continued to take a proactive approach to ensuring the highest standards of health and safety are implemented, with regular tours by our Directors taking place at our operational and project sites. These were supported by detailed health and safety inspections across all sites, with over 320 inspections by internal and external parties carried out during the year. We also focused on driving a best practice health and safety culture at our operational assets at Covent Garden, particularly in relation to small projects and occupier fit-out works, ensuring that best practice health and safety is implemented from the outset of each project.

During 2019 we launched a Group Fire Safety Policy. In line with our policy and in order to ensure a best practice standard of fire safety on all our developments and operational assets, we have carried out a thorough review of the external walls across our assets.

This review included assessment of building design for compliance with both current guidance and requirements, and with the guidance in place at the time of design and construction of the assets. It also took into account operational elements and our compliance with BS 9999 and annual fire risk assessments. The review concluded that the overall fire risk to all our assets is sufficiently low.

We will continue to monitor the changing landscape of UK building regulations and fire safety and, where applicable, will implement recommendations from Grenfell Inquiry reports.

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.

OUR COMMITMENTS IN 2020

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 2020 health and safety objectives are to:

- Enhance our visible leadership and culture in safety and health
- Promote healthy workforce habits
- Ensure our contractors give health an equal billing to safety with contractors
- Monitor compliance dashboard reporting to ensure best practice amongst our operations

HEALTH AND WELL-BEING INITIATIVES

During the year, Capco focused on ensuring that health was given an equal billing to safety within our employee culture and for those working on our development projects. In addition to our employee initiatives described earlier in this report, health initiatives were championed for the workforces on our development projects, and positive feedback was received. We supported our appointed contractors on key health initiatives for their workforce, including an exoskeleton trial programme to assist in ceiling work, plastering and head-track fixing activities to ensure risks related to manual handling are adequately managed.



MONITORING OUR SUPPLY CHAIN

A 'Constructing Excellence' assessment was undertaken with the Principal Contractor of Phase 2 Lillie Square



LILLIE SQUARE PHASE 2

Capco's oversight supports the highest health and safety standards on site

GOVERNANCE

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 Chief Executive, who is also responsible for health and safety at Board level. The GSLT continues to review health and safety performance across the Group throughout the year, and facilitated 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. An internal audit of health and safety procedures at Phases 1 and 2 Lillie Square was undertaken. This confirmed the best practice arrangements that we had implemented in our interface and operational aspects of the Phase 1 handover of apartments to new residents. 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 2019, which included IOSH Leading Safely and Managing Safely training for our management team and 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.

REPORTING

No work-related employee fatalities were recorded in 2019 or since Capco's inception. There were no RIDDOR incidents reported across the Group during 2019. The AFR for Capco development projects at the end of 2019 stood at 0.00. We benchmark our development projects' AFR against the Health and Safety Executive Construction Industry Standard of 0.77. Capco's LTIFR for 2019 was 0.00.



The sections of the Annual Report which make up the Strategic Report are set out on page 88. The Strategic Report has been approved for issue by the Board of Directors on 25 February 2020.

On behalf of the Board

IAN HAWKSWORTH
CHIEF EXECUTIVE

OUR LEADERSHIP TEAM

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) and supports the Chief Executive on strategy, investment and transactions. Having joined Capco in 2014, he undertook a number of roles 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.



MICHELLE MCGRATH

Executive Director (with effect from 26 February 2020)

Michelle joined Capco in 2014 and has undertaken a number of roles within the business, most recently Director of Covent Garden with responsibility for investment and asset management of the portfolio. Michelle is an experienced corporate broker having previously been at UBS Investment Bank, focusing on the UK listed real estate sector.

-  Audit Committee
-  Nomination Committee
-  Remuneration Committee
-  Committee Chair

CHAIRMAN AND NON-EXECUTIVE DIRECTORS



HENRY STAUNTON | Chairman

Henry is responsible for the leadership of the Board, ensuring its effectiveness and setting its agenda. Henry is a Chartered Accountant and joined the Board in 2010. Henry has extensive financial and commercial experience being a former Director of Granada and ITV, Chairman of Phoenix Group Holdings and Ashted 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. Gerry 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 and
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, a Non-executive adviser to Knight Frank LLP, 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,
Non-executive adviser to
Knight Frank LLP, and a
Board member and chair
of the finance committee
of Alfanar



JONATHAN LANE OBE | Independent Non-executive Director

Jonathan Lane is a Chartered Surveyor. He was Chief Executive and then Non-executive Chairman of Shaftesbury PLC until September 2016, and was Non-executive Chairman of EasyHotel plc until October 2019. His current charitable roles include The Royal Botanic Gardens Kew, The National Trust and The Royal Theatrical Support Trust, where he is a trustee.



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

OUR GOVERNANCE FRAMEWORK



“ Supporting the delivery of the Company’s strategy.

HENRY STAUNTON,
CHAIRMAN

Dear Shareholder,

I am pleased to introduce Capco’s 2019 Corporate Governance Report. The Board ensures that Capco’s strategy is delivered responsibly, and that the Group operates in line with Capco’s culture and values. This report, and the Committee reports which follow, explain how the Board and its Committees work and how we applied the principles of the 2018 UK Corporate Governance Code (the “Code”) during 2019.

The key focus of the Board during the year was the delivery of separation of the Company’s assets, and the Company’s subsequent conversion to a REIT. Over the course of the year, the Board spent a considerable amount of time ensuring that preparations for both the previously contemplated demerger and the sale of the Group’s interests in Earls Court were undertaken carefully and with due regard to the Company’s stakeholders.

I am pleased to confirm that during the past busy and strategically important year, the Board continued to operate effectively within Capco’s robust governance framework, and my fellow Directors and I remain highly committed to the continued successful and efficient operation of the business.

During the year, Graeme Gordon retired from the Board, and Gary Yardley stepped down from the Board. We also welcomed Jonathan Lane, who joined us in March 2019. Jonathan has brought in-depth knowledge of both London property and REITs to the Board.

The Board and Nomination Committee have continued to assess and monitor the composition, effectiveness and diversity of the Board to ensure that it remains appropriate as the business enters its next phase. Andrew Strang, who joined the Board on Capco’s inception in 2010, and Gerry Murphy, who would have become the Chairman of the Earls Court business had a demerger been undertaken, will retire at the forthcoming AGM. We thank Andrew for his long and valuable service and the benefit of his extensive knowledge of the market place, and Gerry for his significant contribution to the Board, not least in respect of preparations for the potential demerger, which included assembling a full complement of prospective non-executive directors for the standalone Earls Court business. Following these retirements, the Board will have the minimum number of Non-executive Directors required under the Code, but sufficient for its purposes as a REIT. The reduction in the number of Non-executive Directors in the year will significantly reduce Board costs.

Following Gerry’s retirement, Anthony Steains will become Chair of the Audit Committee and Senior Independent Director and Jonathan Lane and I will join the Remuneration Committee. The Board has also approved the promotion of Michelle McGrath to Executive Director of the Company, with effect from 26 February 2020.

The Audit Committee has undertaken a tender of the external audit contract and the outcomes of this process are set out within the Audit Committee Report. In addition, the Remuneration Committee has overseen development of a new remuneration policy, for which we will be seeking shareholder approval at the forthcoming AGM. Details of the updated policy are included in the Directors’ Remuneration Report.

This is the first year that Capco is reporting under the 2018 Code. During the year, the Board operated under many of the new requirements of the new Code. However, due to the uncertainty around the future shape of the business as the year progressed, and in order to ensure that the Board is appropriately structured to drive the Company’s success as a central London focused REIT, there are certain areas where it was not felt appropriate for the Company to adopt the Code’s provisions during 2019. These areas, and the reasons for non-compliance, are explained later in this report. Where implementation was deferred last year, we will be introducing the measures during the coming year.

Finally, Capco received votes of over 20 per cent against two of the resolutions included in the 2019 AGM notice (one of which was subsequently withdrawn) and so the Company was again included in the Investment Association’s public register of shareholder dissent. These shareholder votes arose as Capco has its primary listing on the London Stock Exchange and a secondary listing on the JSE. A proportion of the Company’s shares are held by South African investors who sometimes have different market expectations to UK investors,

particularly regarding the level of authority to issue new shares that shareholders expect to grant to boards. We have therefore engaged with the Investment Association about our inclusion in its register. The Board consults regularly with our South African shareholders on this topic, and has noted their concerns. However, the Board continues to feel that, to preserve flexibility and competitive positioning, it is appropriate to seek the higher levels of authority expected by UK shareholders where possible, and so the same levels of authority will be sought at the 2020 AGM.



HENRY STAUNTON
CHAIRMAN

25 February 2020

STATEMENT OF COMPLIANCE WITH THE 2018 UK CORPORATE GOVERNANCE CODE

Other than as explained on page 60, the Company has applied the principles and complied with the provisions of the 2018 UK Corporate Governance Code (the "Code") during 2019.

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 2019, the Board comprised the Chairman, two Executive Directors and five Non-executive Directors. The table on page 57 summarises the membership of the Board and Committees.

Biographies of each of the Directors can be found on pages 52 and 53, and additional information on Directors' skills and experience is included on page 67.

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 57 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.

The key responsibilities of Board members are set out in the table on page 57.

THE BOARD IN 2019

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 2019 is shown on page 59.

Board papers are generally circulated 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. Six such updates were held during 2019.

During 2019, the Board received regular asset, financial and performance updates from the Executive Directors and senior management from each asset and business area, and reports from the Company Secretary and Committee Chairs. The table below shows the key areas considered by the Board during the year.

MATTERS CONSIDERED BY THE BOARD IN 2019

Business Strategy, New Business and Directors	Properties	Financial Performance	Stakeholders, Governance, Internal Controls and Risk
Potential sale of Earls Court interests and potential demerger	Property valuations	Annual and half year results and dividends	Employees and other stakeholders
Investor relations and corporate defence	Covent Garden performance	Treasury and cash management	Risk appetite, and principal and emerging risks
New business opportunities	Lillie Square construction, completions and development	Group tax position and structure	Health and safety, security risk and IT security updates
Capital allocation and key investment decisions	Acquisitions	Market and broker updates	Assessment and monitoring of Company culture
Third-party interests	Planning consents and submissions	Budget and business planning	Internal Board evaluation and action plan
Market conditions and the impact of Brexit			AGM resolutions and voting
Board composition and succession planning			Board Committees' terms of reference and schedule of matters reserved for the Board
REIT conversion			Corporate policies
Tax policy			Internal audits
			Legal and regulatory updates

LEADERSHIP STRUCTURE

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. Minutes of all Committee meetings are made available to all Directors. The Committee Chairs attend the AGM to answer any questions on the Committees' activities.

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

The terms of reference of the Board and the Board Committees, and the statements of the responsibilities of the Chairman, Chief Executive and Senior Independent Director are available from the Company.

A summary of the role of each Committee is shown below, and the activity of each Committee during 2019 is described on pages 61 to 87.



Further information can be found in the Audit Committee Report on pages 61 to 64, and Principal Risks and Uncertainties on pages 16 to 19.

Further information can be found in the Directors' Remuneration Report on pages 68 to 87.

Further information can be found in the Nomination Committee Report on pages 65 to 67.

BUSINESS COMMITTEES



BOARD INDEPENDENCE

Name	Year of first appointment	Independent	Audit Committee	Nomination Committee	Remuneration Committee
Henry Staunton (Chairman)	2010	N/A		●	
Ian Hawksworth (Chief Executive)	2010	No		●	
Situl Jobanputra	2017	No			
Charlotte Boyle	2018	Yes	●	●	●
Jonathan Lane	2019	Yes	●	●	
Gerry Murphy (SID)	2015	Yes	●	●	●
Anthony Steains	2016	Yes		●	●
Andrew Strang	2010	Yes			
Graeme Gordon (retired 3 May 2019)	2010	N/A			
Gary Yardley (stepped down 30 June 2019)	2010	N/A			
71% independent					

ROLES OF BOARD MEMBERS

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

Position	Name	Responsibilities
Chairman	Henry Staunton	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 financial matters, and supports the Chief Executive in developing and implementing Group strategy and overseeing investment and transactions.
Non-executive Directors	Charlotte Boyle, Jonathan Lane, Gerry Murphy, 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 the Company Secretary, Ruth Pavey, who 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.

OVERSIGHT OF CULTURE AND VALUES

Throughout the year, the Board monitors corporate culture and values to ensure that they are aligned with the delivery of corporate strategy, and are appropriately reflected across the business. The Board receives regular updates on HR matters and the Group's responsibility initiatives, and with assistance from its Committees, reviews and monitors corporate policies. For example, the Remuneration Committee reviews the Group's HR policies, the Audit Committee reviews policies relating to financial crime and internal controls, and the Nomination Committee reviews policies relating to equal opportunities and diversity. The Group has an independent whistleblowing hotline which can be used to raise concerns, and the Board would receive updates on any matters raised. This broad range of oversight allows the Board to monitor corporate culture effectively.

ENSURING AN EFFECTIVE BOARD

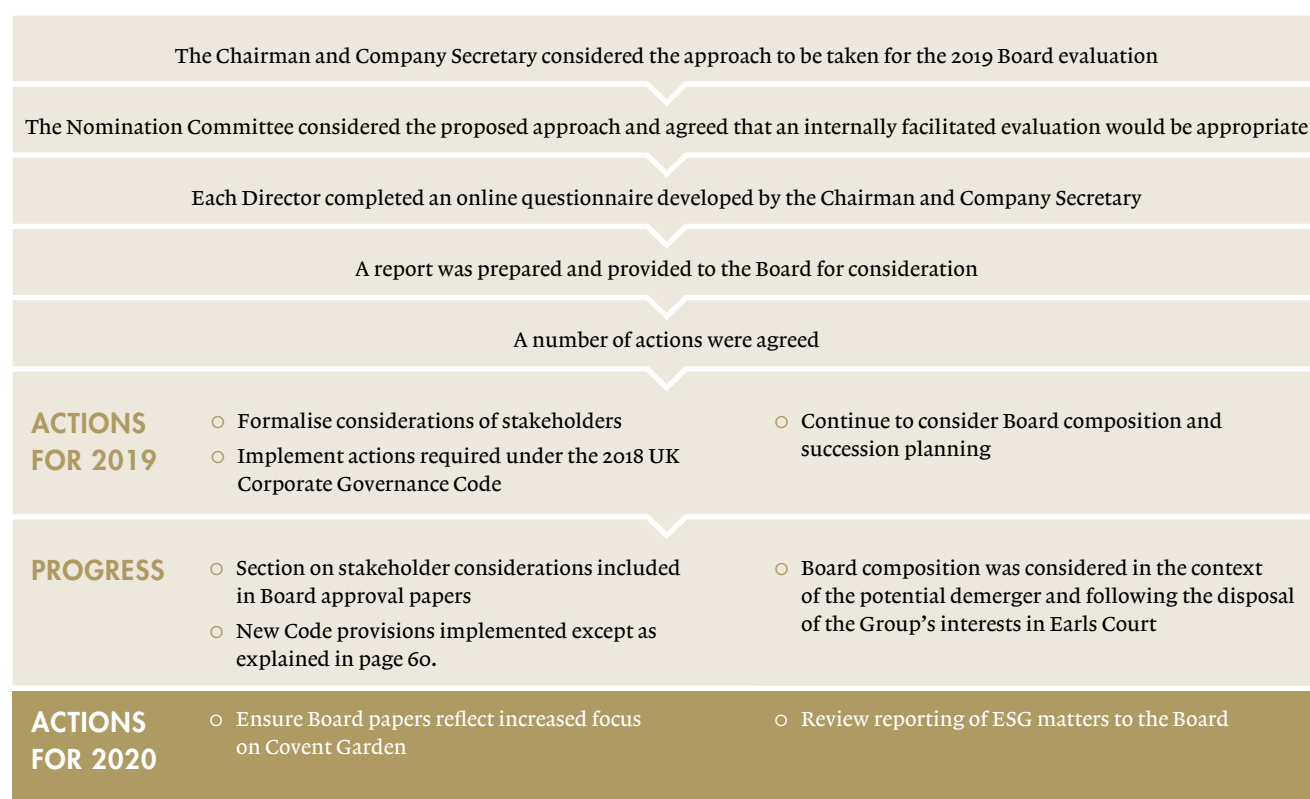
To ensure that Capco's Board continues to be effective, the Board conducts an annual evaluation of its own performance and that of its Committees and Directors. Although the Code recommends that an externally facilitated board evaluation be undertaken at least every three years, in light of the strategic matters under consideration during 2019, each of which would significantly alter the nature of the business and the operation of the Board, it was determined that it would be more appropriate for an internal evaluation to be undertaken. Therefore, in 2019, 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 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.

An externally facilitated Board evaluation will be undertaken in 2020.

2019 BOARD EVALUATION



ATTENDANCE AT MEETINGS

The table below shows Directors' attendance at Board and Committee meetings held during 2019. In addition, the Company Secretary attends each Board and Committee meeting:

Name	Board	Audit	Remuneration	Nomination
Henry Staunton (Chairman)	20/20	—	—	4/4
Ian Hawksworth (Chief Executive)	20/20	—	—	4/4
Situl Jobanputra	20/20	—	—	—
Charlotte Boyle	20/20	3/3	9/9	4/4
Jonathan Lane (appointed 1 March 2019)	13/16	2/2	—	3/3
Gerry Murphy	20/20	3/3	9/9	4/4
Anthony Steains	20/20	—	6/6	4/4
Andrew Strang	18/20	1/1	3/3	—
Graeme Gordon (retired 3 May 2019)	5/6	—	—	—
Gary Yardley (stepped down 30 June 2019)	6/6	—	—	2/2
Total meetings held during the year	20	3	9	4

Jonathan Lane and Andrew Strang were unable to attend a number of the additional Board meetings due to unavoidable prior commitments.

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 and other stakeholders may have so that these may be properly considered when considering Board matters.

Communication 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 2019, Directors engaged with shareholders on matters including the potential demerger and sale of the Company's interests in Earls Court, and proposed authorities to allot shares.

Shareholders' and stakeholders' views

The Directors receive regular updates on the Company's major shareholders and stakeholder views, and Board approval papers include a dedicated section on stakeholders. You can read more about the Company's stakeholders on page 43.

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).

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 2020 AGM will be held on 1 May 2020. 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, other than those who will be retiring at the AGM, 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.

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 should the conflict of interest materialise 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 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 88 to 90.

AREAS OF NON-COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE

Provision	Requirement	Nature of non-compliance	Explanation
3.19	The Chair should not remain in post beyond nine years from the date of their first appointment to the board.	The Chairman was appointed to the Board in June 2010.	Although the Chairman was appointed to the Board in 2010, he was only appointed as Chair of the Company in 2018. During 2019 the Senior Independent Director conducted a review of the Chairman's performance, and the Nomination Committee and Board gave particular consideration to his current tenure. The Board is very pleased with the Chairman's performance and believes that he continues to be independent and is the most appropriate person to lead the Company as it establishes itself as a central London focused REIT. The Chairman and the Board continue to focus on developing a well-balanced and diverse Board. It is expected that the Chairman will remain in post until at least 2022.
3.21	There should be an externally facilitated board evaluation at least every three years.	An internal Board evaluation was undertaken in 2019.	Due to the strategic projects that were ongoing during the year, each of which would have significantly altered the nature of the business and the operation of the Board, the Board determined that it would be more appropriate to conduct an external evaluation once the strategic outcome had been concluded. An externally facilitated evaluation will be undertaken in 2020.
1.5	For engagement with the Company's workforce one or a combination of the following methods should be used: ○ a director appointed from the workforce; ○ a formal workforce advisory panel; ○ a designated non-executive director. If the board has not chosen one or more of these methods, it should explain what alternative arrangements are in place and why it considers that they are effective.	The Company has not adopted one of the methods for engagement with the workforce specified within the Code.	During the year the Executive Directors and senior management provided regular updates to the Board on the views of the Company's workforce and, as a company with a relatively small number of employees, Non-executive Directors were able to engage with individual employees on a regular basis when visiting the Company's offices. However, due to the strategic projects that were ongoing during the year, it was not felt to be appropriate to adopt one of the approaches recommended by the Code at that point in the Company's business cycle. A more formal engagement mechanism will be adopted during 2020.

AUDIT COMMITTEE REPORT



“ Ensuring effective oversight during a period of change.

GERRY MURPHY,
CHAIRMAN

I am pleased to introduce Capco's 2019 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 2019. The most significant topics considered by the Committee during the year included the Group's property valuations, taxation (including Capco's conversion to a REIT) and the accounting treatment of various significant or complex corporate transactions, particularly the previously contemplated demerger and the disposal of our interests in Earls Court. In connection with the potential demerger, the Committee gave particular consideration to the assurance work provided by PricewaterhouseCoopers LLP ("PwC"), on an exceptional basis, in relation to the potential transaction, and was

satisfied that the internal controls adopted by PwC would ensure that the objectivity and independence of the audit would not be compromised. The Committee also reviewed the Company's risk and viability statement disclosures before they were recommended to the Board.

During the year the Committee continued to closely monitor and review the best practice governance recommendations in relation to the external audit function, including those issued by the Financial Reporting Council ("FRC") and those contained within the 2018 UK Corporate Governance Code. In 2019, the Group tendered its external audit contract. Following consideration of presentations from the two tendering firms and a review of their relative strengths, the Committee recommended to the Board that PwC be reappointed as the Group's external auditor. A new audit partner will lead the 2020 audit so there will be fresh oversight of the Company's financial reporting.

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, the 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

25 February 2020

MEMBERS:

GERRY MURPHY (CHAIRMAN)
CHARLOTTE BOYLE
JONATHAN LANE

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 2019 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, 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 Head of Tax, attended meetings by invitation to present reports required for the Committee to discharge its responsibilities.

The Audit Committee met three times during 2019. Attendance at these meetings is shown in the table on page 59. 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 agenda over the past 12 months 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 2019.

THE AUDIT COMMITTEE OVER THE PAST 12 MONTHS

Regular meeting items	July 2019 meeting	November 2019 meeting	January and February 2020 meetings
Report from Group Financial Controller	Interim results announcement	Effectiveness and independence of external auditor	Consideration of Audit tender proposals and recommendation to the Board
Accounting treatment of significant transactions	Liquidity forecasting	Tender of external audit contract	Going concern assessment
Accounting standards and policies	Risk management	Internal controls	Preliminary results, Annual Report, Viability Statement and Management Representation Letter
Property valuations		Viability statement review	Risk management review
External auditor report		2019 Audit Plan	Determining and recommending to the Board that the Annual Report taken as a whole was fair, balanced and understandable
Regulatory update		Corporate governance policies, Non-audit Services Policy and Committee terms of reference	Effectiveness of internal audit
Internal auditor report from BDO		2020 Internal Audit Plan	Tax Policy
Tax update			
Alternative performance measures			

SIGNIFICANT ISSUES CONSIDERED BY THE COMMITTEE IN 2019

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 13 on pages 121 to 124 of the notes to the financial statements.
Tax	The Director of Finance and Head of Tax 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 was also briefed on the Company's proposed conversion to a REIT. The Committee challenged the assumptions made in arriving at the tax position and also 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 9 on page 114 and in note 26 on page 135 of the notes to the financial statements.
Significant and complex transactions	As in previous years, the Committee received updates from the Group Financial Controller on significant and complex transactions at each meeting. With regard to each transaction, such as the previously contemplated demerger and the disposal of our interests in Earls Court, the Committee discussed the accounting treatments with management and the external auditors and is satisfied that the appropriate approach has been taken.

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 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 2019, 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 further considered a number of areas where the auditors had challenged the accounting treatment proposed by management, and the resolutions reached, and concluded that the service provided by the external auditors during 2019 was independent and objective, that they were able to challenge management where appropriate, and that the Group's audit was robust and objective.

TENDERING OF EXTERNAL AUDIT CONTRACT

In line with regulatory requirements, in 2019 Capco competitively tendered its external audit contract. Having considered a broad range of firms, including the 'Big Four' and a number of other firms (including BDOLLP, who were restricted from participating on independence grounds due to their current role as internal auditor), three firms were invited to tender, and two firms decided to enter the tender process. The tender proposals were presented to a panel of Directors (including all the members of the Committee) and management. The Committee then undertook a detailed and rigorous review, including consideration of each firm's FRC Audit Quality Reviews, and external references before making a final recommendation to the Board that PwC be reappointed. The recommendation was confirmed to be free from third-party influence and there was no contractual restriction on the choice of auditor. The Board approved the Committee's recommendation.

In its assessment of the tender proposals received, the Committee gave particular consideration to the merits of continuity during a time of ongoing change within the business. The Committee also welcomed the fact that a new audit partner would be appointed for the 2020 audit, ensuring fresh oversight of the Company's financial reporting.

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
- Acting in the role of advocate for the Company

The Committee is satisfied that the policy is operating effectively.

The Non-Audit Services Policy will be reviewed during 2020 to ensure it remains aligned with the revised Ethical Standard from the time this applies to the Company.

The total fees paid and payable to PwC in 2019 were £2,070,000 of which £1,759,000 related to non-audit work (2018: £2,081,000 of which £1,757,000 related to non-audit work). The significant levels of non-audit work in 2018 and 2019 resulted from assurance services in connection with the previously contemplated demerger and the disposal of the Earls Court interests. PwC were selected over direct engagement of another service provider or a tender for this undertaking due to their detailed knowledge and understanding of the business, although it is noted that the provision of such services by the auditor will now be restricted under the new Non-Audit Services Policy. 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 85 per cent of the total audit fees payable for the year (2018: 84 per cent). The total fees paid and payable to PwC in 2019 and 2018 are set out in the table below.

FEES FOR NON-AUDIT SERVICES

	2019	2018
Total fees paid to PwC	£2,070,000	£2,081,000
Non-audit fees	£1,759,000	£1,757,000

INTERNAL AUDITOR

INTERNAL AUDIT PLAN

BDO LLP (“BDO”) has been appointed to act as Capco’s internal auditor. During 2019, BDO’s audit plan included reviews of payroll, asset management, residential leasing and rent collection at Covent Garden, risk management, the Bribery Act and tax evasion, IT arrangements, health and safety at Lillie Square, fraud investigation, and site management at Earls Court. No significant issues were raised during the reviews.

During 2020, it is expected that the audit plan will include reviews of health and safety at Covent Garden, property management activities at Covent Garden, treasury, cash management and bank covenants, procurement, expenses, insurance, lease negotiations at Covent Garden, cyber security and accounts payable.

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 remain 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 AND 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 emerging

and 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 prevailing FRC guidance.

NOMINATION COMMITTEE REPORT



“ Ensuring a well-balanced Board to deliver the Company’s strategy.

HENRY STAUNTON,
CHAIRMAN

I am pleased to introduce Capco’s 2019 Nomination Committee Report.

During 2019, the Committee focused on Board and Committee composition to ensure that appropriate structures were in place to deliver both of the strategic options considered by the Board during the year.

Initially work focused on preparation for a demerger, and so the Committee oversaw the development of two prospective Boards of Directors, for the proposed demerged businesses. This work built on the Company’s existing succession planning, with all prospective executive director roles nominated from within the business. Following the disposal of the Group’s Earls Court interests, the Committee reviewed the composition of the Capco Board to ensure that it is appropriately balanced and diverse as the Company’s focuses on its future as a central London focused REIT.

I am delighted that, following this review, the Board has approved the appointment of Michelle McGrath as an Executive Director of the Company with effect from 26 February 2020. Michelle joined Capco from UBS in 2014 and has undertaken a number of roles within the business, most recently as Director of Covent Garden.

During 2019 we were delighted to welcome Jonathan Lane as a Non-executive Director of the Company.

Andrew Strang and Gerry Murphy, who would have become the Chairman of the Earls Court business had a demerger been undertaken, have decided to retire from the Board at the forthcoming AGM, having served as Non-executive Directors since 2010 and 2015 respectively. We would like to thank Andrew and Gerry, and Graeme Gordon and Gary Yardley, who respectively retired and stepped down from the Board during 2019, for their service to the Company.

Following these retirements, Anthony Steains, who is considered to have recent and relevant financial experience, will become Chair of the Audit Committee and Senior Independent Director. In addition, Jonathan Lane and I will join the Remuneration Committee.

All the Directors apart from Andrew Strang and Gerry Murphy will be seeking election or re-election at the forthcoming AGM. Prior to recommending my own reappointment to the Board, the Senior Independent Director led the other Directors in considering my proposed reappointment as I have served on the Board for more than nine years. A description of this process and the Directors’ conclusions is included within this report.

In 2020, the Committee will continue to monitor Board composition, skills, experience and diversity, to ensure that the Board continues to be best placed to deliver Capco’s strategy, and will refresh Board and senior management succession planning to reflect the new structure of the business. The Committee will also commission an external evaluation of the Board, having deferred this by a year in light of the strategic projects ongoing during 2019.

HENRY STAUNTON
CHAIRMAN

25 February 2020

MEMBERS:

HENRY STAUNTON
(CHAIRMAN)
IAN HAWKSWORTH
CHARLOTTE BOYLE
JONATHAN LANE
GERRY MURPHY
ANTHONY STEAINS

MATTERS CONSIDERED BY THE COMMITTEE DURING 2019 INCLUDED:

- Board and Committee composition, including preparation for previously proposed demerger
- 2018 UK Corporate Governance Code
- Succession planning
- Diversity at Board level and across the Company
- Board evaluation
- Directors’ skills, experience and training opportunities
- Directors’ time commitments and independence
- Committee terms of reference

TYPICAL DIRECTOR RECRUITMENT PROCESS



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 2019 and the date of this report are listed in the box on the previous page. The Nomination Committee met four times during the year, and attendance at these meetings is shown in the table on page 59.

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.

The Committee considered the impact of the Board changes outlined earlier in this report and concluded that the retirement of Andrew Strang and Gerry Murphy will result in a compact and diverse Board, more suited to the new REIT business. Board succession and composition will continue to be considered at

Committee meetings during 2020, and the Committee will make recommendations to the Board where appropriate. Further detail on two of the matters considered by the Committee during the year is set out below.

Appointment of new Executive Director

In preparation for the potential separation of the Group's assets by way of a demerger, the Committee had established prospective Boards of directors for each of the demerged businesses. Following the sale of the Group's interests in Earls Court, the Committee considered whether it would be appropriate for the Board of the Company to reflect the intended board of the Covent Garden business, noting that it had been announced that Michelle McGrath would be an Executive Director of the standalone Covent Garden business.

The Committee considered the current structure of the Capco Board, noting the skills and experience that Michelle would bring as a Director, and concluded that it would be appropriate for Michelle to be appointed as an Executive Director of the Company. The Committee noted that in making this appointment, the gender diversity of the Board would also be improved, which had been a long-standing goal of the Committee. The Committee therefore recommended that Michelle be appointed as an Executive Director.

Chairman's tenure

Following the completion of the sale of the Group's interests in Earls Court, the Committee considered the tenure of the Company's Chairman in light of the requirement under the 2018 UK Corporate Governance Code that a chair should not remain in post beyond nine years from the date of their first appointment to the board. The Senior Independent Director therefore led a review of the Chairman's appointment, in addition to the usual annual review of the Chairman's performance. The review concluded that the Board is very pleased with the Chairman's performance and believes that he continues to be independent and is the most appropriate person to lead the Company as it establishes itself as a central London focused REIT. The Board also concluded that it was not currently an appropriate time to undertake a search for a new chair, and noted that although Henry Staunton was appointed to the Board in 2010, he was only appointed as Chairman of the Company in 2018 and was developing a well-balanced and diverse board. The Board therefore concluded that it was appropriate for Henry to continue in his role as Chairman. It is expected that the Chairman will remain in post until at least 2022.

DIRECTOR RECRUITMENT

Capco operates a rigorous and transparent recruitment process for new Directors, which is summarised above. However, for the nomination of prospective Directors of the demerged businesses, it was decided that it was not appropriate for an external search for executive directors to be undertaken, given the timing of the transaction and the quality of internal candidates. An external search, overseen by Gerry Murphy, was undertaken for those prospective Non-executive Directors who were not currently Directors of the Company.

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, 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.

Jonathan Lane was provided with a full induction programme on his appointment. Jonathan commented that he found the process to be rigorous and professional, and the team very helpful. A tailored induction will be provided to Michelle McGrath.

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 Company Secretary regularly updates 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.

SUCCESSION PLANNING BELOW BOARD LEVEL

The Committee ensures that appropriate succession plans are in place for both Board and senior management positions. This planning allowed diverse internal nominations to be made for the Executive Director and Company Secretary roles within the potential demerged businesses. The Committee will review these plans during 2020 to ensure they remain appropriate for the business following its launch as a central London focused REIT.

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.

SUMMARY OF DIRECTORS' SKILLS AND EXPERIENCE

Director	Skills and experience
Henry Staunton	Financial and commercial management
Ian Hawksworth	Global real estate investment and development. Corporate leadership and management
Situl Jobanputra	Corporate finance, investment and financial management
Michelle McGrath	Investment and asset management
Charlotte Boyle	People, talent and succession
Jonathan Lane	Real estate investment
Gerry Murphy	Auditing and commercial management
Anthony Steains	Corporate finance and Asian markets
Andrew Strang	Real estate investment

CAPCO'S DIVERSITY IN FIGURES

	Recommendation	Capco's current position
Hampton-Alexander – Board as at 1 May 2020	33% Female	29%
Parker Review – Board	At least one director of colour by 2024	1
Gender and ethnic diversity of Board as at 1 May 2020	N/A	43%
Hampton-Alexander – Board as at 31 December 2019	33% Female	13%
Hampton-Alexander – Executive Committee or equivalent	33% Female by 2020	50%
Hampton-Alexander – Leadership team	33% Female by 2020	50%

The Board remains committed to encouraging diversity and intends that its composition will become more reflective of the diversity across Capco's business over time. 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.

Following the Board changes explained in this report, 33 per cent of the Executive Directors and 29 per cent of the Board will be female. With gender and ethnic diversity considered together, this will be 67 per cent and 43 per cent respectively. 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, which is summarised in the table above. 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.

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. These include Real Estate Balance, the RICS Inclusive Employer Quality Mark, Employers' Network for Equality & Inclusion and Pathways to Property, Women Talk Real Estate, Freehold and the Construction Youth Trust.

More information on Capco's people practices and diversity initiatives can be found on pages 48 and 49 of the Responsibility Report.

DIRECTORS' REMUNERATION REPORT



“ A new policy aligned with long-term growth.

CHARLOTTE BOYLE,
CHAIR OF THE
REMUNERATION
COMMITTEE

ANNUAL STATEMENT

Dear Shareholder,

I am pleased to introduce the Directors' Remuneration Report for 2019, which was an exceptionally important year for Capco, delivering a strategic focus on Covent Garden and completion of the disposal of Earls Court, despite the uncertainties brought by Brexit, a General Election and challenging retail and residential markets. We enter 2020 with a clear strategy and a strong financial position, well-positioned for the opportunities ahead.

In this context, the Remuneration Committee has sought to make decisions which fairly rewarded performance during the year and appropriately incentivise performance in future years, whilst working within the framework of reasonable shareholder expectations. Shareholders will have the opportunity to vote on how our policy was implemented in 2019 at our forthcoming AGM.

In addition, this year we are proposing important changes to the Directors' Remuneration Policy. These changes will result in an overall reduction in remuneration if approved, and their adoption will be subject to a binding shareholder vote. Further information on the new policy and the main remuneration decisions taken by the Committee is set out below.

NEW REMUNERATION POLICY

In accordance with the regulations, the Remuneration Committee is required to submit a new policy for shareholder approval at the 2020 AGM. In reviewing the policy, the Committee took into account:

- Comments received from shareholders on the existing policy
- Changes in best practice since the existing policy was approved
- The fact that the Company is now a more focused business than it was at the start of 2019, and when the existing policy was approved
- That the policy will result in changes to the Executive Directors' contractual terms, (requiring their agreement) and will reduce the total remuneration payable to the Executive Directors
- The context of reward and alignment with all Capco's employees

The new policy will bring pensions in line with the workforce, modify annual bonus deferral, reduce PSP award sizes and reduce PSP threshold vesting. In more detail:

- The Executive Directors have volunteered that the pension contributions (or cash allowance in lieu) for existing Executive Directors will be reduced from 24 per cent to 15 per cent of base salary (or such other maximum level of opportunity as is available to the workforce) by 2022. At the same time the Company has decided that the level of pension contribution available to the rest of the workforce will be increased to 15 per cent from

2021. This may be increased further at a future point. The level of pension contributions for any new Executive Director joining the Board will be in line with the opportunity available to the rest of the workforce, which is currently 10 per cent

- Annual bonus deferral mechanism to be modified so that 100 per cent of any bonus in excess of 100 per cent of base salary is deferred in shares
- Maximum PSP award to be reduced from 350 per cent of base salary in 2020 to 300 per cent in 2021. Maximum PSP award for any new Executive Director joining the Board will be 300 per cent of base salary
- Threshold vesting of PSP to be set at 25 per cent of the maximum award (reduced from 33 per cent)
- Clarificatory amendments to the exit payment policy and amendments to allow additional incidental payments on termination

The new policy also maintains existing areas of best practice, such as clawback and malus provisions and post-vesting holding periods, which apply post-employment.

In agreeing the proposed new policy, the Committee paid particular attention to ensuring that the arrangements continue to be clear and straight forward. The Committee believes that the proposed new Policy should deliver appropriate, proportional outcomes aligned with shareholder returns and incentivise balanced decision taking to deliver the agreed corporate strategy.

The Committee is also satisfied that the proposed new policy is in alignment with corporate culture, with pension contributions to be aligned and every employee eligible to participate in Capco's discretionary annual bonus scheme and the performance share plan. The Committee believes that the proposed new policy, which is subject to shareholder approval and will commence from 1 May 2020, is appropriate for the Company going forward and addresses changes in best practice whilst still being fair for the Executive Directors.

PERFORMANCE MEASUREMENT IN 2019 AND VARIABLE REMUNERATION OUTCOMES

The performance of Capco, its employees and Executive Directors has been strong in 2019. The main strategic goal of separating the Group's assets has been achieved and the market's view of the sale was reflected in the share price, which rose from a low of £1.849 in the summer to £2.617 at 31 December 2019. Total shareholder return for the year was 14 per cent.

The achievement of our goal required careful execution, strong performance and an exceptional workload. The Executive Directors completed full preparation work for a demerger of the business into two separately listed companies, ensuring that the demerger was ready to be launched during the year. Alongside this work, a full sale process was run, facilitating a highly complex disposal of the Group's interests in Earls Court, which the Board ultimately determined to be in the best interests of shareholders. Delivery of the sale also required significant corporate defence activity in view of the offer period triggered by the Candy Ventures announcement of a possible offer.

Capco's strong performance in 2019 is reflected in the annual bonus payments of 83 and 84 per cent of maximum for the Chief Executive and Chief Financial Officer. This is an 'above target' level of performance which the Committee believes is appropriate. However, as the PSP awards granted in 2017 are expected to lapse in full, the 'single figure' total remuneration for the Chief Executive and CFO is below the normal 'on-target' level.

In determining the bonus payments it was necessary for the Committee to exercise its discretion, as allowed in the policy, to adjust the outcome. Further detail is set out later in this report. In considering the exercise of discretion, the Committee took into account

the strong performance of the ongoing business, the high workload with a reduced executive team, and the successful execution of the disposal which the Board believes to be in the best interests of shareholders. We also considered the bonuses paid to other members of the senior management that fall under the Committee's remit. The Committee also noted that the resulting 'single figure' remuneration levels for the Chief Executive and the Chief Financial Officer were below the median of the FTSE 250 even in a strong year of performance, and were in line with the median of the comparator group used for benchmarking and performance measurement.

EXECUTIVE DIRECTOR BASE SALARY REVIEW AND VARIABLE REMUNERATION IN 2020

The Chief Executive will receive a base salary increase in line with the basic award for the rest of the workforce of 3 per cent. Following this review, his salary will increase from £620,000 to £640,000.

This year placed a high burden on the finance function as parallel demerger and disposal processes were followed, and there was significant additional work required in connection with the Candy Ventures offer period. The Chief Financial Officer performed exceptionally well and developed significantly in his role whilst taking on extra responsibilities as we restructured our workforce to prepare for the separation of assets. His role has now been further enhanced, to include supporting the Chief Executive in developing and implementing Group strategy and overseeing investment and transactions. Following a review of his base salary, the Committee has decided to increase this from £395,000 to £425,000. Following this review, his salary remains 6 per cent below the level paid to the previous Chief Financial Officer, whom he replaced in January 2017.

Michelle McGrath is to be appointed as an Executive Director of the Company on 26 February 2020 at a base salary of £345,000. Michelle's salary has been set at a level which the Committee believes is appropriate for the role and Michelle's experience. All other remuneration will be in line with the approved Remuneration Policy.

The annual bonus for 2020 will be based 75 per cent on financial measures and 25 per cent on personal measures. PSP awards will continue to be subject to relative TSR and relative TR performance conditions.

MATTERS CONSIDERED BY THE COMMITTEE OVER THE PAST YEAR INCLUDE:

- Executive Director and senior management remuneration
- Potential demerger and disposal of Earls Court
- Departure of Executive Director
- Terms for new Executive Director, including benchmarking
- Shareholder and investor body correspondence
- Legislative and regulatory developments, including 2018 UK Corporate Governance Code
- Proposed new Remuneration Policy, including clarity, simplicity, risk, predictability, proportionality and alignment to culture
- Directors' Remuneration Report
- Committee terms of reference
- Institutional investor voting reports and voting at 2019 AGM
- Remuneration across the Group and review of workforce policies
- Setting of, and evaluation of performance, against Executive Directors' performance targets
- Share scheme awards and performance targets
- Directors' shareholdings and ownership requirements
- Chairman's remuneration
- Chairman's and Chief Executive's expenses

However, in order to simplify target setting and the remuneration structure in general, the maximum targets will no longer be set at median + 4 per cent per annum for TSR and median + 2 per cent per annum for TR. Instead, the maximum target will be set at the upper quartile of the comparator group. This approach is common in the FTSE 250 and at property companies, and should help ensure that the maximum target is always appropriately challenging irrespective of changing market circumstances.

G.J. YARDLEY'S EXIT ARRANGEMENTS

G.J. Yardley stepped down from the Board and left Capco in June 2019 to focus on his other interests and improve his health. Mr Yardley had developed a strong team to manage our Earls Court interests and prior to his departure had made a significant contribution to preparations for

the separation of the Group's assets. In view of his performance and the circumstances of his departure, the Committee resolved to treat him as a good leaver.

Details of his remuneration, which was treated in line with the Director's Remuneration Policy, and the discretion exercised by the Committee, are set out later in this report.

CONCLUSION

2019 was an exceptionally important year for Capco and the Committee has striven to balance reward and incentivisation, ensuring that both are aligned with strategy, culture and performance. I would like to thank the Committee members and particularly the Executive Directors and employees for the enormous commitment shown during the year. We have made some important changes to the policy and I encourage shareholders

to support both the new policy and the Committee's implementation of the existing policy at the forthcoming AGM.



CHARLOTTE BOYLE
CHAIR

25 February 2020

MEMBERS:

CHARLOTTE BOYLE (CHAIR)
GERRY MURPHY
ANTHONY STEAINS

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 health care, life insurance, personal accident cover, travel insurance, income protection and a car allowance, currently paid in cash. Directors may participate in flexible benefit arrangements offered to other employees, including the ability to buy or sell annual leave. Directors may receive seasonal gifts and a gift on leaving the Board (including payment of any tax thereon), in appropriate circumstances. 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 into shares of that part of any annual bonus that exceeds 100 per cent of salary 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. The rationale for award of bonuses will be explained in the Directors' Remuneration Report. Where an annual bonus earned exceeds 100 per cent of salary, the portion that exceeds 100 per cent of salary 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.

1. POLICY REPORT

This section of the Directors' Remuneration Report sets out Capco's new Remuneration Policy which will take effect following the 2020 AGM, subject to shareholder approval. Details of actual remuneration paid, share awards made, and the approach to remuneration for 2020 are set out within the Annual Report on Remuneration, which starts on page 77.

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
- 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, of which any amount in excess of 100 per cent of salary 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, its operation, purpose, link to strategy and performance metrics are set out in this section.

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 for any Executive Director appointed on or after 1 January 2020 will be in line with the level available for other employees at any given time (which is currently 10 per cent of salary, and is received by the majority of employees, and is expected to increase initially to 15 per cent). Executive Directors appointed before the 2017 AGM currently receive 24 per cent of base salary as a defined contribution. However, this will be reduced to 20 per cent in 2021 and 15 per cent (or such other maximum level of opportunity as is available to other employees) from 2022.

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 2019 and proposed for next year's annual bonus are set out in the Annual Report on Remuneration on pages 78 and 80 to 81. An explanation of how the performance measures were chosen and how the performance targets are set is given on page 72.

1.2 EXECUTIVE DIRECTOR POLICY TABLE CONTINUED

Purpose and link to strategy	Operation
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 downward 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.

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 measures and 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.

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

Measure	Reason
EPRA Net Tangible Assets per share (NTA)	Considered by the Committee to be an important driver of value creation for Capco. (New EPRA measure which results in the same NAV and NAV per share as the previous EPRA NAV measure).
Underlying Earnings Per Share	Rewards value growth in net rental income as well as the management of administration, financing and other costs.
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 Total Return All Property Index, an external benchmark widely used in the property industry.

Long-term incentives

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

- Three-year relative Total Return (TR, growth in NTA per share plus dividends)
- 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 an 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 a one-year absolute NTA target being used in respect of the annual bonus arrangements and three-year relative NTA (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 FTSE 350 property companies in their long-term incentive arrangements.

Maximum opportunity

Performance metrics

For 2020, the maximum grants which may be made to participants as awards or nil-cost options are 350 per cent of salary. However, the maximum award for any Executive Director appointed on or after 1 January 2020 will be 300 per cent of salary. From 2021, the maximum grants which may be made to participants as awards or nil-cost options are 300 per cent of salary.

25 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. Current performance measures and weightings are:

- 50 per cent on relative Total Return (NTA growth plus dividends)
- 50 per cent on relative Total Shareholder Return

For both measures, performance is measured relative to a bespoke comparator group of property companies.

The performance measures, weightings and targets 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 the 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 2020 awards, are set out in the Annual Report on Remuneration on pages 77 to 83.

An explanation of how the performance measures were chosen and how the performance targets are set is given on page 72.

In line with HMRC-approved limits.

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 bespoke comparator group of property companies and Capco. The members of the comparator group are shown in the table on page 78.

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 policies (as approved by shareholders at the 2014 and 2017 AGMs) 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.

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 applying malus and clawback include: in the event of gross misconduct of a Director which is considered to have had a material detrimental impact on the business or any member of the Group or to have brought the business of any such company into significant disrepute, 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, this would be to the extent an overpayment resulted. The application of any malus or clawback is at the discretion of the Remuneration Committee.

Summary of changes to Remuneration Policy

The proposed new Remuneration Policy does not include any new elements of remuneration. A summary of changes from the provisions of the previous Remuneration Policy is set out below, and the details of the new Remuneration Policy are set out within the Policy Table:

Element of remuneration	Change under new Policy
Annual bonus	Amount deferred into shares changed from 50% of bonus, to any element of bonus greater than 100% of salary
Performance Share Plan	Maximum award level decreased from 350% of base salary to 300% of base salary with effect from 2021. Maximum award level for new Directors set at 300% of base salary. Threshold vesting level reduced from 33% to 25%.
Pension	Pension contribution for current Directors to reduce from 24% of base salary to the level available to other employees by 2022. Pension contribution for new Directors altered from 10% of base salary to the level available to other employees (currently 10%, and expected to increase, initially to 15%).
Benefits	Minor changes to allow Executive Directors to participate in benefits on the same basis as other staff
Exit payment policy	Clarificatory amendments to the exit payment policy and to allow additional incidental payments on termination

Remuneration of employees below the Board

No element of remuneration is operated solely for Executive Directors. Capco employees below the Board receive base salary, benefits and annual bonus, and participate in the PSP. The pension contribution for new Executive Directors has been set at the same level as available to Capco employees. 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
- Incentive awards granted to employees below the Board may not be subject to holding periods, clawback or malus

Shareholding requirements

The Chief Executive is required to achieve a shareholding in the Company equivalent to 300 per cent of base 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 within five years by retaining at least 50 per cent of any vested share awards (net of tax). The current shareholdings of the Executive Directors are set out on page 85.

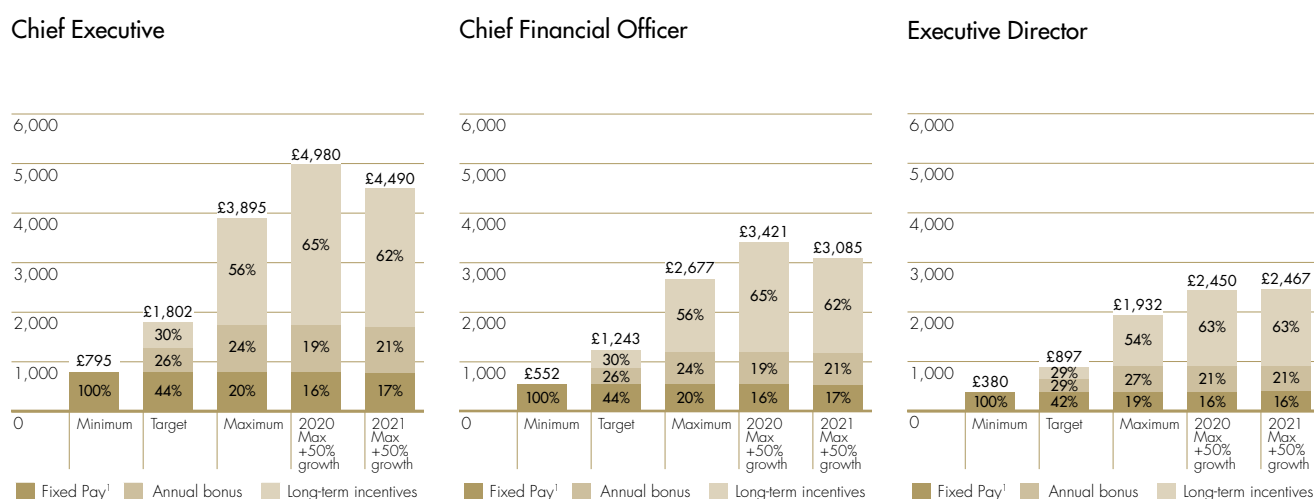
1.4 PERFORMANCE SCENARIO CHARTS

The potential reward opportunities illustrated in Figure 1 are based on the policy which will apply in 2020, applied to the base salary at the salary review date, 1 April 2020, 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. The Maximum scenarios also include an illustration of the amount that would be payable under the PSP elements if there was share price appreciation of 50 per cent between the date of award and the date of vesting. In addition, an illustration of the maximum scenario in 2021 (including share price appreciation of 50 per cent between the date of award and the date of vesting) has been provided.

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 (other than where 50 per cent share price appreciation is assumed).

FIGURE 1



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 in line with the level available for other employees at any given time (currently 10 per cent of salary and expected to increase, initially to 15 per cent) may be offered, consistent with policy.	Consistent with Policy Table limit.
Benefits	Appropriate benefits will be provided, which may include the continuation of benefits received in a previous role.	Consistent with Policy Table limit.
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 from 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 Policy 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, which may be outside the usual policy limits, 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 ○ 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 payments in lieu of notice should not exceed the Director's current salary and benefits (including pension contributions) for the notice period. The service contracts may be viewed at the Company's registered office.

The Committee will be entitled to enter into a settlement agreement with a Director, and may pay a Director's legal fees in relation to any settlement agreement. The Committee may make additional incidental payments, which are not material in quantum, to a departing Director on exit, if appropriate, for example in settlement of disputes or to pay other incidental sums in connection with the exit. The Committee may pay reasonable outplacement fees where considered appropriate.

When considering exit payments, the Committee reviews all potential incentive outcomes, having regard to the reason for leaving and the Director's performance. 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
Michelle McGrath	26 February 2020	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, retirement with the agreement of the employing company, the employing company ceasing to be a member of the group, the transfer of the undertaking or part of the undertaking in which the Director works to a person which is not a member of the Group, or in any other circumstances at the discretion of the Committee. 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	Awards are normally pro-rated for time and remain subject to outstanding performance conditions. Where vesting is accelerated, the Committee will determine 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	Awards will normally 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 2019
Charlotte Boyle	1 October 2017	7 May 2019	4 months
Jonathan Lane	1 March 2019	26 February 2019	4 months
Gerry Murphy	1 March 2015	7 May 2019	4 months
Henry Staunton	2 June 2010	29 May 2018	16 months
Anthony Steains	1 March 2016	7 May 2019	4 months
Andrew Strang	23 February 2010	7 May 2019	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. This policy also applies to the recruitment of new Non-executive Directors.

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 - 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). Directors may receive seasonal gifts and a gift on leaving the Board (including payment of any tax thereon), in appropriate circumstances.	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 with 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 engage with major shareholders as appropriate. For example prior to finalising any major changes to its executive Remuneration Policy. Shareholder feedback on the previous Remuneration Policy and investor guidelines were considered by the Committee when preparing the Remuneration Policy, and a number of best practice measures were incorporated as summarised within the Chair's statement.

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, and certain members of senior management. Membership of the Committee as at 31 December 2019 and the date of this report is set out on page 70. In addition, the Company Chairman, Chief Executive and Company Secretary are invited to attend Committee meetings and contribute to discussions. The Committee meets regularly throughout the year to consider matters relating to executive and employee remuneration, and provides updates to the Board on the matters considered and the decisions reached. Attendance at the nine meetings held during the year is shown in the table on page 59 and a summary of the matters considered by the Committee during the year when reviewing remuneration matters and making decisions about executive remuneration is set out on page 69. To ensure that conflicts of interest are avoided or managed, those attending the meeting are requested to leave the meeting when matters relating to their own remuneration, or any other matters which may be judged to be a potential conflict of interest, are discussed.

2.2 REMUNERATION COMMITTEE AND ITS ADVISERS

The Committee appointed the Executive Compensation practice of Aon 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. Aon is a member of the Remuneration Consultants Group and adheres to its code of conduct. The Committee has received confirmation of independence from Aon, and is satisfied that the advice received was objective and independent. In addition to advice provided to the Committee, Aon also provided share award valuation services to the Company. During 2019, the Company was charged a total of £81,218 by Aon in respect of advice to the Committee. In addition, fees of £148,248 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 2018 Directors' Remuneration Report and the binding vote on the current Remuneration Policy at the 2017 AGM.

Voting on Remuneration Report 2019 AGM

	Votes for	% for	Votes against	% against	Total votes cast	Votes withheld (abstentions)
Approval of Remuneration Report	546,536,108	80.85	129,463,888	19.15	675,999,996	2,532,835

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

2.4 STATEMENT OF IMPLEMENTATION OF POLICY FOR 2020

Salary

The Executive Directors' salaries are reviewed annually. In April 2020, the salary of the Chief Executive will be increased by approximately 3 per cent to £640,000, which is in line with the general award expected to be applied to Group employees. The salary of the Chief Financial Officer will be increased by approximately 7.6 per cent to £425,000, reflecting enhancement of his role to additional responsibilities including supporting the Chief Executive in developing and implementing Group strategy and overseeing investment and transactions. The revised salaries for the Executive Directors are set out in the table below:

Executive Director salaries – 2019 and 2020

	2020	2019	% Increase
Ian Hawksworth	£640,000	£620,000	3.2%
Situl Jobanputra	£425,000	£395,000	7.6%
Michelle McGrath	£345,000	N/A	N/A

Pension and benefits

As described in the Policy Table on pages 70 to 73.

Annual bonus

Opportunity

The annual bonus opportunity will remain unchanged for 2020. Any bonus awarded which exceeds 100 per cent of salary will be deferred into shares for three years under the PSP.

Performance conditions

In common with previous years, the financial performance targets for the year ending 31 December 2020 will be based on growth in NAV per share, Total Property Return relative to the MSCI Total Return All Property Index, and underlying EPS. However, as EPRA has introduced new measures, the Committee has decided that absolute NAV per share will be replaced by EPRA Net Tangible assets per share ("NTA"), which results in the same NAV per share as the previous EPRA NAV measure. In addition, the relative weightings of the NTA, TPR and EPS measures will be rebalanced for 2020, reflecting the importance of EPS as a measure of net rental income and cost management. The revised weightings are shown in the table below. The relative weighting of financial and individual performance measures will remain unchanged.

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 specific locations within the competitive central London property market, prospective disclosure of specific short-term NTA 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.

2020 financial performance measures

Absolute Net Tangible Assets per share	33.33%
Underlying Earnings per Share	33.33%
Relative Total Property Return	33.33%

Performance Share Plan

PSP awards of 350 per cent (current Executive Directors) or 300 per cent of salary (newly appointed Executive Director) of 2020 salary will be made as awards or nil-cost options. The applicable performance conditions and comparator group are set out in the tables below.

Performance conditions for 2020 PSP awards

	Threshold (25%)	Maximum
TR	Median	Upper Quartile
TSR	Median	Upper Quartile

TR AND TSR COMPARATOR GROUP FOR PSP AWARDS

- | | | |
|---|--|---|
| <ul style="list-style-type: none"> ○ British Land ○ Capco | <ul style="list-style-type: none"> ○ Derwent London ○ Great Portland Estates ○ Hammerson ○ Intu Properties | <ul style="list-style-type: none"> ○ Land Securities ○ Workspace (from 2019), Segro (until 2018) ○ Shaftesbury |
|---|--|---|

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 2019 was £275,400. The remuneration of the Chairman is reviewed annually. Following the 2019 review, it was agreed that the Chairman's annual base fee would be increased to £284,000 with effect from 1 May 2020.

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 2019 review, it was agreed that the basic Non-executive Director fee would be increased in line with the inflationary increase awarded to employees, but that the other fees would remain unchanged. The fees which will take effect from 1 May 2020 are set out in the table below.

2020 Non-executive Director fees

	2020	2019
Basic fee	£55,000	£53,500
Committee member (except Nomination Committee)	£7,000	£7,000
Committee member (Nomination Committee)	£6,200	£6,200
Committee Chairman (Audit and Remuneration Committee)	£16,600	£16,600
Senior Independent Director	£13,400	£13,400

2.5 SINGLE FIGURE OF REMUNERATION

The table below shows the single figures of total remuneration paid to each Director in 2019 and 2018. The charts in Figure 2 on page 80 illustrate the contribution that each element of remuneration made to the total remuneration of the Executive Directors.

Single figure of remuneration 2019 and 2018 (Audited)

Executive Directors

£000	Fixed remuneration				Performance-related remuneration				Total remuneration
	Base Salary	Taxable Benefits ⁴	Pension-related Benefits ⁵	Subtotal	Single-year variable (annual bonus) ⁶		Multiple-year variable ⁷ (long-term)	Subtotal	
					Cash	Deferred into shares			
2019									
Ian Hawksworth	617	26	148	791	388	388	–	775	1,566
Situl Jobanputra	390	24	94	508	250	250	–	500	1,008
Gary Yardley ¹	275	13	66	354	104	–	1,158	1,262	1,616
2018									
Ian Hawksworth	604	26	145	775	108	108	–	216	991
Situl Jobanputra	362	25	87	474	70	70	–	140	614
Gary Yardley	541	26	136	697	97	97	–	194	891

Chairman and Non-executive Directors

£000	2019			2018		
	Fees	Taxable benefits ⁸	Total remuneration	Fees	Taxable benefits ⁸	Total remuneration
Henry Staunton	274	12	286	194	9	203
Charlotte Boyle	83	–	83	74	–	74
Jonathan Lane ²	55	–	55	–	–	–
Gery Murphy	96	–	96	89	–	89
Anthony Steains	65	41	106	58	37	95
Andrew Strang	56	1	57	72	1	73
Graeme Gordon ³	22	3	25	52	19	71

1. Stepped down from the Board on 30 June 2019. Further information on Gary Yardley's remuneration can be found on page 83 and the Section 430(2B) statement published on the Company's website.
2. Appointed on 1 March 2019.
3. Retired from the Board on 3 May 2019.
4. Comprises car allowance of £1,500 per month and medical insurance.
5. Comprises payments in lieu of pension contributions.
6. Half of the annual bonus earned is deferred in Capco shares or nil-cost options for three years, subject to forfeiture should the Executive Director leave the Company. The Committee exercised discretion to pay Gary Yardley's 2019 annual bonus in cash.
7. The 2019 disclosure for Executive Directors who remain appointed at the end of the reporting period comprises the estimated value on maturity of the 2017 PSP awards which have a performance period that ran from 2017 to 2019, and were expected to vest in early 2020. These awards have been included in the 2019 single figure as the performance conditions relating to these awards had been substantially (but not fully) completed during 2019. The disclosure has been calculated assuming that zero per cent of the PSP awards will vest. The 2018 multi-year variable comparators were previously disclosed on the basis described above, assuming vesting of zero per cent, and it is confirmed that the awards lapsed as the performance conditions were not satisfied. The 2019 multi-year variable figure for Gary Yardley is calculated as the number of PSP awards that vested on the date Gary Yardley stepped down from the Board multiplied by the share price on 1 July 2019 (being the first day of trading following the termination date), which was £2.1710.
8. Comprises medical insurance and 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 expenses as they are incurred in the fulfilment of Directors' duties.

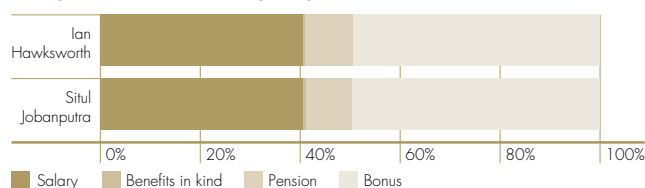
What is included in the single figure?

- 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

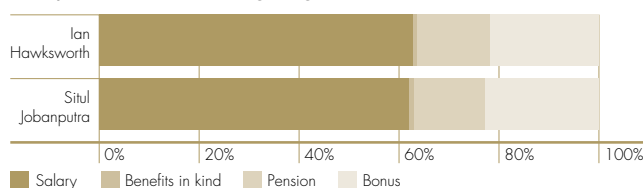
The figures below illustrate the contribution that each element of the Executive Directors' remuneration made to the single figure disclosures.

FIGURE 2

Composition of 2019 single figures



Composition of 2018 single figures



2.6 ANNUAL BONUS OUTCOMES FOR 2019

Opportunity

Executive Directors can earn bonuses of up to 150 per cent of salary. Under the current policy, 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 2019 were based 75 per cent on financial performance, and 25 per cent on individual performance.

Financial measures: As reported in the 2018 Directors' Remuneration Report, the Committee set annual bonus targets for 2019 based on the business at the beginning of the year. However, in light of the possibility of corporate or asset transactions being undertaken during the year, the Committee also incorporated alternative sets of performance conditions which would apply in the event that value was created through a separation of the Group's assets. The original financial performance element for the year ended 31 December 2019 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"). The targets that would apply in the event of a disposal of the Group's interests in Earls Court comprised a mix of targets relating to the disposal, including price and personal performance, and financial and personal targets that would relate to the ongoing business of the Company.

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. An illustration of Directors' personal objectives is set out in Figure 3 on page 81.

Outcome of 2019 annual bonus performance measures (Audited)

The purpose of the annual bonus measures and targets set each year is to reinforce the strategic business priorities for the year, which in 2019 were to successfully separate our assets and be well-placed for future long-term growth. The Board's main strategic goal for 2019 was the successful separation of the Group's assets, which was achieved on the sale of the Group's interests in Earls Court.

The Executive team performed very strongly in closing the unconditional deal for Earls Court and, following a full marketing process, achieved a price of £425 million which was at the top end of the offers received and the Board's expectations at that time.

In addition, the completion of the transaction in November 2019 meant that the Company was not required to make the additional payment of £15 million which would have been payable to LBHF in December 2019 under the terms of the Conditional Land Sale Agreement between the Council and the Company. The Board also valued the fact that the transaction was entered into with a highly reputable counterparty, importantly viewed as being acceptable to the Group's partner and stakeholders, thereby minimising execution risk.

In order to achieve the separation, the Executive Directors completed full preparation work for a demerger of the business into two separate listed companies, ensuring that the demerger was ready to be launched during the year. Alongside this work, a full sale process was run, facilitating a highly complex disposal of the Group's interests in Earls Court, which the Board ultimately determined to be in the best interests of shareholders. Delivery of the sale also required significant corporate defence activity in view of the offer period triggered by the Candy Ventures announcement of a possible offer.

In assessing the performance of the Executive Directors, the Committee concluded that the Executive team had delivered an above target level of performance in achieving these important strategic goals. Following careful consideration, the Committee determined that annual bonus awards for the year of 125 per cent of salary for the Chief Executive, and 126.6 per cent of salary for the Chief Financial Officer, should be made. 50 per cent of each bonus will be paid as cash, and 50 per cent will be deferred as shares for three years under the Company's Performance Share Plan.

Use of discretion (Audited)

In determining these bonus payments it was necessary for the Committee to exercise its discretion, as allowed under the Policy, to adjust the performance outcome. The Committee considered this exercise of discretion very carefully and the level of payment reflects the Committee's view of the importance and success of the disposal, the performance of the ongoing business, and the exceptional workload placed on employees and executives, especially as both a disposal and a demerger were being progressed in parallel throughout 2018 and 2019, ensuring maximum opportunity and deliverability for shareholders. The rationale for the Committee's decision is as follows:

Half of the financial element of the annual bonus was based on targets for the Earls Court sale price. These were set at the beginning of the year and reflected the Board's valuation of Earls Court at that time. However, a sale was not achieved until November by which time valuations had fallen across the market, and there was a market expectation of further valuation decline. This meant that the original targets were no longer appropriate as they would not have rewarded or incentivised the desired disposal, but would have instead conflicted with the Board's view that the disposal was in shareholders' interests.

The Committee also noted that bonus awards had been paid to certain other members of senior management in respect of the Earls Court sale and concluded that it would be inequitable not to make awards to the Executive Directors in respect of this element of the annual bonus.

As a result, the Committee made a discretionary assessment of how the £425 million sale price for an unconditional deal compared to the prevailing expectations at that time. As the final price was at the upper end of prevailing expectations and offers received, the Committee determined that this element of the bonus should be paid in full.

The other half of the financial element of the annual bonus was based on targets for the continuing business. Targets were not explicitly set for this element at the start of the year as the intent was to set targets once there was certainty on which of the disposal or demerger would proceed. However, as the year progressed the decision between disposal and demerger remained balanced, and it was therefore not appropriate to set these targets until there was clarity on the future shape of the business. As a result, given the final timing of the sale transaction, the Committee exercised its discretion to allow a portion of this element to be payable in recognition of the strong relative performance at Covent Garden.

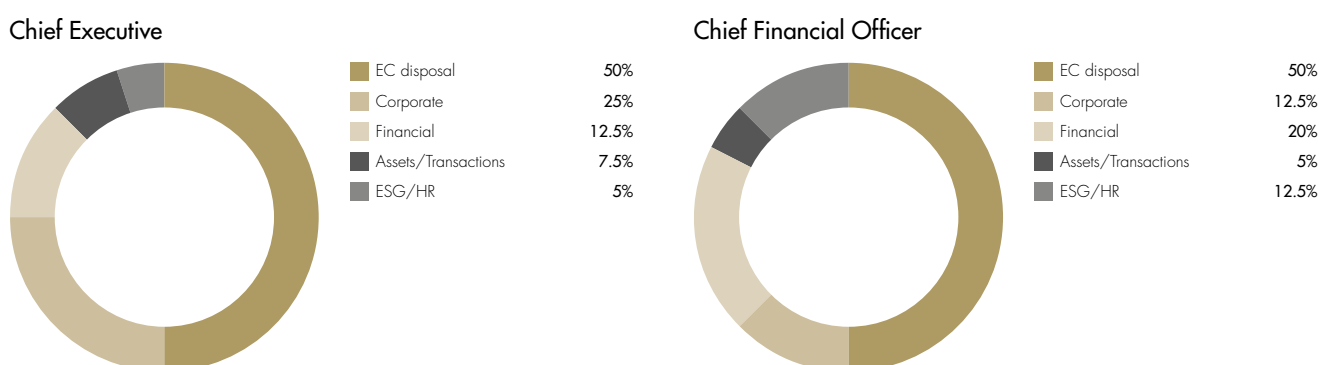
The final portion of the annual bonus relates to the personal objectives component. The Committee completed an assessment of the individual personal targets set for each of the Executive Directors and concluded that these had been met, and so this element of the annual bonus should be paid in full. A breakdown of the personal objectives, and achievements in the year, is set out below.

Summary of Executive Directors' bonuses (Audited)

Executive Director	2019			2018		
	Cash	Deferred shares ¹	Total	Cash	Deferred shares ¹	Total
Ian Hawksworth	£387,500	£387,500	£775,000	£108,122	£108,122	£216,244
Situl Jobanputra	£250,000	£250,000	£500,000	£70,078	£70,078	£140,156
Gary Yardley	£104,063	–	£104,063	£96,900	£96,900	£193,800

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. The Committee exercised discretion to pay Mr Yardley's annual bonus in cash.

FIGURE 3: OUTCOME OF 2019 ANNUAL BONUS PERSONAL PERFORMANCE OBJECTIVES



Achievements in 2019 (Audited) include:

EC disposal	Successful delivery of sale of Earls Court
Corporate	Completion of preparations for potential demerger Optimised operating structure, cost savings identified, and implementation begun Development and delivery of corporate strategy Identification of potential opportunities
Financial	Successful conversion to a REIT Optimisation of balance sheet and finance structure Effective Investor Relations programme
Assets/transactions	Completion of Floral Court sales programme, with cumulative gross proceeds of over £100 million Acquisitions of 39-40 Bedford Street, 36-39 Maiden Lane and 5-6 Henrietta Street
ESG/HR	Promotion of initiatives to promote a diverse workforce and inclusive workplace Maintained excellent health & safety record Championing of Corporate Responsibility programme Internal talent management and progression Personal development in role (CFO)

Disclosure of 2018 annual bonus financial performance targets (Audited)

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 2018 are no longer commercially sensitive; accordingly, the targets and the Company's performance against these targets are set out below. In future, the Committee expects to continue to disclose annual bonus targets one year retrospectively.

Performance measure	Weighting	Target range		Actual performance	% of bonus opportunity awarded
		Threshold (0% payout)	Maximum (100% payout)		
Absolute Net Asset Value per share	50%	330.5p	355p	325.7p	0%
Relative Total Property Return	30%	0	1.5% outperformance	7.9% underperformance	0%
Underlying Earnings per Share ¹	20%	1.15p	1.7p	0.9p	0%

1. The EPS target was adjusted following the disposal of the Empress State Building on 26 March 2018.

2.7 LONG-TERM INCENTIVE OUTCOMES FOR 2019 (AUDITED)

In 2017, awards of 350 per cent of salary were made to Executive Directors under the Company's Performance Share Plan ("PSP") with a performance period of 2017-2019.

Performance measures and targets: The performance conditions for the PSP comprise 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)

The performance targets for the PSP awards are shown in the table below, and the PSP comparator group is shown in the table on page 78. Awards vest on a straight-line basis between threshold and maximum performance.

Performance outcome: In early 2020, the Committee determined that Capco's TR was not expected to equal the median of the comparator group (vs an outperformance target of 2 per cent per annum) 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), and as such the performance conditions relating to the 2017 PSP had not been met. Accordingly, the 2017 PSP awards are expected to lapse, and no value has been included in the single figure disclosures in respect of these awards.

2.8 SCHEME INTERESTS AWARDED DURING THE FINANCIAL YEAR (AUDITED)

The performance measures for awards made under the PSP in 2019 are described above and summarised in the table below. The 2019 PSP awards were originally granted subject to the performance conditions that applied to awards made in 2018 and earlier. However, as disclosed in the 2018 Directors' Remuneration Report, at the time that the 2019 awards were made, alternative performance conditions were set which would be more appropriate to the continuing business, and would apply in the event of a sale of the Group's interests in Earls Court. These alternative performance conditions therefore now apply. In addition, the comparator group was updated to remove Segro and include Workspace. The 2019 PSP awards and 2018 deferred bonus awards are set out in the table on page 83.

Performance conditions for PSP awards

		Threshold		Maximum	
		2017-2018 (33%)	2019 (25%)	2017-2018	2019
TR	Median	Median	Median	Median + 2%	Upper Quartile
TSR	Median	Median	Median	Median + 4%	Upper Quartile

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	Post-vesting holding period	Threshold vesting % ³	Exercisable between
Ian Hawksworth	350 per cent of salary	241.76p	Nil	£2,169,999	897,584	2019–2021	2022–2023	12.5%	2022–2029
Ian Hawksworth	Value of deferred bonus	241.76p	Nil	£108,120	44,722	N/A	N/A	100%	2022–2029
Situl Jobanputra	350 per cent of salary	241.76p	Nil	£1,382,500	571,848	2019–2021	2022–2023	12.5%	2022–2029
Situl Jobanputra	Value of deferred bonus	241.76p	Nil	£70,077	28,986	N/A	N/A	100%	2022–2029
Gary Yardley ⁵	350 per cent of salary	241.76p	Nil	£1,942,498	803,482	2019–2021 ⁴	2022–2023 ⁴	12.5%	2022–2029
Gary Yardley ⁵	Value of deferred bonus	241.76p	Nil	£96,900	40,081	N/A	N/A	100%	2022–2029

1. PSP awards are granted as nil-cost options.
2. Average closing share price on the 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.
4. A proportion of the awards vested on the date Gary Yardley stepped down from the Board, being 30 June 2019.
5. Awards vested in full on the date Gary Yardley stepped down from the Board, being 30 June 2019. Performance period, post-vesting holding period and exercisable dates shown as at time of award.

2.9 PAYMENTS FOR LOSS OF OFFICE AND PAYMENTS TO DEPARTING DIRECTOR (AUDITED)

Gary Yardley stepped down from the Board with effect from 30 June 2019. In accordance with his service contract, Mr Yardley received a payment of £706,200 by way of payment in lieu of salary (£550,000), pension allowance (£133,000) and car allowance (£18,000) in respect of his 12-month notice period. In addition, Mr Yardley's private medical and life insurance cover were continued for 12 months from his date of termination (or if earlier the date he started a new role providing broadly equivalent benefits). The estimated value of the insured benefits is £7,125. £10,000 (excluding VAT) was paid directly to third-party service providers in respect of legal services, and Mr Yardley received £50 in consideration for post-employment undertakings. Mr Yardley did not receive any payment for loss of office.

Based on an assessment of applicable performance conditions, the Remuneration Committee exercised its discretion to pay an annual bonus of £104,062 in respect of the 2019 performance half year to 30 June 2019. This bonus reflected the Committee's assessment of Mr Yardley's personal performance, and no payment was made in respect of the financial measures. The annual bonus was paid following the termination date.

The Remuneration Committee determined that Mr Yardley would be treated as a good leaver under the PSP and a portion of the unvested nil cost options held by Mr Yardley under the PSP vested on the termination date. The value of the vested awards on the termination date, is included in the single figure of remuneration on page 79, and details of the vested awards are set out on pages 86 to 87.

In determining Mr Yardley's remuneration, the Committee exercised the following discretions:

- To assess performance against annual bonus performance measures at the time of termination and to pay a bonus in cash for the period to 30 June 2019, with no deferral into shares
- To allow Mr Yardley's unvested deferred bonus share awards to vest in full on the date of his termination
- To determine that unvested PSP awards that did not lapse on termination would vest on the termination date, subject to measurement of the performance conditions on a forward-looking basis (using the fair value of the awards measured with reference to estimated future performance of the Company's business units assessed prior to termination); to apply time pro-rating as if he had worked to the end of his 12-month notice period; and to allow the holding period for these awards to end on the earlier of the first anniversary of his termination, a demerger or disposal of the Earls Court business, or a demerger of the Covent Garden business
- To extend the exercise period for vested awards from six months to 12 months from 30 June 2019, where relevant

In determining the outcomes set out above, no discretion was exercised as a result of share price appreciation or depreciation.

No other payments for loss of office and no payments to previous Directors in respect of relevant services were made during 2019.

2.10 TOTAL PENSION ENTITLEMENT (AUDITED)

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

2.11 EXTERNAL NON-EXECUTIVE DIRECTORSHIPS

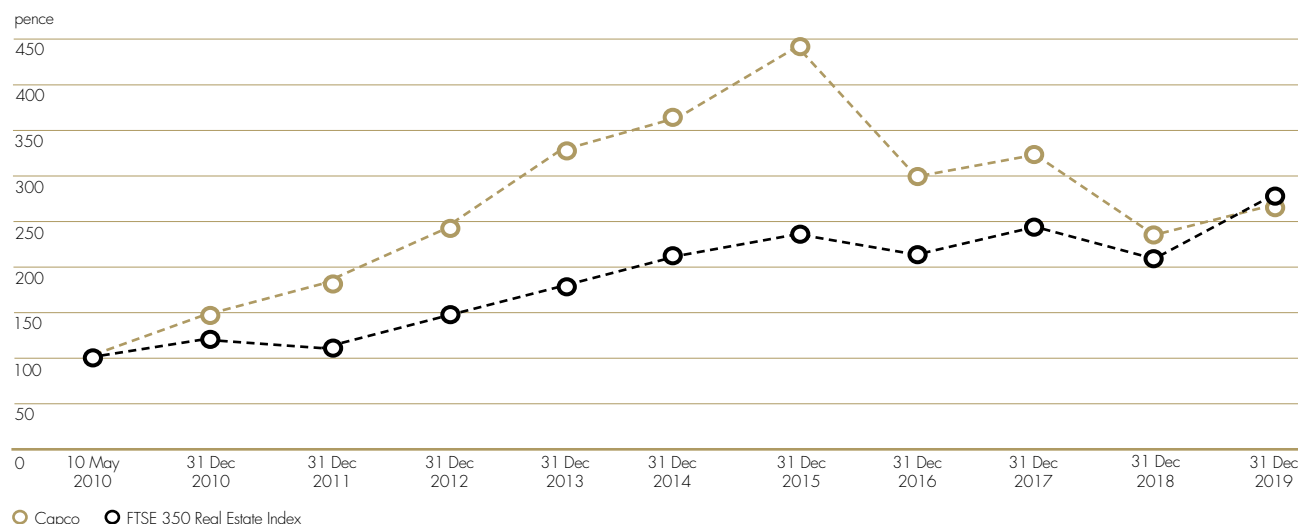
No Executive Director currently serves as a non-executive director elsewhere.

2.12 CHART OF SINGLE FIGURE OF CHIEF EXECUTIVE'S REMUNERATION VS TSR

This graph shows the total shareholder return at 31 December 2019 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 most relevant benchmark for 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 4: TOTAL SHAREHOLDER RETURN



Financial year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Single figure £000	1,184	1,253	8,968	3,530	3,396	3,275	918	1,307	991	1,566
Annual bonus % of max	97.5	100	95	94.67	96.73	91.25	21.25	61.60	23.75	83.33
MSP vesting % of max	NA	NA	100	100	93.1	40 or 80 ¹	0	0	0	NA
PSP vesting % of max	NA	NA	100	100	93.1	60	0	0	0	0

1. Depending on the award.

2.13 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.

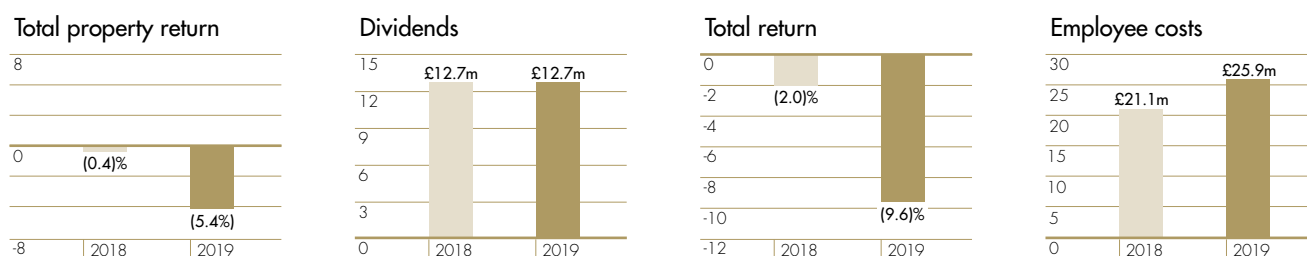
	Chief Executive			Employees
	2019 £000	2018 £000	% change	% change
Salary	617	604	2.15	5.91
Taxable benefits	26	26	0	25.45 ¹
Single-year variable	775	216	258.80	120.43
Total	1,418	846		

1. The increase in employees' taxable benefits primarily reflects increased uptake and premiums for private medical cover in 2019.

2.14 DISTRIBUTION STATEMENT

The graphs in Figure 5 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 2018 and 31 December 2019, and the percentage change in each. The aforementioned measures 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.

FIGURE 5



2.15 STATEMENT OF DIRECTORS' SHAREHOLDINGS AND SHARE INTERESTS (AUDITED)

(a) Directors' shareholdings

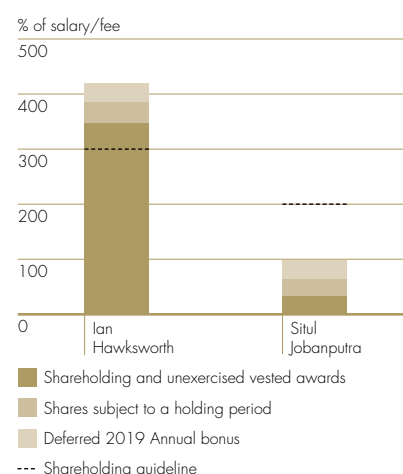
The beneficial interests in the shares of the Company for each Director who served during the year as at 31 December 2019 and 25 February 2020, being a date not less than one month before the date of the Notice of Annual General Meeting, are set out in the table below. The Chief Executive is required to achieve a shareholding in the Company equivalent to 300 per cent of salary and the other Executive Directors are currently 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, although the new policy includes a revised requirement of five years. Gary Yardley had met the shareholding requirement at his termination date.

The current shareholdings of the Executive Directors, and their value based on a share price on 261.7 pence, being the price of a Capital & Counties Properties PLC share on 31 December 2019, are illustrated in the table below. 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 value of the portion of the 2019 Annual Bonus that was deferred into shares is also indicated. The latter three categories are included on a net of tax basis.

Directors' shareholdings (including connected persons) – 2019 and 2018 (Audited)

	2019 Number	2018 Number
Chairman		
Henry Staunton	250,000	250,000
Executive		
Ian Hawksworth	820,604	820,604
Situl Jobanputra	50,000	50,000
Non-executive		
Charlotte Boyle	10,052	10,052
Jonathan Lane ¹	40,950	–
Gerry Murphy	50,000	50,000
Anthony Steains	–	–
Andrew Strang	–	–
Former Directors		
Ian Durant ²	–	568,632
Graeme Gordon ³	2,305,268	2,305,268
Gary Yardley ⁴	473,073	473,073

FIGURE 6: VALUE OF EXECUTIVE DIRECTOR SHAREHOLDINGS AND SHARE INTERESTS (AUDITED)



1. Appointed to the Board on 1 March 2019.
2. Shareholding as at 5 June 2018, being the date that Ian Durant retired from the Board.
3. Shareholding as at 3 May 2019, being the date that Graeme Gordon retired from the Board.
4. Shareholding as at 30 June 2019, being the date that Gary Yardley stepped down from the Board.

(b) Directors' share interests (Audited)

Details of Executive Directors' share scheme interests (excluding 2019 deferred bonus), 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

Executive Director	Shares held	Nil-cost option awards in respect of deferred bonus	Awards no longer subject to performance conditions	Nil-cost option awards, subject to performance conditions	Total
Ian Hawksworth	820,604	176,403	–	2,354,620	3,351,627
Situl Jobanputra	50,000	87,275	–	1,422,589	1,559,864
Gary Yardley ¹	473,073	–	1,414,675	–	1,887,748
Total	1,343,677	263,678	1,414,675	3,777,209	6,799,239²

1. Shareholding and awards stated as at 30 June 2019, being the date Gary Yardley stepped down from the Board.

2. The total includes shareholding and awards held by Gary Yardley as at 30 June 2019, being the date he stepped down from the Board. The Executive Directors at the end of the financial year have a total interest in 4,991,491 shares and awards.

(ii) Outstanding awards made under PSP and Former PSP¹

Name	Year granted	Option price (pence) if any	Held at 1 January 2019	Granted during the year	Exercised during the year	Lapsed during the year	Held at 31 December 2019	Exercisable during or between
Ian Hawksworth	2016	Nil	274,976	–	–	274,976	–	–
Ian Hawksworth	2017	Nil	29,528	–	–	–	29,528	2020–2027
Ian Hawksworth ²	2017	Nil	667,553	–	–	–	667,553	2020–2027
Ian Hawksworth ²	2018	Nil	789,483	–	–	–	789,483	2021–2028
Ian Hawksworth	2018	Nil	102,153	–	–	–	102,153	2021–2028
Ian Hawksworth ²	2019	Nil	–	897,584	–	–	897,584	2022–2029
Ian Hawksworth	2019	Nil	–	44,722	–	–	44,722	2022–2029
Situl Jobanputra	2016	Nil	49,952	–	–	49,952	–	–
Situl Jobanputra ²	2017	Nil	364,630	–	–	–	364,630	2020–2027
Situl Jobanputra ²	2018	Nil	486,111	–	–	–	486,111	2021–2028
Situl Jobanputra	2018	Nil	58,289	–	–	–	58,289	2021–2028
Situl Jobanputra ²	2019	Nil	–	571,848	–	–	571,848	2022–2029
Situl Jobanputra	2019	Nil	–	28,986	–	–	28,986	2022–2029
Gary Yardley ³	2011	157.73	19,019	–	–	–	19,019	2014–2021
Gary Yardley ³	2013	Nil	177,575	–	–	–	177,575	2016–2021
Gary Yardley ⁴	2016	Nil	246,431	–	–	246,341	–	–
Gary Yardley ⁵	2017	Nil	26,463	–	–	–	26,463	2019–2021
Gary Yardley ⁶	2017	Nil	597,993	–	–	576,161	21,832	2019–2021
Gary Yardley ⁶	2018	Nil	707,543	–	–	457,374	250,169	2019–2021
Gary Yardley ⁵	2018	Nil	90,023	–	–	–	90,023	2019–2021
Gary Yardley ⁶	2019	Nil	–	803,482	–	542,176	261,306	2019–2021
Gary Yardley ⁵	2019	Nil	–	40,081	–	–	40,081	2019–2021
Total			4,687,722				4,927,355	

1. Subject to performance conditions that apply to awards made under the PSP as set out on pages 78 and 82.

2. Subject to a two-year post-vesting holding period.

3. Holdings as at 30 June 2019, being the date Gary Yardley stepped down from the Board. Awards had vested but were unexercised prior to the termination date.

4. Awards lapsed in full on the termination date.

5. Holdings as at 30 June 2019, being the date Gary Yardley stepped down from the Board. Awards vested on the termination date.

6. Holdings as at 30 June 2019, being the date Gary Yardley stepped down from the Board. A proportion of the awards vested on the termination date.

(c) Former MSP (Audited)

(i) Deferred shares

The following changes to awards previously made to Executive Directors in respect of annual bonus occurred during the year:

Name	Year granted	Market price on date of grant (pence)	Option price (pence) if any	Held at 1 January 2019	Granted during the year	Exercised during the year	Lapsed during the year	Held at 31 December 2019	Exercisable between
Ian Hawksworth	2015	402.93	Nil	94,557	–	94,557	–	–	–
Ian Hawksworth	2016	315.30	Nil	121,116	–	121,116	–	–	–
Gary Yardley ¹	2013	268.10	Nil	102,998	–	–	–	102,998	2016–2021
Gary Yardley ¹	2014	351.93	Nil	88,767	–	–	–	88,767	2017–2021
Gary Yardley ¹	2015	402.93	Nil	81,279	–	–	–	81,279	2018–2021
Gary Yardley ¹	2016	315.30	Nil	104,662	–	–	–	104,662	2019–2021
Total				593,379				377,706	

1. Holdings as at 30 June 2019, being the date Gary Yardley stepped down from the Board. Awards had vested but were unexercised prior to the termination date.

(ii) Matched deferred shares¹

The following changes to matching awards made to Executive Directors following their award of deferred bonus occurred during the year:

Name	Year granted	Market price on date of grant (pence)	Option price (pence) if any	Held at 1 January 2019	Granted during the year	Exercised during the year	Lapsed during the year	Held at 31 December 2019	Exercisable between
Ian Hawksworth	2016	315.30	Nil	121,116	–	–	121,116	–	–
Gary Yardley ²	2013	268.10	Nil	76,538	–	–	–	76,538	2016–2021
Gary Yardley ²	2016	315.30	Nil	104,662	–	–	104,662	–	–
Total				302,316				76,538	

1. These awards were subject to performance conditions that applied to awards made under the Former MSP, which are described in previous years' Directors' Remuneration Reports.

2. Holdings as at 30 June 2019, being the date Gary Yardley stepped down from the Board. Awards had vested but were unexercised prior to the termination date.

(iii) Matching of Directors' co-investment¹

The following changes to matching awards previously made to Executive Directors following their co-investment in ordinary shares in the Company occurred during the year:

Name	Year granted	Option price (pence) if any	Held at 1 January 2019	Granted during the year	Exercised during the year	Lapsed during the year	Held at 31 December 2019	Exercisable between
Ian Hawksworth	2016	Nil	365,556	–	–	365,556	–	–
Gary Yardley ²	2013	Nil	73,963	–	–	–	73,963	2016–2021
Gary Yardley	2016	Nil	149,169	–	–	149,169	–	–
Total			588,688				73,963	

1. These awards were subject to performance conditions that applied to awards made under the Former MSP, which are described in previous years' Directors' Remuneration Reports.

2. Holdings as at 30 June 2019, being the date Gary Yardley stepped down from the Board. Awards had vested but were unexercised prior to the termination date.

The market price of Capital & Counties Properties PLC shares on 31 December 2019 (being the last day for trading during the year) was 261.7 pence and during the year the price varied between 184.9 pence and 270.5 pence. The aggregate on exercise of share options exercised by serving Executive Directors during the year was £543,195.96. This Remuneration Report has been approved for issue by the Board of Directors on 25 February 2020.



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 2019.

STRATEGIC REPORT

The Group's 2019 Strategic Report, which includes a review of the Group's business model and strategy 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:

	Page
○ Chairman's statement	8
○ Chief Executive's review	10
○ Business model and strategy	14
○ Key performance indicators	15
○ Principal risks and uncertainties	16
○ Operating review	20
○ Financial review	34
○ Responsibility (which includes information on the Group's greenhouse gas emissions, energy consumption and energy efficiency activities)	42

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

EXECUTIVE DIRECTORS:

Ian Hawksworth
Situl Jobanputra

NON-EXECUTIVE DIRECTORS:

Charlotte Boyle
Jonathan Lane (appointed 1 March 2019)
Gerry Murphy
Anthony Steains
Andrew Strang

FORMER DIRECTORS:

Graeme Gordon (retired on 3 May 2019)
Gary Yardley (stepped down on 30 June 2019)

Biographies of each Director can be found on pages 52 and 53 and details of each Director's interests in the Company's shares are set out on page 85.

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 Andrew Strang and Gerry Murphy, all the Directors will retire from office and will offer themselves for election or re-election at the 2020 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 in place for the management of conflicts of interest. 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 20 September 2019	0.5p per ordinary share
Proposed Final Dividend to be paid on 14 May 2020	1p per ordinary share
Total proposed dividend for 2019	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 2019. The proposed final dividend will be paid on 14 May 2020 to shareholders whose names are on the register at 17 April 2020. No element of the 2019 final dividend will be treated as a Property Income Distribution ("PID") for tax purposes. The Board intends that the interim dividend for 2020 will include an element which will be treated as a PID, for tax purposes, in respect of the qualifying rental profits arising in 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 27 to the financial statements on page 136. 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 in the table below.

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 25 on pages 131 to 134.

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.

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 2020, are shown in the table below.

CORPORATE GOVERNANCE STATEMENT

The information fulfilling the requirements of the corporate governance statement can be found on pages 54 to 87, which should be deemed to be incorporated within this Directors' Report.

EMPLOYEES

Information on Group employees can be found on pages 48 and 49 and in note 5 on page 112.

ENGAGEMENT WITH STAKEHOLDERS

Information on the ways in which the Directors have regard to the need to foster the Company's business relationships with stakeholders including suppliers, customers and others, and the effect of that regard is set out on pages 43 and 59.

Holder	Shares held at time of last notification	Percentage held at time of last notification	Nature of holding	Date of last notification
Norges Bank ¹	111,726,317	13.08%	Direct interest	5 February 2020
Foord Asset Management (Pty) Ltd ²	68,269,494	7.99%	Indirect interest	22 January 2020
BlackRock, Inc.	62,556,255	7.32%	Indirect interest	27 November 2019
Public Investment Corporation SOC Limited	58,811,801	6.91%	Direct interest	15 March 2019
STC International Limited and Novatrust Limited ³	38,142,153	4.46%	Direct interest	6 February 2020
York Capital Management Global Advisors	34,693,528	4.06%	Indirect interest	23 October 2019
Madison International Realty	26,635,080	3.13%	Direct interest	1 July 2019

1. Notified holding at 31 December 2019 was 95,615,142 shares (11.19%) held as a direct interest.

2. Notified holding at 31 December 2019 was 74,677,279 shares (8.77%) held as an indirect interest.

3. Notified holding at 31 December 2019 was 50,992,356 shares (5.99%) held as a direct interest.

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 42 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.

ADDITIONAL DISCLOSURES

The information required to be disclosed pursuant to LR 9.8.4R and Schedule 7, Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations (as amended) can be found in the following locations:

	Page
○ Interest capitalised	113
○ Non-pre-emptive issue of equity	136
○ Interests in significant contracts	137

GOING CONCERN

As set out on page 41, 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

Following a tender of the audit contract, the Board has recommended that PricewaterhouseCoopers LLP, who have indicated their willingness to continue in office, be reappointed as the Company's independent auditors and a resolution seeking their reappointment will be proposed at the forthcoming Annual General Meeting.

ANNUAL GENERAL MEETING

The 2020 Annual General Meeting of the Company will be held from 11.30am on 1 May 2020 at the offices of the Company at 15 Grosvenor Street, London, W1K 4QZ, United Kingdom. The Notice of the Meeting, together with an explanation of the business to be dealt with at the meeting, is included as a separate document sent to shareholders who have elected to receive hard copies of shareholder information, and is also available on the Company's website.

By Order of the Board.



RUTH PAVEY
COMPANY SECRETARY

25 February 2020

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 98 to 141 were approved by the Board of Directors on 25 February 2020 and signed on its behalf by



IAN HAWSWORTH
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 2019 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 2019 (the "Annual Report"), which comprise: the Balance sheets as at 31 December 2019; the Consolidated income statement and Consolidated statement of comprehensive income, the Statement of cash flows, and Consolidated statement of changes in equity and Statement of changes in equity for the year then ended; and the notes to the accounts, 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 page 61 to 64, we have provided no non-audit services to the Group or the Parent Company in the period from 1 January 2019 to 31 December 2019.

OUR AUDIT APPROACH

Overview

Materiality	○ Overall Group materiality: £31.0 million (2018: £36.6 million) which represents 1 per cent of total assets. ○ Overall Parent Company materiality: £20.6 million (2018: £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, based on 5 per cent of net rental income and 5 per cent of net finance costs.
Audit scope	○ We audited the complete financial information of the Group, which comprises of the following business lines, Covent Garden, Lillie Square, Other and discontinued operation.
Key audit matters	○ Disposal of Earls Court Properties. ○ 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;
- 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
DISPOSAL OF EARLS COURT PROPERTIES Refer to page 62 (Report of the Audit Committee), page 106 (Principal Accounting Policies) and pages 115 to 118 (notes to the financial statements). This significant transaction warranted additional audit focus due to the magnitude of the transaction and the potential for complex contractual terms that introduce judgement into how they were accounted for and disclosed.	We understood the nature of the transaction and assessed the proposed accounting treatment and disclosure in relation to the Group's accounting policies and IFRS 5. We obtained and reviewed the key supporting documentation such as the Sale and Purchase Agreement and completion statements. Consideration received in cash was agreed to bank statements. The accounting treatment for the deferred consideration and costs was assessed in line with applicable IFRSs. Based on the work performed, we found the accounting method and disclosure applied in respect of the Earls Court Properties disposal to be appropriate.
TAXATION Refer to page 62 (Audit Committee Report), pages 105 to 106 (Principal Accounting Policies) and page 114 (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. The Group's status as a REIT with effect from December 2019 underpins its business model and shareholder returns. For this reason, it warrants special audit focus. The obligations of the REIT regime include requirements to comply with balance of business, dividend and interest cover tests. Tax provisions are in place to account for the risk of challenge of certain of the Group's tax provisions. Given the subjective nature of these provisions, additional audit focus was placed on tax provisions.	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 2019, 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 tested the Group's annual REIT compliance. Based on our work performed, we agreed with management's assessment that all REIT compliance tests had been met.

Key audit matter**VALUATION OF INVESTMENT AND DEVELOPMENT PROPERTY**

Refer to page 62 (Audit Committee Report), page 106 (Principal Accounting Policies) and pages 121 to 124 (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 on continuing and discontinued operations was a loss of £192.7 million (2018: loss of £148.2 million), per note 13 on page 121, which is accounted for within 'Loss on revaluation' 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 (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 is also inherently subjective. Development properties are valued using the residual approach in the absence of comparable transactions of development sites with identical characteristics as at the valuation date. This method may involve 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").

How our audit addressed the key audit matter**Experience of Valuers and relevance of their work**

We read the Valuers' reports from CBRE 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 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, cost schedules, square footage details, capital receipts from residential sales completions and capital expenditure over the period which we agreed back to appropriate supporting documentation.

For development properties, we sample tested that data within the scheme valuation was consistent with the planned development consent.

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.

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.

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 the following business lines, Covent Garden, Lillie Square, Other and discontinued operation. 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	£31.0 million (2018: £36.6 million).	£20.6 million (2018: £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 5 per cent of Net rental income and 5 per cent of Net 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 £1.5 million (2018: £1.8 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 twelve 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 of the United Kingdom's withdrawal from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group's trade, customers, suppliers and the wider economy.
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 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CAo6)

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. (CAo6)

CORPORATE GOVERNANCE REPORT

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Report on pages 54 to 60 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. (CAo6)

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. (CAo6)

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Report on pages 54 to 60 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. (CAo6)

We have nothing to report arising from our responsibility to report if a corporate governance statement has not been prepared by the Parent Company. (CAo6)

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 91 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 91, 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 page 61 to 64 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. (CAo6)

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 91, 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.

COMPANIES ACT 2006 EXCEPTION REPORTING

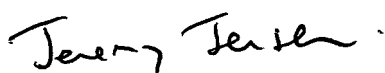
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- 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 ten years, covering the years ended 31 December 2010 to 31 December 2019.



JEREMY JENSEN (SENIOR STATUTORY AUDITOR)
FOR AND ON BEHALF OF PRICEWATERHOUSECOOPERS LLP
CHARTERED ACCOUNTANTS AND STATUTORY AUDITORS
LONDON

25 February 2020

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £m	Re-presented ¹ 2018 £m
Continuing operations			
Revenue	2	79.4	74.7
Rental income		77.6	71.3
Rental expenses		(16.5)	(13.9)
Net rental income	2	61.1	57.4
Other income		1.8	3.4
(Loss)/gain on revaluation and sale of investment and development property	3	(43.3)	39.2
Impairment of other receivables	4	(21.0)	(19.4)
		(1.4)	80.6
Administration expenses		(43.4)	(34.2)
Operating (loss)/profit		(44.8)	46.4
Finance income	7	0.5	0.3
Finance costs	8	(21.2)	(19.3)
Other finance income	7	11.9	12.0
Change in fair value of derivative financial instruments	25	(5.2)	2.2
Net finance costs		(14.0)	(4.8)
Share of post-tax loss from joint ventures	16	(2.5)	–
(Loss)/profit before tax		(61.3)	41.6
Current tax		(2.1)	(2.2)
Deferred tax		1.1	(2.1)
Taxation	9	(1.0)	(4.3)
(Loss)/profit for the year from continuing operations		(62.3)	37.3
Discontinued operation			
Loss for the year from discontinued operation	10	(245.5)	(160.9)
Loss for the year		(307.8)	(123.6)
Loss attributable to:			
Owners of the Parent		(253.6)	(56.9)
Non-controlling interest	17	(54.2)	(66.7)
Earnings per share attributable to owners of the Parent²			
Basic and diluted loss per share	12	(29.7)p	(6.7)p
Earnings per share from continuing operations attributable to owners of the Parent²			
Basic and diluted (loss)/earnings per share	12	(7.3)p	4.4p
Weighted average number of shares	12	853.0m	852.4m

1. The comparative period has been re-presented to present the discontinued operation separately from continuing operations. Details of the discontinued operation are disclosed within note 10 'Discontinued operation'.

2. Earnings per share from the discontinued operation are shown in note 12 'Earnings per Share and Net Assets per Share'.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £m	Re-presented ¹ 2018 £m
Loss for the year		(307.8)	(123.6)
Total comprehensive (expense)/income for the year		(307.8)	(123.6)
Attributable to:			
Owners of the Parent		(253.6)	(56.9)
Non-controlling interest	17	(54.2)	(66.7)
Arising from:			
Continuing operations		(62.3)	37.3
Discontinued operation	10	(245.5)	(160.9)

1. The comparative period has been re-presented to present discontinued operation separately from continuing operations. Details of the discontinued operation are disclosed within note 10 'Discontinued operation'.

BALANCE SHEETS
AS AT 31 DECEMBER 2019

	Note	Group 2019 £m	Group 2018 £m	Company 2019 £m	Company 2018 £m
Non-current assets					
Investment and development property	13	2,545.5	3,335.5	–	–
Property, plant and equipment	14	5.7	3.1	4.7	–
Investment in Group companies	15	–	–	516.4	516.4
Investment in joint ventures	16	0.3	17.3	–	–
Derivative financial instruments	18	–	0.7	–	–
Deferred tax	26	6.6	5.5	–	–
Trade and other receivables	19	248.8	222.8	–	–
		2,806.9	3,584.9	521.1	516.4
Current assets					
Trade and other receivables	19	139.4	38.3	1,545.9	1,537.8
Cash and cash equivalents	20	153.1	32.5	–	–
		292.5	70.8	1,545.9	1,537.8
Assets classified as held for sale	13	–	8.4	–	–
		292.5	79.2	1,545.9	1,537.8
Total assets		3,099.4	3,664.1	2,067.0	2,054.2
Non-current liabilities					
Borrowings, including finance leases	22	(555.3)	(616.5)	(3.8)	–
Derivative financial instruments	18	(3.6)	–	–	–
		(558.9)	(616.5)	(3.8)	–
Current liabilities					
Borrowings, including finance leases	22	(1.6)	(0.7)	(0.9)	–
Other provisions		–	(2.0)	–	–
Tax liabilities		(2.1)	(2.4)	–	–
Trade and other payables	21	(59.3)	(58.9)	(5.9)	(1.0)
		(63.0)	(64.0)	(6.8)	(1.0)
Total liabilities		(621.9)	(680.5)	(10.6)	(1.0)
Net assets		2,477.5	2,983.6	2,056.4	2,053.2
Equity					
Share capital	27	213.6	212.7	213.6	212.7
Other components of equity		2,263.9	2,523.5	1,842.8	1,840.5
Equity attributable to owners of the Parent		2,477.5	2,736.2	2,056.4	2,053.2
Non-controlling interest	17	–	247.4	–	–
Total equity		2,477.5	2,983.6	2,056.4	2,053.2

The profit for the year attributable to shareholders of the Company is £8.5 million (2018: £13.3 million).

These consolidated financial statements have been approved for issue by the Board of Directors on 25 February 2020 and signed on its behalf by:



IAN HAWSWORTH
CHIEF EXECUTIVE



SITUL JOBANPUTRA
CHIEF FINANCIAL OFFICER

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

Group	Note	Equity attributable to owners of the Parent							Non-controlling interest £m	Total equity £m
		Share capital £m	Share premium £m	Merger reserve ¹ £m	Share-based payment reserve £m	Other reserves £m	Retained earnings £m	Total £m		
Balance at 1 January 2018		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	27	0.5	4.5	–	–	–	(0.5)	4.5	–	4.5
Dividends	11	–	–	–	–	–	(12.7)	(12.7)	–	(12.7)
Realisation of merger reserve ¹		–	–	(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	32	–	–	–	2.4	–	–	2.4	–	2.4
Tax relating to share-based payment	26	–	–	–	–	–	(0.8)	(0.8)	–	(0.8)
Contribution from non-controlling interest	17	–	–	–	–	–	–	–	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
Loss for the year		–	–	–	–	–	(253.6)	(253.6)	(54.2)	(307.8)
Total comprehensive expense for the year ended 31 December 2019		–	–	–	–	–	(253.6)	(253.6)	(54.2)	(307.8)
Transactions with owners										
Ordinary shares issued ²	27	0.9	3.3	–	–	–	(0.4)	3.8	–	3.8
Dividends	11	–	–	–	–	–	(12.7)	(12.7)	–	(12.7)
Realisation of merger reserve ¹		–	–	(54.2)	–	–	54.2	–	–	–
Realisation of share-based payment reserve on issue of shares		–	–	–	(3.5)	–	6.2	2.7	–	2.7
Fair value of share-based payment		–	–	–	0.9	–	–	0.9	–	0.9
Realisation of cash flow hedge		–	–	–	–	0.2	–	0.2	–	0.2
Contribution from non-controlling interest	17	–	–	–	–	–	–	–	1.0	1.0
Derecognition of non-controlling interest at disposal	17	–	–	–	–	–	–	–	(194.2)	(194.2)
Total transactions with owners		0.9	3.3	(54.2)	(2.6)	0.2	47.3	(5.1)	(193.2)	(198.3)
Balance at 31 December 2019		213.6	228.9	367.6	6.0	(0.4)	1,661.8	2,477.5	–	2,477.5

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. Realised merger reserve relates to properties held in Earls Court Properties and Floral Court that were disposed of during the year, as the properties were originally acquired using proceeds from the share placements.

2. Share premium includes £3.2 million (2018: £4.5 million) of ordinary shares issued relating to the bonus issued in lieu of cash dividends. Refer to note 11 'Dividends' for further information.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

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 2018		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	27	0.5	4.5	–	–	(0.5)	4.5
Dividends	11	–	–	–	–	(12.7)	(12.7)
Realisation of merger reserve ¹		–	–	(4.0)	–	4.0	–
Realisation of share-based payment reserve on issue of shares		–	–	–	(0.1)	–	(0.1)
Fair value of share-based payment	32	–	–	–	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
Profit for the year		–	–	–	–	8.5	8.5
Total comprehensive income for the year ended 31 December 2019		–	–	–	–	8.5	8.5
Transactions with owners							
Ordinary shares issued ²	27	0.9	3.3	–	–	(0.4)	3.8
Dividends	11	–	–	–	–	(12.7)	(12.7)
Realisation of merger reserve ¹		–	–	(54.2)	–	54.2	–
Realisation of share-based payment reserve on issue of shares		–	–	–	(3.5)	6.2	2.7
Fair value of share-based payment		–	–	–	0.9	–	0.9
Total transactions with owners		0.9	3.3	(54.2)	(2.6)	47.3	(5.3)
Balance at 31 December 2019		213.6	228.9	367.6	6.0	1,240.3	2,056.4

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. Realised merger reserve relates to properties held in Earls Court Properties and Floral Court that were disposed of during the year, as the properties were originally acquired using proceeds from the share placements.
2. Share premium includes £3.2 million (2018: £4.5 million) of ordinary shares issued relating to the bonus issued in lieu of cash dividends. Refer to note 11 'Dividends' for further information.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	Group 2019 £m	Re-presented Group 2018 £m	Company 2019 £m	Company 2018 £m
Cash flows from operating activities					
Cash generated from operations	30	1.7	27.9	9.9	9.0
Interest paid		(20.2)	(20.3)	–	–
Interest received		0.5	0.3	–	–
Tax paid		(1.4)	(2.2)	–	–
Net cash (outflow)/inflow from continuing operating activities		(19.4)	5.7	9.9	9.0
Net cash outflow from discontinued operating activities	30	(2.2)	(21.5)	–	–
Net cash (outflow)/inflow from operating activities		(21.6)	(15.8)	9.9	9.0
Cash flows from investing activities					
Purchase and development of property		(94.4)	(58.1)	–	–
Sale of property ¹		79.6	19.3	–	–
Investment in joint venture		–	(0.4)	–	–
Investment in subsidiary undertaking	15	–	–	–	(0.9)
Sale of discontinued operation	10	168.9	250.0	–	–
Sale of subsidiaries ²		0.2	1.8	–	–
Loan advances to joint ventures		(1.5)	(1.8)	–	–
Net cash inflow/(outflow) from continuing investing activities		152.8	210.8	–	(0.9)
Net cash outflow from discontinued investing activities	10	(4.8)	(25.1)	–	–
Net cash inflow/(outflow) from investing activities		148.0	185.7	–	(0.9)
Cash flows from financing activities					
Issue of shares		0.5	0.1	0.5	0.1
Borrowings drawn	22	105.0	20.0	–	–
Borrowings repaid	22	(105.0)	(185.0)	–	–
Principal element of lease payment		(0.9)	–	(0.9)	–
Purchase and repayment of derivative financial instruments		(0.9)	(4.0)	–	–
Cash dividends paid	11	(9.5)	(8.2)	(9.5)	(8.2)
Transactions with discontinued operation ³		–	(37.3)	–	–
Net cash outflow from continuing financing activities		(10.8)	(214.4)	(9.9)	(8.1)
Net cash inflow from discontinued financing activities	10	5.0	48.4	–	–
Net cash outflow from financing activities		(5.8)	(166.0)	(9.9)	(8.1)
Net increase in cash and cash equivalents		120.6	3.9	–	–
Unrestricted cash and cash equivalents at 1 January		32.5	28.6	–	–
Unrestricted cash and cash equivalents at 31 December	20	153.1	32.5	–	–

1. Includes £9.0 million for the disposal of property designated as held for sale at 31 December 2018.

2. Sale of subsidiaries includes deferred consideration of £0.2 million (2018: £1.8 million) relating to the disposal of The Brewery by EC&O Limited on 9 February 2012.

3. Relates to transactions between the Group's treasury function and the discontinued operation. 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 and domiciled in the United Kingdom 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.

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 2019, the following accounting standards and interpretations have been adopted by the Group:

IFRS 9 ‘Financial Instruments’ (amendment)

IFRS 16 ‘Leases’

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’ did not have a material impact on adoption. Where the Group is currently a lessee, this relates only to immaterial contracts.

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.

The other pronouncements had no significant impact on the consolidated financial statements.

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)

IAS 1 ‘Presentation of financial statements’ (amendment)

IAS 8 ‘Accounting policies, changes in accounting estimates and errors’ (amendment)

The Group has assessed the impact of these new standards and interpretations and does not anticipate any material impact on the financial statements.

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, Innova Investment Group Holdings LP, EC Properties LP (up until disposal on 29 November 2019) 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.

1 PRINCIPAL ACCOUNTING POLICIES CONTINUED

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.

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 13 '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 123.

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, scope of consolidation, 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

The Group's material revenue stream relates to property rental income which is outside the scope of IFRS 15 'Revenue from Contracts with Customers'. The Group's revenue from contracts with customers includes service charge income, proceeds from sale of trading property and other income. The leases in which the group is a lessor and derives its property rental income are classified as operating leases as defined by IFRS 16 'Leases' which replaced IAS 17 'Leases'. The change in accounting standard resulted in no change for the Group.

Rent receivable consists of gross income calculated on an accruals basis. Rental income is recognised as revenue on a straight-line basis over the lease length.

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.

Service charge income, where the Group acts as principal in the ordinary course of business, is recorded as income over time in the year in which the services are provided.

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. These fees are recognised over time, using time elapsed as the input method which measures the benefit simultaneously received and consumed by the customer, over the period the services are provided.

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.

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.

1 PRINCIPAL ACCOUNTING POLICIES CONTINUED**INCOME TAXES CONTINUED**

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. The comparatives have been re-presented as a result of the discontinued operation.

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.

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 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, 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.

1 PRINCIPAL ACCOUNTING POLICIES CONTINUED

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. This 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 (up to 31 December 2018):

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.

Group as a lessee (from 1 January 2019):

The Group has adopted the new accounting pronouncements for leases which became effective 1 January 2019. IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease').

The adoption of this new Standard has resulted in the Group recognising a right-of-use asset and related lease liability in connection with its leases of office buildings and leases for space relating to operating management contracts.

The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition. Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

The Group's future minimum lease payments under non-cancellable finance leases are disclosed under note 23 'Finance lease obligations'. In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

The adoption of the standard has resulted in the recognition of right of use assets of £5.4 million and a corresponding increase in current liabilities £0.9 million and non-current liabilities £4.5 million as at 1 January 2019. On transition to IFRS 16 the weighted average incremental borrowing rate applied to calculate the present value of the lease liabilities recognised under IFRS 16 was 1.5 per cent. Ongoing, the change in accounting policy will result in the reduction in rental expense and increase in finance costs and depreciation with no overall impact to the profit for the period.

PROPERTY, PLANT AND EQUIPMENT

Property consists of finance leased properties. At the commencement date of a lease, a right of use asset and a lease liability are recognised. Initial recognition of the asset and liability is measured at the present value of the lease payments, discounted at the average incremental borrowings rate applicable at the date of recognition. Depreciation is charged against the asset to the income statement on a straight-line basis over an asset's estimated useful life.

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, using the straight-line basis. Currently, the maximum life of the Group's plant and equipment is ten years. The residual value and useful life of an asset is reviewed at each financial year end.

1 PRINCIPAL ACCOUNTING POLICIES CONTINUED

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 subsidiaries, 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.

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-traded 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 fair value through profit and loss. 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 counter party'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.

1 PRINCIPAL ACCOUNTING POLICIES CONTINUED

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.

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, underlying earnings per share and net asset value.

For management and reporting purposes the Group is organised into the following divisions:

- Covent Garden;
- Lillie Square represents the Group's interests in Lillie Square and a number of smaller properties in the adjacent area;
- Other comprises Innova, The Great Capital Partnership, Earls Court Properties (up until disposal on 29 November 2019), the Empress State Building (up until disposal on 26 March 2018) and 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%
Lillie Square	
Lillie Square Joint Venture	50%
Lillie Square Holding Group	100%
Other	
Innova	50%
GCP	50%
Earls Court Properties ¹	0%
Other	100%

1. Earls Court Properties represented the Group's interest in the Earls Court area comprising properties held in ECPL, EC Properties LP and Empress State Building. ECPL was 63 per cent owned until 29 November 2019. EC Properties LP was 100 per cent owned until 29 November 2019. Empress State was 100 per cent owned until 26 March 2018. Subsequent to this the Group share ownership in ECPL, EC Properties LP and Empress State Building 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

	2019					
	Covent Garden £m	Lillie Square £m	Other £m	Group total £m	Consolidation adjustments £m	IFRS total £m
Continuing operations						
Rental income	77.6	0.8	–	78.4	(0.8)	77.6
Proceeds from sale of trading property	–	5.1	–	5.1	(5.1)	–
Other income	–	–	0.9	0.9	0.9	1.8
Revenue	77.6	5.9	0.9	84.4	(5.0)	79.4
Rent receivable	72.7	0.2	–	72.9	(0.2)	72.7
Service charge income	4.9	0.6	–	5.5	(0.6)	4.9
Rental income	77.6	0.8	–	78.4	(0.8)	77.6
Rental expenses ¹	(16.1)	(0.8)	(0.3)	(17.2)	0.7	(16.5)
Net rental income/(expense)	61.5	–	(0.3)	61.2	(0.1)	61.1
Profit on sale of trading property	–	0.9	–	0.9	(0.9)	–
Other income	–	–	0.9	0.9	0.9	1.8
Loss on revaluation and sale of investment and development property	(43.3)	–	–	(43.3)	–	(43.3)
Impairment of other receivables	–	–	(15.0)	(15.0)	(6.0)	(21.0)
Write down of trading property	–	(0.4)	–	(0.4)	0.4	–
Segment profit/(loss)	18.2	0.5	(14.4)	4.3	(5.7)	(1.4)
Unallocated costs:						
Administration expenses				(42.6)	(0.8)	(43.4)
Operating loss				(38.3)	(6.5)	(44.8)
Net finance costs ²				(25.6)	11.6	(14.0)
Share of post-tax loss from joint ventures				–	(2.5)	(2.5)
Loss before tax				(63.9)	2.6	(61.3)
Taxation				(1.0)	–	(1.0)
Loss for the year from continuing operations				(64.9)	2.6	(62.3)
Discontinued operation						
Loss for the year from discontinued operation				(245.5)	–	(245.5)
Loss for the year				(310.4)	2.6	(307.8)
Loss attributable to:						
Owners of the Parent				(256.2)	2.6	(253.6)
Non-controlling interest				(54.2)	–	(54.2)
Summary balance sheet						
Total segment assets ³	2,617.8	189.7	223.7	3,031.2	(84.9)	2,946.3
Total segment liabilities ³	(600.9)	(76.3)	(20.0)	(697.2)	75.3	(621.9)
Segmental net assets	2,016.9	113.4	203.7	2,334.0	(9.6)	2,324.4
Unallocated assets ²				153.1	–	153.1
Net assets				2,487.1	(9.6)	2,477.5
Other segment items:						
Depreciation	(0.2)	–	(1.1)	(1.3)	–	(1.3)
Capital expenditure ⁴	(94.3)	(32.2)	(6.1)	(132.6)	28.5	(104.1)

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. Total segment assets for Other includes £200.8 million which is the discounted balance of the deferred consideration from the sale of Earls Court Properties which is receivable in two equal instalments, 12 months and 24 months after completion.

4. Capital expenditure for Other includes £6.1 million relating to Earls Court Properties which was disposed of on 29 November 2019.

2 SEGMENTAL REPORTING CONTINUED

REPORTABLE SEGMENTS

	Re-presented 2018					
	Covent Garden £m	Lillie Square £m	Other £m	Group total £m	Consolidation adjustments £m	IFRS total £m
Continuing operations						
Rental income	71.3	0.8	–	72.1	(0.8)	71.3
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	31.8	1.8	104.9	(30.2)	74.7
Rent receivable	66.9	0.2	–	67.1	(0.2)	66.9
Service charge income	4.4	0.6	–	5.0	(0.6)	4.4
Rental income	71.3	0.8	–	72.1	(0.8)	71.3
Rental expenses ¹	(13.8)	(0.5)	(0.3)	(14.6)	0.7	(13.9)
Net rental income/(expense)	57.5	0.3	(0.3)	57.5	(0.1)	57.4
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	(0.2)	–	39.2	–	39.2
Impairment of other receivables	–	–	–	–	(19.4)	(19.4)
Write down of trading property	–	(0.5)	–	(0.5)	0.5	–
Segment profit/(loss)	96.9	6.3	1.5	104.7	(24.1)	80.6
Unallocated costs:						
Administration expenses				(33.7)	(0.5)	(34.2)
Operating profit/(loss)				71.0	(24.6)	46.4
Net finance costs ²				(17.1)	12.3	(4.8)
Profit/(loss) before tax				53.9	(12.3)	41.6
Taxation				(4.3)	–	(4.3)
Profit/(loss) for the year from continuing operations				49.6	(12.3)	37.3
Discontinued operation						
Loss for the year from discontinued operation				(160.9)	–	(160.9)
Loss for the year				(111.3)	(12.3)	(123.6)
Loss attributable to:						
Owners of the Parent				(111.3)	54.4	(56.9)
Non-controlling interest				–	(66.7)	(66.7)
	Covent Garden £m	Earls Court Properties and Lillie Square ⁴ £m	Other £m	Group total £m	Consolidation adjustments £m	IFRS total £m
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.

4. Represented the Group's interest in the Earls Court area which comprised of properties held in ECPL, Lillie Square, the Empress State Building (up until disposal on 28 March 2018) and a number of smaller properties in the Earls Court area. ECPL and a number of smaller properties in the Earls Court area were disposed of on 29 November 2019.

3 (LOSS)/GAIN ON REVALUATION AND SALE OF INVESTMENT AND DEVELOPMENT PROPERTY

	2019 £m	Re-presented 2018 £m
Continuing operations		
(Loss)/gain on revaluation of investment and development property	(41.1)	37.2
(Loss)/gain on sale of investment and development property	(2.2)	2.0
(Loss)/gain on revaluation and sale of investment and development property	(43.3)	39.2

4 IMPAIRMENT OF OTHER RECEIVABLES

	2019 £m	Re-presented 2018 £m
Continuing operations		
Impairment of other receivables	21.0	19.4

Following an impairment review of amounts receivable from joint ventures by the Group, a net impairment of £21.0 million has been recognised (2018: £19.4 million). This impairment consists of £8.5 million (2018: £19.4 million) in relation to the Lillie Square joint venture and £12.5 million (2018: nil) in relation to the Group's investment in the Innova joint venture.

The Lillie Square joint venture is in a net liability position. It 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 £11.3 million (2018: £12.0 million) finance income on these deep discount bonds. Although the Group's investment in the Lillie Square joint venture has been previously fully impaired and the Group's carrying value of investment in Lillie Square is nil, the Group has issued funding in the joint venture in the form of an intercompany loan and 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 £8.5 million (2018: £19.4 million) during the year, of which £1.2 million has been recognised against the intercompany debtor (2018: £1.8 million) and £7.3 million against the deep discount bonds (2018: £17.6 million).

The impairment of amounts receivable from joint ventures recognised by the Group in the year of £8.5 million (cumulative £75.5 million) and the finance income on the Lillie Square deep discount bonds of £11.3 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 £2.9 million (cumulative £56.1 million) and the finance income on the deep discount bonds would have been £6.6 million in the year. The total current year difference between the IFRS 9 basis and economic position basis of £2.7 million (cumulative £9.6 million) is 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.

5 EMPLOYEE INFORMATION**(A) EMPLOYEE COSTS**

	2019 £m	Re-presented 2018 £m
Continuing operations		
Wages and salaries	13.6	12.0
Social security costs ¹	2.3	1.5
Other pension costs	0.5	0.6
Share-based payment	3.3	1.9
Total employee costs from continuing operations	19.7	16.0
Discontinued operation		
Employee costs from discontinued operation	5.9	5.1
Total employee costs	25.6	21.1

1. Included in social security costs is a credit of £0.1 million for national insurance on share options (2018: credit of £0.1 million). The credit for both years is due to changes in vesting and forfeiture assumptions.

(B) EMPLOYEE NUMBERS

	2019	2018
Average monthly number of people (including Executive Directors) employed		
Capco head office including Earls Court Properties & Covent Garden	73	102
Total average headcount	73	102

The details of individual Directors' remuneration and pension benefits as set out in the tables contained in the Directors' Remuneration Report on pages 68 to 87 form part of these consolidated financial statements.

Included within employee costs are costs incurred in connection with the proposed demerger and sale transaction, and additional costs resulting from a review of the organisational structure of the Group. Share-based payment charges are calculated based on the expected fair value of share awards as calculated using the Black-Scholes option pricing model.

The Group recharges corporate head office costs based primarily on asset value to its operations. This is the basis for the administration expenses disclosed within note 10 'Discontinued operation'.

6 AUDITORS' REMUNERATION

	2019 £m	2018 £m
Continuing operations		
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	1.7
Total auditors' remuneration	2.1	2.1

1. Fees payable to the principal auditor in relation to reporting accountant assurance services for the Group's completed sale of its interest in Earls Court Properties and previous demerger plans. 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. 2019 non-audit fees, including the interim review, represented 85.0 per cent of the total fee (2018: 84.4 per cent). Excluding the reporting accountant assurance services for the Group's possible demerger and sale of Earls Court Properties, the non-audit fees, including the interim review, represented 15.9 per cent (2018: 15.9 per cent). Further details on the Audit Committee's non-audit services policy can be found on pages 63.

7 FINANCE INCOME

	2019 £m	2018 £m
Continuing operations		
Finance income:		
On deposits and other	0.5	0.3
Finance income	0.5	0.3
Other finance income:		
On deep discount bonds ¹	11.3	12.0
On deferred consideration ²	0.6	–
Other finance income	11.9	12.0

1. Excluded from the calculation of underlying earnings as deep discount bonds eliminate on a Group share basis.
2. Excluded from the calculation of underlying earnings as the deferred consideration relates to the proceeds from the sale of Earls Court Properties during the year.

8 FINANCE COSTS

	2019 £m	Re-presented 2018 £m
Continuing operations		
Finance costs:		
On bank overdrafts, loans and other	20.4	20.6
On obligations under finance leases	0.8	0.7
Gross finance costs	21.2	21.3
Interest capitalised on property under development	–	(2.0)
Finance costs	21.2	19.3

Interest is capitalised, before tax relief, on the basis of the weighted average cost of debt of 3.0 per cent (2018: 2.9 per cent) applied to the cost of property under development during the year.

9 TAXATION

	2019 £m	2018 £m
Continuing operations		
Current income tax:		
Current income tax charge excluding non-underlying items	1.4	1.4
Current income tax	1.4	1.4
Deferred income tax:		
On accelerated capital allowances	(3.4)	1.1
On fair value of derivative financial instruments	(0.9)	1.2
On Group losses	3.2	0.9
On other temporary differences	0.3	(0.6)
Deferred income tax	(0.8)	2.6
Current income tax charge on non-underlying items	–	0.8
Adjustments in respect of previous years – current income tax	0.7	–
Adjustments in respect of previous years – deferred income tax	(0.3)	(0.5)
Total income tax charge reported in the consolidated income statement	1.0	4.3

FACTORS AFFECTING THE TAX CHARGE FOR THE YEAR

The tax assessed for the year is £1.0 million (2018: £4.3 million) against a loss of £61.3 million (2018: profit of £41.6 million). A reconciliation against the standard rate of corporation tax in the United Kingdom (“UK”) is explained below:

	2019 £m	Re-presented 2018 £m
Continuing operations		
(Loss)/profit before tax	(61.3)	41.6
(Loss)/profit on ordinary activities multiplied by the standard rate in the UK of 19% (2018: 19%)	(11.6)	7.9
Unrecognised deferred income tax on revaluation losses/(gains)	7.8	(7.1)
Adjustments in respect of previous years	0.4	(0.5)
Expenses disallowed	4.7	3.8
Non-taxable items	0.4	(0.7)
REIT exemption	(0.1)	–
Other temporary differences	(0.9)	0.1
Reduction in deferred income tax following change in corporation tax rate	0.3	0.8
Total income tax charge reported in the consolidated income statement	1.0	4.3

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.

Tax on discontinued operations of £1.2 million (2018: nil) as disclosed within note 10 ‘Discontinued operation’ relates to current tax adjustments in respect of previous years.

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 conversion to a UK REIT on 9 December 2019 the Group is exempt from UK Corporation Tax and UK Capital Gains Tax on its Qualifying REIT activities. Non-REIT activities will continue to be subject to UK Corporation Tax and UK Capital Gains Tax.

10 DISCONTINUED OPERATION

On 29 November 2019, the Group sold its interests in Earls Court, excluding Lillie Square, to APG and Delancey (on behalf of its client fund) for £425 million. As Earls Court Properties represented a major line of business, its results and cash flows have been reported for the period 1 January 2019 to 29 November 2019 as having arisen from a discontinued operation. This extends to the prior period comparative which has been re-presented to reflect the disposal. The Empress State Building which was sold on 26 March 2018 was previously part of the Earls Court Properties business and therefore has also been classified as a discontinued operation in the comparative period.

(Loss)/profit from discontinued operation after tax included in the consolidated income statement:

	2019 £m	2018 £m
(Loss)/profit from discontinued operation after tax		
Earls Court Properties	(151.3)	(193.0)
Empress State Building	–	2.6
(Loss)/profit on disposal of discontinued operation	(10.2)	29.5
IFRS 5 impairment of discontinued operation	(84.0)	–
Loss from discontinued operation after tax	(245.5)	(160.9)
Attributable to:		
Owners of the Parent	(191.3)	(94.2)
Non-controlling interest	(54.2)	(66.7)

EARLS COURT PROPERTIES

On 29 November 2019, the Group completed the sale of its interest in Earls Court Properties (excluding Lillie Square) for a total gross cash consideration of £425.0 million, on a cash-free and debt-free basis. Total consideration will be paid to the Group on a phased basis, with 45 per cent received on completion and the balance receivable in two equal tranches over two years. The disposal was in line with the Group's strategy of monetising investments at Earls Court over time with a focus on growing its central London property investment business, centred around Covent Garden. After adjusting for net debt, working capital adjustments, transaction-related costs and other completion items, net proceeds received were £145.3 million with £7.0 million outstanding to pay on transaction related costs and working capital adjustments. The balance of £210.4 million is receivable in two equal instalments 12 months and 24 months after completion. The deferred payments receivable by the Group would be accelerated in part to the extent that payments made by Capco to the London Borough of Hammersmith and Fulham pursuant to the CLSA are refunded to the Purchaser after completion. Further consideration may be payable to Capco in limited circumstances, however this is not expected to be material. Based on the net assets at the date of disposal, after the deduction of an IFRS 5 impairment, a loss of £10.2 million has been recognised on the sale.

The total net assets at the date of disposal were as follows:

	29 November 2019 £m
Investment and development property	623.7
Other non-current assets	0.4
Cash and cash equivalents	9.2
Other current assets	0.7
Other current liabilities	(2.2)
Borrowings	(71.5)
Net assets	560.3
Non-controlling interest	(194.4)
Net identifiable assets and liabilities disposed of	365.9
Net consideration received on completion ¹	(145.3)
Deferred consideration	(210.4)
Loss on disposal of discontinued operation	(10.2)

1. Cash consideration received on completion was £174.7 million. This differs to net consideration above by £29.4 million due to transaction-related costs of £17.9 million, working capital adjustments of £1.3 million and discounting of the deferred consideration of £10.2 million.

10 DISCONTINUED OPERATION CONTINUED

The Earls Court Properties results, which have been included in the income statement as part of the discontinued operation, were:

	Period ended 29 November 2019 £m	Year ended 31 December 2018 £m
Summarised income statement		
Revenue	3.6	3.7
Net rental income	3.1	3.1
Loss on revaluation and sale of investment and development property	(151.6)	(185.3)
Impairment of investments and other receivables	–	(3.8)
Administration expenses	(4.0)	(7.0)
Operating loss	(152.5)	(193.0)
Loss from discontinued operation before tax	(152.5)	(193.0)
Taxation	1.2	–
Loss from discontinued operation after tax¹	(151.3)	(193.0)
IFRS 5 impairment of discontinued operation	(84.0)	–
Loss on disposal of discontinued operation	(10.2)	–
Loss on disposal and IFRS 5 impairment of discontinued operation	(94.2)	–
Loss from discontinued operation after tax	(245.5)	(193.0)
Attributable to:		
Owners of the Parent	(191.3)	(126.3)
Non-controlling interest	(54.2)	(66.7)
Underlying earnings from discontinued operation		
Loss for the period from discontinued operation	(191.3)	(126.3)
<i>Group adjustments:</i>		
Loss on revaluation and sale of investment and development property	151.6	185.3
Loss on disposal and IFRS 5 impairment of discontinued operation	94.2	–
Impairment of investments and other receivables	–	3.8
Non-controlling interest in respect of Group adjustments	(55.0)	(67.3)
Taxation adjustments	–	0.1
Underlying loss from discontinued operation	(0.5)	(4.4)

1. Consists of £97.1 million (2018: £126.3 million) attributable to owners of the Parent and £54.2 million (2018: £66.7 million) attributable to non-controlling interest.

The following table summarises the consideration received, the net cash flow and loss arising on the disposal of the Earls Court Properties business:

	2019 £m
Headline consideration	425.0
Net debt ¹	(39.6)
Working capital and related adjustments	(0.3)
	385.1
Deferred consideration	(210.4)
Cash consideration received on completion	174.7
Group share of cash transferred with disposal group	(5.8)
Net cash consideration	168.9

1. Net debt represents the Group share of external debt and cash held on disposal.

10 DISCONTINUED OPERATION CONTINUED

The Earls Court Properties cash flows, which have been included in the statement of cash flows as a discontinued operation, were:

	Period ended 29 November 2019 £m	Year ended 31 December 2018 £m
Summarised cash flows		
Net cash outflow from discontinued operating activities	(2.2)	(21.1)
Purchase and development of property	(7.9)	(26.4)
Sale of property	3.1	1.6
Net cash outflow from discontinued investing activities	(4.8)	(24.8)
Borrowings drawn	4.0	2.8
Contribution from non-controlling interest	1.0	8.3
Funding from Group treasury ¹	–	36.6
Net cash inflow from discontinued financing activities	5.0	47.7
Net movement in unrestricted cash and cash equivalents	(2.0)	1.8
Unrestricted cash and cash equivalents at 1 January	8.0	6.2
Unrestricted cash and cash equivalents at end of the period	6.0	8.0

1. Relates to transactions between the Group's treasury function and the discontinued operation. The Group operates a central treasury function which manages and monitors the Group's cash balances.

EMPRESS STATE BUILDING

On 26 March 2018, the Group completed the sale of the Empress State Building for a 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.

The total net assets at the date of disposal were as follows:

	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 discontinued operation	29.5

1. Cash consideration received on completion was £250.0 million. This differs to the net consideration above by £1.1 million due to transaction-related costs.

The Empress State results, which have been included in the income statement as part of the discontinued operation, were:

	Period ended 26 March 2018 £m
Summarised income statement	
Revenue	3.9
Net rental income	3.9
Administration expenses	(1.3)
Operating profit	2.6
Profit before tax	2.6
Profit after tax	2.6
Discontinued operation	
Profit on disposal of discontinued operation	29.5
Profit for the period from discontinued operation	32.1
Group adjustments:	
Profit on sale of subsidiaries	(29.5)
Underlying earnings from discontinued operation	2.6

10 DISCONTINUED OPERATION CONTINUED

The Empress State Building cash flows, which have been included in the statement of cash flows as a discontinued operation, were:

	Period ended 26 March 2018 £m
Summarised cash flows	
Net cash outflow from discontinued operating activities	(0.4)
Purchase and development of property	(0.3)
Net cash outflow from discontinued investing activities	(0.3)
Funding from Group treasury ¹	0.7
Net cash outflow from discontinued financing activities	0.7
Net movement in unrestricted cash and cash equivalents	–
Unrestricted cash and cash equivalents at 1 January	–
Unrestricted cash and cash equivalents at end of the period	–

1. Relates to transactions between the Group's treasury function and the discontinued operation. The Group operates a central treasury function which manages and monitors the Group's cash balances.

11 DIVIDENDS

Group and Company	2019 £m	2018 £m
Ordinary shares		
Prior year final dividend of 1.0p per share (2018: 1.0p)	8.5	8.5
Interim dividend of 0.5p per share (2018: 0.5p)	4.2	4.2
Dividend expense	12.7	12.7
Bonus issue in lieu of cash dividends ¹	(3.2)	(4.5)
Cash dividends paid	9.5	8.2
Proposed final dividend of 1.0p per share (2018: 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.

As a REIT, Capco must distribute at least 90% of the Group's income profits from its tax-exempt property rental business by way of a dividend, which is known as a Property Income Distribution ("PID"). These distributions can be subject to withholding tax at 20%. Dividends from profits of the Group's taxable residual business are non-PID and will be taxed as an ordinary dividend.

12 EARNINGS PER SHARE AND NET ASSETS PER SHARE

(A) EARNINGS PER SHARE

	2019			Re-presented 2018		
	(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	(253.6)	853.0	(29.7)	(56.9)	852.4	(6.7)
Dilutive effect of contingently issuable share option awards ²	–	0.7	–	–	0.9	–
Dilutive effect of contingently issuable deferred share awards ²	–	0.5	–	–	0.2	–
Dilutive effect of contingently issuable matching nil cost options awards ²	–	–	–	–	0.1	–
Dilutive effect of deferred bonus share option awards ²	–	–	–	–	0.6	–
Diluted loss	(253.6)	854.2	(29.7)	(56.9)	854.2	(6.7)
Continuing operations attributable to owners of the Parent						
Basic (loss)/earnings	(62.3)	853.0	(7.3)	37.3	852.4	4.4
Diluted (loss)/earnings	(62.3)	854.2	(7.3)	37.3	854.2	4.4
Discontinued operation attributable to owners of the Parent						
Basic loss	(191.3)	853.0	(22.4)	(94.2)	852.4	(11.1)
Diluted loss	(191.3)	854.2	(22.4)	(94.2)	854.2	(11.1)
Continuing operations attributable to owners of the Parent						
Basic (loss)/earnings	(62.3)			37.3		
<i>Group adjustments:</i>						
Impairment of other receivables ³	11.9			12.3		
Loss/(gain) on revaluation and sale of investment and development property	43.3			(39.2)		
Change in fair value of derivative financial instruments	5.2			(2.2)		
Deferred tax adjustments	(4.3)			2.3		
<i>Joint venture adjustments:</i>						
Profit on sale of trading property ⁴	(0.9)			(6.7)		
Write down of trading property	0.4			0.5		
EPRA adjusted (loss)/earnings on continuing operations⁵	(6.7)	853.0	(0.8)	4.3	852.4	0.5
Administration expenses – non-underlying ⁶	9.7			4.9		
Tax adjustments	6.5			0.6		
Underlying earnings from continued operations	9.5	853.0	1.1	9.8	852.4	1.1
Underlying loss from discontinued operation	(0.5)	853.0	(0.1)	(1.8)	852.4	(0.2)
Underlying earnings⁵	9.0	853.0	1.0	8.0	852.4	0.9

1. Weighted average number of shares in issue has been adjusted by 1.6 million (2018: 3.3 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 32 'Share-Based Payments'.

3. Impairment of other receivables of £11.9 million (2018: £12.3 million) includes impairments under IFRS 9 of the amounts receivable from joint ventures above the Group's share of losses in the Lillie Square joint venture, amortisation of deferred consideration receivable from the Earls Court Properties disposal and impairment in relation to the Group's investment in the Innova joint venture. Further details are disclosed within note 4 'Impairment of Other Receivables' and note 7 'Finance Income'.

4. Profit on sale of trading property relates to Lillie Square sales and includes £0.4 million (2018: £0.2 million) of marketing and selling fees on a Group share basis. Marketing fees include costs for units that have not yet completed.

5. EPRA earnings and underlying earnings have been reported on a Group share basis.

6. Non-underlying administration expenses of £9.7 million (2018: £4.9 million) related to the costs incurred in respect of the potential demerger of the Group. These costs have been classified as non-underlying as they do not represent the recurring, underlying performance of the Group.

12 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

	2019			Re-presented ¹ 2018		
	(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	(253.6)	853.0	(29.7)	(56.9)	852.4	(6.7)
<i>Group adjustments:</i>						
Loss on revaluation and sale of investment and development property	194.9			146.1		
Deferred tax adjustments	0.3			0.9		
Non-controlling interest in respect of the Group adjustments	(54.2)			(67.3)		
Loss/(profit) on disposal and IFRS 5 impairment of discontinued operation	94.2			(29.5)		
Headline loss	(18.4)	853.0	(2.2)	(6.7)	852.4	(0.8)
Dilutive effect of contingently issuable share option awards ³	–	0.7		–	0.9	
Dilutive effect of contingently issuable deferred share awards ³	–	0.5		–	0.2	
Dilutive effect of contingently issuable matching nil cost options awards ³	–	–		–	0.1	
Dilutive effect of deferred bonus share option awards ³	–	–		–	0.6	
Diluted headline loss	(18.4)	854.2	(2.2)	(6.7)	854.2	(0.8)

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 1.6 million (2018: 3.3 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 32 'Share-Based Payments'.

(B) NET ASSETS PER SHARE

Group	2019			2018		
	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	2,477.5	854.3	290.0	2,736.2	850.8	321.6
Effect of dilution on exercise of contingently issuable share option awards ¹	–	0.7		–	0.8	
Effect of dilution on vesting of contingently issuable deferred share awards ¹	–	0.5		–	0.3	
Effect of dilution on exercise of contingently issuable matching nil cost option awards ¹	–	–		–	0.1	
Effect of dilution on exercise of deferred bonus share option awards ¹	–	–		–	0.6	
Diluted NAV	2,477.5	855.5	289.6	2,736.2	852.6	320.9
<i>Group adjustments:</i>						
Fair value of derivative financial instruments	3.6			(0.7)		
Unrecognised surplus on trading property – Joint venture	15.9			25.7		
Revaluation of other non-current assets ²	9.6			12.3		
Deferred tax adjustments	(0.8)			3.5		
EPRA NAV	2,505.8	855.5	292.9	2,777.0	852.6	325.7
Fair value of derivative financial instruments	(3.6)			0.7		
Excess fair value of debt over carrying value	(1.7)			14.0		
Deferred tax adjustments	0.8			(3.5)		
EPRA NNNNAV	2,501.3	855.5	292.4	2,788.2	852.6	327.0

1. Further information on these potential ordinary shares can be found in note 32 '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 4 'Impairment of Other Receivables'.

13 PROPERTY PORTFOLIO

(A) INVESTMENT AND DEVELOPMENT PROPERTY

Group	Property portfolio			Tenure	
	Covent Garden £m	Other ¹ £m	Total £m	Freehold £m	Leasehold £m
At 1 January 2018	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)	(1.6)	(18.9)	(18.1)	(0.8)
Sale of discontinued operation	–	(220.0)	(220.0)	(220.0)	–
Classified as held for sale ²	(8.4)	–	(8.4)	(8.4)	–
Gain/(loss) on revaluation ³	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
Additions from acquisitions	74.9	–	74.9	69.2	5.7
Additions from subsequent expenditure	19.4	9.8	29.2	15.6	13.6
Disposals	(74.8)	(2.9)	(77.7)	(15.6)	(62.1)
Sale of discontinued operation	–	(623.7)	(623.7)	(124.7)	(499.0)
Loss on revaluation ³	(41.1)	(151.6)	(192.7)	(24.9)	(167.8)
At 31 December 2019	2,544.0	1.5	2,545.5	1,441.7	1,103.8

1. Included in 'Other' is the Group's interest in Earls Court Properties and Empress State Building which were disposed of on 29 November 2019 and 26 March 2018 respectively. Details of the disposals is set out in note 10 'Discontinued Operation'.

2. This relates to apartments at the Floral Court Collection in Covent Garden which had exchanged before 31 December 2018 and completed in early 2019.

3. Loss on revaluation of £192.7 million (2018: £148.2 million) includes a loss on revaluation of £151.6 million (2018: £185.3 million) which relates to Earls Court Properties for the period prior to disposal which is included in the loss for discontinued operation in the consolidated income statement. The remainder of the loss, relating to continuing operations is recognised in the consolidated income statement within loss on revaluation and sale of investment and development property.

(B) MARKET VALUE RECONCILIATION OF TOTAL PROPERTY

Group	Covent Garden £m	Other £m	Total £m
Carrying value of investment and development property at 31 December 2019	2,544.0	1.5	2,545.5
Adjustment in respect of fixed head leases	(6.1)	–	(6.1)
Adjustment in respect of tenant lease incentives	57.7	–	57.7
Market value of investment and development property at 31 December 2019	2,595.6	1.5	2,597.1
Joint venture:			
Group share of carrying value of joint venture investment, development and trading property at 31 December 2019	–	161.2	161.2
Group share of unrecognised surplus on joint venture trading property ¹	–	15.9	15.9
Market value of investment, development and trading property on a Group share basis at 31 December 2019	2,595.6	178.6	2,774.2

1. 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.

13 PROPERTY PORTFOLIO CONTINUED**(B) MARKET VALUE RECONCILIATION OF TOTAL PROPERTY CONTINUED**

Group	Covent Garden £m	Other ¹ £m	Total £m
Carrying value of investment and development property ² at 31 December 2018	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 ventures:			
Group share of carrying value of joint venture investment, development and trading property at 31 December 2018	–	133.4	133.4
Group share of unrecognised surplus on joint venture trading property ³	–	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

1. 'Other' includes the Group's interest in Earls Court Properties which was disposed of on 29 November 2019.

2. Included within investment and development property is £3.7 million of interest capitalised during the year on property under development.

3. 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.

At 31 December 2019, the Group was contractually committed to £7.0 million (2018: £22.4 million) of future expenditure for the purchase, construction, development and enhancement of investment, development and trading property. Refer to note 28 'Capital Commitments' for further information on capital commitments.

The fair value of the Group's investment, development and trading property at 31 December 2019 was determined by independent, appropriately qualified external valuers, JLL for Lillie Square 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, 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 2019 all Covent Garden properties are valued under the income capitalisation technique.

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.

13 PROPERTY PORTFOLIO CONTINUED

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.

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 2019 £m	Market value 2018 £m	Valuation technique	Key unobservable inputs	Range (weighted average) 2019	Range (weighted average) 2018
Covent Garden	2,595.6	2,610.0	Income capitalisation	Estimated rental value per sq ft ¹ per annum ("p.a.")	£20–£342 (£93)	£20–£369 (£92)
				Equivalent yield	2.2%–6.0% (3.6%)	2.2%–6.0% (3.6%)
Other	1.5	26.9	Income capitalisation	Estimated rental value per sq ft ¹ p.a.	£31–£38 (£33)	£15–£52 (£34)
				Equivalent yield	3.3 %–3.7% (3.4%)	2.8%–5.8% (4.6%)
	–	4.0	Discounted cash flow approach	Pre-tax discount rate	–	14.0%
	–	739.0	Residual development method	Construction costs including site specific costs per sq ft ¹	–	£205–£603 (£586)
				Developer's profit	–	20.0%–24.0% (23.8%)
				Capital value per sq ft ¹	–	£215–£1,956 (£1,551)
				Finance rate	–	4.0%–5.5% (4.1%)
At 31 December	2,597.1	3,379.9				

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.

Covent Garden properties are valued under the income capitalisation method and if all other factors remained equal, an increase in estimated rental value of five per cent would result in an increased asset valuation of £114.7 million (2018: £118.3 million). A decrease in the estimated rental value of five per cent would result in a decreased asset value of £109.1 million (2018: £112.9 million). Conversely, an increased equivalent yield of 25 basis points would result in a decreased asset valuation of £168.8 million (2018: £172.2 million). A decreased equivalent yield of 25 basis points would result in an increased asset valuation of £192.8 million (2018: £197.0 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 Other properties valued under the income capitalisation method and if all other factors remained equal, an increase in estimated rental value of five per cent would result in an increased asset valuation of £0.1 million (2018: £1.2 million). A decrease in the estimated rental value of five per cent would result in a decreased asset value of £0.1 million (2018: £2.9 million). Conversely, an increased equivalent yield of 25 basis points would result in a decreased asset valuation of £0.1 million (2018: £2.1 million). A decreased equivalent yield of 25 basis points would result in an increased asset valuation of £0.1 million (2018: £2.4 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.

13 PROPERTY PORTFOLIO CONTINUED

Properties valued under the residual development method and discounted cash flow approach related to properties held in Earls Court Properties. These properties were disposed of during the year. Sensitivities on these properties for the prior year during which these were held is included below for completeness. For properties held under the residual development method, an increase in the estimated construction costs of 10 per cent would have resulted in a decrease in the asset valuation of £170.9 million and a decrease of 10 per cent would have resulted in an increase in the asset valuation of £170.6 million. An increase in the developer's profit of one percentage point would have resulted in a decrease in the asset valuation of £18.6 million and a decrease of one percentage point would have resulted in an increase in the asset valuation of £18.8 million. An increased finance rate of 25 basis points would have resulted in a decreased asset valuation of £18.1 million and a decrease of 25 basis points would result in an increased asset valuation of £17.3 million. Conversely, an increase in the capital value per square foot of five per cent would have resulted in an increase in the asset valuation of £107.8 million and a decrease of five per cent would result in a decrease in the asset valuation of £107.9 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 have resulted in a decrease in the asset valuation of £0.2 million. A decrease in the discount rate included in a discount cash flow valuation of 10 per cent would have resulted in an increase in the asset valuation of £0.3 million.

14 PROPERTY, PLANT AND EQUIPMENT

Group	Property £m	2019 Plant and equipment £m	Total	Property £m	2018 Plant and equipment £m	Total
Movement for the year						
Net carrying value at 1 January	–	3.1	3.1	–	4.6	4.6
Additions ¹	5.4	0.4	5.8	–	0.4	0.4
Disposals	–	(1.9)	(1.9)	–	–	–
Depreciation charge	(0.7)	(0.6)	(1.3)	–	(1.9)	(1.9)
Net carrying value at 31 December	4.7	1.0	5.7	–	3.1	3.1

1. From 1 January 2019, under IFRS 16 'Leases', the Group recognises a right-of-use asset and a lease liability, over its leased office building. The lease is measured at the present value of the lease payments, discounted at the weighted average borrowing rate of 1.5 per cent. Refer to note 23 'Finance lease obligations' for further information on the lease liability.

Property consists of finance leased office buildings. Property, plant and equipment of the Company comprises of a leased office building included in the above table as Property.

15 INVESTMENT IN GROUP COMPANIES

Company	2019 £m	2018 £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 £nil was recorded in the current year (2018: £0.9 million).

16 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 2019, 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	2019 £m	2018 £m
Summarised income statement		
Revenue	11.8	62.3
Net rental income	–	0.1
Proceeds from the sale of trading property	10.2	62.0
Cost of sale of trading property	(7.6)	(48.2)
Agent, selling and marketing fees	(0.8)	(0.4)
Write down of trading property	(0.7)	(1.0)
Administration expenses	(0.6)	(2.4)
Finance costs ¹	(13.4)	(21.2)
Loss for the year after taxation	(12.9)	(11.1)

1. Finance costs includes £13.2 million (2018: £20.9 million) which 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 £11.3 million (2018: £12.0 million) is recognised in the consolidated income statement within other finance income.

LSJV	2019 £m	2018 £m
Summarised balance sheet		
Investment and development property	3.7	3.7
Other non-current assets	4.6	4.6
Trading property	318.9	263.1
Cash and cash equivalents ¹	33.9	40.2
Other current assets	–	0.2
Borrowings	(110.9)	(59.5)
Other non-current liabilities ²	(252.9)	(239.7)
Amounts payable to joint venture partners ³	(74.8)	(73.7)
Other current liabilities ¹	(41.9)	(45.3)
Net liabilities	(119.4)	(106.4)

Capital commitments	13.3	64.8
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Carrying value of investment, development and trading property	322.6	266.8
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Unrecognised surplus on trading property⁴	31.7	51.4
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Market value of investment, development and trading property⁴	354.3	318.2
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1. Includes restricted cash and cash equivalents of £26.0 million (2018: £34.3 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 £26.0 million (2018: £34.3 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 £98.4 million (2018: £94.4 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.

16 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 balance sheet of Innova is presented below.

Innova	2019 £m	2018 £m
Summarised balance sheet		
Other receivables	–	5.4
Cash and cash equivalents	0.9	0.5
Other current liabilities	(0.5)	(0.4)
Net assets	0.4	5.5

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 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
Net assets/(liabilities) of joint ventures at 31 December 2019	0.1	(119.4)	0.4	(118.9)
Elimination of joint venture partners' interest	–	59.7	(0.2)	59.5
Cumulative losses restricted ¹	–	59.7	–	59.7
Carrying value at 31 December 2019	0.1	–	0.2	0.3

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 (2018: £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 2018	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
Loss for the year ¹	–	(6.4)	(2.5)	(8.9)
Loss restricted ¹	–	6.4	–	6.4
Impairment of goodwill	–	–	(14.5)	(14.5)
At 31 December 2019	0.1	–	0.2	0.3

1. Share of post-tax loss from joint ventures in the consolidated income statement of £2.5 million (2018: £nil) comprises loss for the year of £8.9 million (2018: £5.6 million) and loss restricted totalling £6.4 million (2018: £5.6 million).

17 NON-CONTROLLING INTEREST

On 29 November 2019, the Group completed the sale of its interests in Earls Court Properties, including ECPL, a company in which the Group held 63 per cent interest. TTL Earls Court Properties Limited, a subsidiary of TFL, held a 37 per cent non-controlling interest in ECPL. Further information on the sale of the Earls Court Properties business can be found in note 10 'Discontinued Operation'.

The accumulated non-controlling interest is presented below.

	2019 £m	2018 £m
Discontinued operation		
At 1 January	247.4	305.8
Loss and total comprehensive expense for the year attributable to non-controlling interest	(54.2)	(66.7)
Contribution from non-controlling interest	1.0	8.3
Derecognition of non-controlling interest at disposal	(194.2)	–
At 31 December	–	247.4

18 DERIVATIVE FINANCIAL INSTRUMENTS

Group	2019 £m	2018 £m
Derivative assets		
Non-current		
Interest rate collars	–	0.7
Derivative financial assets	–	0.7

Group		
Derivative liabilities		
Non-current		
Interest rate collars	(3.6)	–
Derivative financial liabilities	(3.6)	–

19 TRADE AND OTHER RECEIVABLES

	Group 2019 £m	Group 2018 £m	Company 2019 £m	Company 2018 £m
Non-current				
Other receivables ¹	99.1	83.5	–	–
Prepayments and accrued income ²	51.3	44.9	–	–
Amounts receivable from joint ventures ³	98.4	94.4	–	–
Trade and other receivables	248.8	222.8	–	–
Current				
Amounts owed by subsidiaries	–	–	1,544.5	1,537.4
Rent receivable	4.3	6.7	–	–
Other receivables ¹	118.6	16.6	0.9	0.4
Prepayments and accrued income ²	16.5	15.0	0.5	–
Trade and other receivables	139.4	38.3	1,545.9	1,537.8

1. Includes £200.8 million which represents the discounted balance of the deferred consideration in respect of the Earls Court Properties disposal, which is receivable in two equal instalments, 12 months and 24 months after completion. Included in prior year non-current receivables is £75.0 million payment to LBHF which formed part of the CLSA. The CLSA was included in the Earls Court Properties disposal.

2. Includes tenant lease incentives, comprising surrender premia paid and incentives offered to new tenants, of £57.7 million (2018: £50.5 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 £34.4 million (2018: £27.0 million). Current amounts of £41.1 million due from LSJV in relation to working capital funding advanced by the Group have been impaired in full.

20 CASH AND CASH EQUIVALENTS

	Group 2019 £m	Group 2018 £m	Company 2019 £m	Company 2018 £m
Cash at hand	1.1	4.6	–	–
Cash on short-term deposit	152.0	27.9	–	–
Cash and cash equivalents	153.1	32.5	–	–

21 TRADE AND OTHER PAYABLES

	Group 2019 £m	Group 2018 £m	Company 2019 £m	Company 2018 £m
Rent received in advance	15.9	16.7	–	–
Accruals and deferred income	23.6	22.9	5.9	1.0
Trade payables	–	0.1	–	–
Other payables	17.7	15.5	–	–
Other taxes and social security	2.1	3.7	–	–
Trade and other payables	59.3	58.9	5.9	1.0

22 BORROWINGS, INCLUDING FINANCE LEASES

Group	2019						
	Carrying value £m	Secured £m	Unsecured £m	Fixed rate £m	Floating rate £m	Fair value £m	Nominal value £m
Current							
Finance lease obligations	1.6	0.7	0.9	1.6	–	1.6	1.6
Borrowings, including finance leases	1.6	0.7	0.9	1.6	–	1.6	1.6
Non-current							
Loan notes	546.1	–	546.1	546.1	–	547.9	550.0
Borrowings	546.1	–	546.1	546.1	–	547.9	550.0
Finance lease obligations	9.2	5.4	3.8	9.2	–	9.2	9.2
Borrowings, including finance leases	555.3	5.4	549.9	555.3	–	557.1	559.2
Total borrowings, including finance leases	556.9						
Cash and cash equivalents	(153.1)						
Net debt	403.8						

Group	2018						
	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						

The market value of investment and development property secured as collateral against borrowings at 31 December 2019 was nil (2018: £731.3 million).

Undrawn facilities and cash attributable to the Group at 31 December 2019 were £868.1 million (2018: £834.0 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 13 'Property Portfolio'.

The finance lease obligations are in respect of leasehold interests in investment and development property and a finance lease over corporate premises. Details of these leases are set out in note 23 'Finance Lease Obligations'.

Borrowings, including finance leases of the Company relate to the finance lease over corporate premises. Details of this lease is set out in note 23 'Finance Lease Obligations'.

22 BORROWINGS, INCLUDING FINANCE LEASES CONTINUED

	2019			Net debt £m
	Current borrowings £m	Non-current borrowings £m	Cash and cash equivalents £m	
Analysis of movement in net debt				
Balance at 1 January	0.7	616.5	(32.5)	584.7
Borrowings drawn ¹	–	109.0	(109.0)	–
Borrowings repaid ¹	–	(172.5)	172.5	–
Other net cash movements	–	–	(184.1)	(184.1)
Other non-cash movements	0.9	2.3	–	3.2
Balance at 31 December	1.6	555.3	(153.1)	403.8

1. Included in the borrowings drawn and repaid above is £4.0 million drawn and £67.5 million repaid which relates to Earls Court Properties.

	2018			Net debt £m
	Current borrowings £m	Non-current borrowings £m	Cash and cash equivalents £m	
Analysis of movement in net debt				
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

The maturity profile of gross debt (excluding finance leases) is as follows:

	2019 £m	2018 £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	–	–
Wholly repayable in more than five years	550.0	616.4
	550.0	616.4

Certain borrowing agreements contain financial and other covenants that, if contravened, could alter the repayment profile. Details of financial covenants is included in Other Information section.

23 FINANCE LEASE OBLIGATIONS

FINANCE LEASES INCLUDED WITHIN INVESTMENT AND DEVELOPMENT PROPERTY

(A) MINIMUM LEASE PAYMENTS UNDER FINANCE LEASES OBLIGATIONS

Group	2019 £m	2018 £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

	2019 £m	2018 £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

23 FINANCE LEASE OBLIGATIONS CONTINUED

Finance lease liabilities included under investment and development property 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. £0.5 million contingent rent has been paid during the year (2018: £1.2 million).

These finance lease liabilities are effectively secured obligations, as the rights to the leased asset revert to the lessor in the event of default.

FINANCE LEASE INCLUDED WITHIN PROPERTY, PLANT AND EQUIPMENT

(A) MINIMUM LEASE PAYMENTS UNDER FINANCE LEASES OBLIGATIONS

Group and Company	2019 £m	2018 £m
Not later than one year	0.9	–
Later than one year and not later than five years	3.7	–
Later than five years	0.3	–
	4.9	–
Future finance charges on finance leases	(0.2)	–
Present value of finance lease obligations	4.7	–

(B) PRESENT VALUE OF MINIMUM FINANCE LEASE OBLIGATIONS

	2019 £m	2018 £m
Not later than one year	0.9	–
Later than one year and not later than five years	3.5	–
Later than five years	0.3	–
	4.7	–

Finance lease liabilities included under property, plant and equipment are in respect of a lease over office buildings occupied by the Group. The lease is unsecured, at a fixed rate, held at fair value and matures in 2025.

24 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	2019 £m	2018 £m
Not later than one year	65.4	62.1
Later than one year and not later than five years	194.3	188.2
Later than five years	309.8	259.3
	569.5	509.6

The consolidated income statement includes £0.9 million (2018: £0.6 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.

25 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 2019 and 31 December 2018.

CATEGORIES OF FINANCIAL INSTRUMENTS

Group	Notes	2019		2018	
		Carrying value £m	(Loss)/gain to income statement £m	Carrying value £m	(Loss)/gain to income statement £m
Derivative financial assets	18	–	–	0.7	(1.6)
Total held for trading assets		–	–	0.7	(1.6)
Cash and cash equivalents	20	153.1	–	32.5	–
Other financial assets ¹		320.1	–	117.8	–
Total cash and other financial assets		473.2	–	150.3	–
Derivative financial liabilities	18	(3.6)	(5.2)	–	3.8
Total held for trading liabilities		(3.6)	(5.2)	–	3.8
Borrowings, including finance leases	22	(556.9)	–	(617.2)	–
Other financial liabilities ²		(45.5)	–	(44.6)	–
Total borrowings and other financial liabilities		(602.4)	–	(661.8)	–

1. Includes rent receivable, amounts due from joint ventures, deferred consideration on the sale of Earls Court Properties and other receivables.

2. 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 its 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 2019 £m	Floating 2019 £m	Fixed/Capped 2018 £m	Floating 2018 £m
Nominal value of Group borrowings excluding finance leases	550.0	–	550.0	66.4
Nominal value of joint venture borrowings excluding finance leases	–	55.5	–	30.0
Nominal value of non-controlling interest borrowings excluding finance leases	–	–	–	(24.6)
	550.0	55.5	550.0	71.8
Derivative impact (nominal value of derivative contracts)	–	–	–	–
Borrowings profile net of derivative impact	550.0	55.5	550.0	71.8
Interest rate protection		91%		88%

Group policy is to ensure that interest rate protection on Group external debt is greater than 25 per cent.

25 FINANCIAL RISK MANAGEMENT CONTINUED

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 (2018: £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 2019 is £nil (2018: £nil). The hedge was 100 per cent effective; therefore no charge for an ineffective portion has been taken to the consolidated income statement.

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 2019 £m	Decrease in interest rates by 50 bps 2019 £m	Increase in interest rates by 50 bps 2018 £m	Decrease in interest rates by 50 bps 2018 £m
Effect on profit before tax (change in fair value of derivative financial instruments):				
Increase/(decrease)	5.7	(5.7)	5.3	(5.3)

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.

2019											
Group	Carrying Value	1 yr		Between 1-2 yrs		Between 2-5 yrs		Over 5 yrs		Total	
	£m	Interest £m	Principal £m	Interest £m	Principal £m	Interest £m	Principal £m	Interest £m	Principal £m	Interest £m	Principal £m
Unsecured borrowings	546.1	18.6	–	18.6	–	49.9	–	47.4	550.0	134.5	550.0
Finance lease obligations	10.8	–	1.6	–	2.4	–	3.4	–	3.4	–	10.8
Other payables	17.7	–	17.7	–	–	–	–	–	–	–	17.7
Interest rate derivatives payable	3.6	0.6	–	0.6	–	0.7	–	–	–	1.9	–
	578.2	19.2	19.3	19.2	2.4	50.6	3.4	47.4	553.4	136.4	578.5

2018											
Group	Carrying Value	1 yr		Between 1-2 yrs		Between 2-5 yrs		Over 5 yrs		Total	
	£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

Contractual maturities reflect the expected maturities of financial instruments.

25 FINANCIAL RISK MANAGEMENT CONTINUED

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 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.

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 2019 (2018: 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 2019 was £14.6 million (2018: £14.0 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	2019 £m	2018 £m
Up to 90 days	3.8	5.0
Over 90 days	0.5	1.7
Trade receivables	4.3	6.7

In 2019 there was an impairment write down on trade receivables of £1.4 million (2018: write down of £nil).

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.

Other receivables includes £200.8 million of deferred consideration in respect of the Earls Court Properties disposal. This is held at the net present value of future cash flows after deduction of the lifetime expected loss allowance. A total of £210.4 million is receivable in two equal instalments, 12 months and 24 months after completion. The deferred payments receivable by the Group would be accelerated in part to the extent that payments made by Capco to the London Borough of Hammersmith and Fulham pursuant to the CLSA are refunded to the Purchaser after completion. Further consideration may be payable to Capco in limited circumstances. The credit risk of the counterparties, APG and Delancey (on behalf of its client fund), has been assessed by the Group in conjunction with its financial advisors.

Amounts receivable from joint ventures:

Included within receivables is £nil (2018: £nil) of amounts advanced to LSJV. The carrying value of the investment in LSJV is £nil (2018: £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 £167.5 million (2018: £161.4 million) has been impaired by £75.5 million (2018: £67.0 million).

LSJV is in a net liability position due to carrying trading property at the lower of cost and net realisable value and the amortisation of the deep discount bonds. However, based on a market valuation undertaken by the Group's valuers JLL, there is an unrecognised surplus of £15.9 million (Group share) as at 31 December 2019. 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 and deposits as at 31 December 2019 amounted to £153.1 million (2018: £32.5 million). The maximum fair value exposure to derivative financial instruments is £3.6 million (2018: £0.7 million).

25 FINANCIAL RISK MANAGEMENT CONTINUED**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 37.

Group	2019	2018
Loan to value	£m	£m
Investment and development property	2,547.3	3,066.7
Trading property	159.4	131.5
	2,706.7	3,198.2
Net external debt	(441.8)	(572.2)
	16.3%	17.9%

The maximum loan to value ratio for the year was 18.8 per cent and occurred in June 2019.

Group	2019	2018
Interest cover	£m	£m
Finance costs	(21.3)	(19.5)
Finance income	0.4	0.3
	(20.9)	(19.2)
Underlying operating profit	27.3	28.6
	130.8%	149.0%

The minimum interest coverage ratio for the year was 130.8 per cent and occurred on 31 December 2019.

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 13 ‘Property Portfolio’.

The tables below present the Group’s financial assets and liabilities recognised at fair value at 31 December 2019 and 31 December 2018. There were no transfers between levels during the year.

Group	2019				2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Derivative financial assets								
Total assets	–	–	–	–	–	0.7	–	0.7
Derivative financial liabilities								
Total liabilities	–	(3.6)	–	(3.6)	–	–	–	–

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.

26 DEFERRED TAX

The decrease in corporation tax rate referred to in note 9 ‘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. Properties that fall within the Group’s qualifying REIT activities will be outside the charge to UK corporation tax subject to certain conditions being met. The Group’s recognised deferred tax position on investment and development property as calculated under IAS 12 is £nil at 31 December 2019 (2018: £nil). The Group’s contingent tax liability on investment properties, calculated on the same basis but based on a deemed market value disposal at year end, is £nil (2018: £nil).

A disposal of the Group’s trading properties at their market value as per note 13 ‘Property Portfolio’, before utilisation of carried forward losses, would result in a corporation tax charge to the Group of £3.0 million (19 per cent of £15.9 million).

Group	Accelerated capital allowances £m	Fair value of investment and development property £m	Fair value of derivative financial instruments £m	Other temporary differences £m	Group losses £m	Total £m
Provided deferred tax provision:						
At 1 January 2018	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)
Adjustment to opening balance	–	–	–	–	(0.3)	(0.3)
Recognised in income	–	–	(0.8)	–	(0.1)	(0.9)
Released on conversion to UK REIT	(3.4)	–	–	–	3.3	(0.1)
Adjustment in respect of rate change	–	–	–	0.2	–	0.2
At 31 December 2019	0.1	–	(0.8)	(1.9)	(4.0)	(6.6)
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)	
Income statement items	–	–	–	–	(8.3)	
Released on discontinued operation	–	95.7	–	–	7.3	
At 31 December 2019	–	–	–	–	(10.3)	

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.

27 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 2018			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 ¹			56,165	0.1	–
At 31 December 2018			850,806,256	212.7	225.6
Scrip dividend – 2018 final	May	245	409,364	0.1	1.0
Scrip dividend – 2019 interim	September	187	1,197,901	0.3	2.2
Share-based payment ²			1,885,642	0.5	0.1
At 31 December 2019			854,299,163	213.6	228.9

1. In 2018 a total of 56,165 new shares were issued to satisfy employee share scheme awards.

2. In 2019 a total of 1,885,642 new shares were issued to satisfy employee share scheme awards.

At 25 February 2020, the Company had an unexpired authority to repurchase shares up to a maximum of 85,082,015 shares with a nominal value of £21.3 million, and the Directors had an unexpired authority to allot up to a maximum of 565,038,955 shares with a nominal value of £141.3 million of which 283,323,110 with a nominal value of £70.8 million can only be allotted pursuant to a fully pre-emptive rights issue.

28 CAPITAL COMMITMENTS

At 31 December 2019, the Group was contractually committed to £7.0 million (2018: £22.4 million) of future expenditure for the purchase, construction, development and enhancement of investment, development and trading property. All of the £7.0 million committed is committed 2020 expenditure. The prior year capital commitments included commitments of £18.6 million relating to Earls Court Properties which was disposed of during the year.

The Group's share of joint venture capital commitments arising on LSJV amounts to £6.6 million (2018: £32.4 million).

29 CONTINGENT LIABILITIES

The Group has contingent liabilities in respect of legal claims, guarantees and warranties arising from the ordinary course of business. There are no contingent liabilities that require disclosure or recognition in the financial statements.

30 CASH FLOW INFORMATION**(A) CASH GENERATED FROM CONTINUING OPERATIONS**

Continuing operations	Note	Group 2019 £m	Re-presented Group 2018 £m	Company 2019 £m	Company 2018 £m
(Loss)/profit before tax		(61.3)	41.6	8.5	13.3
Adjustments:					
Loss/(gain) on revaluation and sale of investment and development property	3	43.3	(39.2)	–	–
Impairment of other receivables	4	21.0	19.4	–	–
Loss from joint ventures	16	2.5	–	–	–
Impairment of investment in subsidiaries		–	–	–	0.9
Depreciation		1.3	0.6	0.9	–
Amortisation of tenant lease incentives and other direct costs		3.9	(1.0)	–	–
Share-based payment ¹	32	4.1	2.4	–	–
Finance income	7	(0.5)	(0.3)	0.1	–
Finance costs	8	21.2	19.3	–	–
Other finance income	7	(11.9)	(12.0)	(19.1)	(19.0)
Change in fair value of derivative financial instruments		5.2	(2.2)	–	–
Change in working capital:					
Change in trade and other receivables		(8.0)	(3.3)	11.5	14.5
Change in trade and other payables		(19.1)	2.6	8.0	(0.7)
Cash generated from continuing operations		1.7	27.9	9.9	9.0

1. This relates to the IFRS 2 'Share-based payment' charge. Refer to note 32 'Share-Based Payments' for further details.

30 CASH FLOW INFORMATION CONTINUED

(B) CASH USED IN DISCONTINUED OPERATION

Discontinued operation	Note	Group 2019 £m	Re-presented Group 2018 £m
Loss before tax		(152.5)	(190.4)
Adjustments:			
Loss on revaluation and sale of investment and development property	10	151.6	185.3
Impairment of other receivables		–	3.8
Depreciation	10	0.8	1.3
Change in working capital:			
Change in trade and other receivables		0.3	(18.3)
Change in trade and other payables		(2.4)	(3.2)
Cash used in discontinued operation		(2.2)	(21.5)

(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		616.5	0.7	(0.7)	616.5
Cash flows from financing activities					
Proceeds from loans and borrowings	22	105.0	–	–	105.0
Repayment of borrowings	22	(105.0)	–	–	(105.0)
Sale of discontinued operation		(63.5)	–	–	(63.5)
Principal element of lease payment		–	(0.9)	–	(0.9)
Purchase and repayment of derivative financial instruments		–	–	(0.9)	(0.9)
Total cash flows used in financing activities		(63.5)	(0.9)	(0.9)	(65.3)
Non-cash movements from financing activities					
Facility fee amortised		1.4	–	–	1.4
Finance lease addition		3.8	1.8	–	5.6
Changes in fair value		–	–	5.2	5.2
Borrowing costs capitalised		(2.9)	–	–	(2.9)
Total non-cash flows from financing activities		2.3	1.8	5.2	9.3
Balance at 31 December		555.3	1.6	3.6	560.5

31 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	2019 £m	2018 £m
Funding activities			
Capco Group Treasury Limited	Interest on intercompany loan	19.1	19.0
Capital & Counties Asset Management Limited	Intercompany dividend receivable	–	0.9

31 RELATED PARTY TRANSACTIONS CONTINUED**(A) TRANSACTIONS BETWEEN THE PARENT COMPANY AND ITS SUBSIDIARIES CONTINUED**

Significant balances outstanding at 31 December between the Parent Company and its subsidiaries are shown below:

Subsidiary	Amounts owed by subsidiaries	
	2019 £m	2018 £m
Capco Group Treasury Limited	1,544.5	1,537.4

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	2019 £m	2018 £m
Salaries and short-term employee benefits	3.7	3.0
Share-based payment	2.9	1.5
Termination benefits	0.7	–
	7.3	4.5

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 2019 and 26 February 2020, 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 2019.

(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 16 'Investment in Joint Ventures', 19 'Trade and other receivables' and 28 'Capital commitments'. During the year the Group recognised management fee income of £1.8 million (2018: £3.4 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':

- Henry Staunton, Chairman of Capital & Counties Properties PLC, Andrew Strang, a Non-executive Director of Capital & Counties Properties PLC, Situl Jobanputra, Chief Financial Officer of Capital & Counties Properties PLC, and Graeme Gordon, a Non-executive Director of Capital & Counties Properties PLC until 3 May 2019, either solely or together with family members, own apartments in the Lillie Square development. The disclosures in respect of these purchases were included in previous financial statements.
- In addition, in September 2019, Henry Staunton, Chairman of Capital & Counties Properties PLC, together with a family member completed the acquisition of a car parking space in the Lillie Square development, for a purchase price of £75,000. £33,900 reflecting VAT and legal fees was received on completion and the balance was settled from a refund for apartment enhancements that were previously paid for but not implemented.
- As owners of apartments in the Lillie Square development, the Directors are required to pay annual ground rent and insurance premium fees and biannual service charge fees. During 2019, £41,686 had been received in relation to these charges. Certain payments in relation to these charges were made in advance and £1,328 had been received for 2020 as at 31 December 2019.

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.

32 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 2019 was £4.1 million (2018: £2.4 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 are set out within the Directors' Remuneration Report on pages 68 to 87.

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 2019 were exercisable between nil pence and 312 pence and have a weighted average remaining contractual life of eight years and are exercisable between 2020 and 2029.

(A) MARKET VALUE OPTION AWARDS

	2019		2018	
	Number of market value options	Weighted average exercise price (pence)	Number of market value options	Weighted average exercise price (pence)
Outstanding at 1 January	459,981	231.0	1,041,325	300.0
Awarded during the year	758,349	241.8	60,752	269.0
Forfeited during the year	(261,573)	283.9	(537,573)	380.5
Exercised during the year ¹	(49,737)	157.7	(104,523)	175.0
Outstanding at 31 December	907,020	228.8	459,981	231.0
Exercisable at 31 December	151,721		201,458	

1. The weighted average share price at the date of exercise was 234.5 pence (2018: 267.6 pence).

(B) NIL COST OPTION AWARDS

	Number of nil cost options	
	2019	2018
Outstanding at 1 January	4,618,751	2,779,013
Awarded during the year	2,386,703	2,233,602
Forfeited during the year	(2,097,118)	(393,864)
Exercised during the year	(867,449)	–
Outstanding at 31 December	4,040,887	4,618,751
Exercisable at 31 December	–	177,575

(C) DEFERRED SHARE AWARDS

	Number of deferred share awards	
	2019	2018
Outstanding at 1 January	3,725,657	3,013,802
Awarded during the year	1,375,312	1,685,093
Forfeited during the year	(1,577,005)	(970,353)
Exercised during the year	(80,659)	(2,885)
Outstanding at 31 December	3,443,305	3,725,657

32 SHARE-BASED PAYMENTS CONTINUED**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 2018 or 2019, and no further awards will be made.

(A) DEFERRED SHARE AWARDS – NIL COST OPTIONS

	Number of nil cost options	
	2019	2018
Outstanding at 1 January	593,379	593,379
Exercised during the year	(593,379)	–
Outstanding at 31 December	–	593,379
Exercisable at 31 December	–	102,998

(B) DEFERRED SHARE AWARDS AND CO-INVESTMENT – MATCHED NIL COST OPTIONS

	Number of matched nil cost options	
	2019	2018
Outstanding at 1 January	891,004	1,219,628
Forfeited during the year	(740,503)	(328,624)
Exercised during the year	(150,501)	–
Outstanding at 31 December	–	891,004
Exercisable at 31 December	–	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	2019	2018	2017	2016
Closing share price at grant date	241p	270p	317p	283–332p
Exercise price	0–241p	0–270p	0–317p	0–315p
Expected option life	3–6.5 years	3–6.5 years	3–6.5 years	3–6.5 years
Risk-free rate	0.6–0.8%	0.9–1.3%	0.2–0.6%	0.3–1.2%
Expected volatility	23.7–24.6%	24.3–30.0%	24.3–30.5%	21.5–28.9%
Expected dividend yield	0.6%	0.6%	0.5%	0.5%
Average share price	238p	274p	288p	323p
Value per option	26–87p	33–115p	38–135p	30–96p

Expected dividend yield is based on public pronouncements about future dividend levels; all other measures are based on historical data.

33 RELATED UNDERTAKINGS

The Company’s subsidiaries and other related undertakings at 31 December 2019 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.

33 RELATED UNDERTAKINGS CONTINUED

Registered address: 15 Grosvenor Street, London, W1K 4QZ

Related undertakings

20 The Piazza Limited	Covent Garden (43 Management) Limited
20 The Piazza Management Limited	Covent Garden (49 Wellington Street) Limited
22 Southampton Street Limited	Covent Garden Group Holdings Limited
22 Southampton Street Management Limited	Covent Garden Management Services Limited ²
34 Henrietta Street Limited	Capco CG Wellington (JAH) Limited ¹
34 Henrietta Street Management Company Limited	Capco CG Wellington (JAR) Limited ¹
Bronze Limited ¹	Capco CG Wellington (O) Limited ¹
C&C Management Services Limited ²	EC&O Limited ¹
C&C Properties UK Limited ²	Floral Court Collection Management Limited
Capco CG 2012 Limited	Floral Court Limited
Capco CG 2012 Nominee Limited	Innova Investment Partnership GP Limited (50%) ⁵
Capco CGP 2012 LP	Innova Investment Limited Partnership (50%) ⁵
Capco Covent Garden Limited ²	Innova Investment Group Holdings GP Limited
Capco Covent Garden Residential Limited	Innova Investment Group Holdings LP
Capco Group Treasury Limited ²	Innova Investment Group Holdings Nominee Limited
Capco London Limited	Innova Investment Management Limited
Capital & Counties Asset Management Limited ^{2,3}	Lillie Square Clubhouse Limited (50%) ⁵
Capital & Counties CG Limited	Lillie Square Developments Limited (50%) ⁵
Capital & Counties CGP	Lillie Square GP Limited (50%) ⁵
Capital & Counties CG Nominee Limited	Lillie Square Holdings Limited
Capital & Counties Limited ^{2,4}	Lillie Square LP (50%) ⁵
CG Investments 2016 GP Limited	Lillie Square Management Limited (50%) ⁵
CG Investments 2016 LP	Lillie Square Nominee Limited (50%) ⁵
CG Investments 2016 Nominee Limited	Newincco 1390 Limited ¹
CG Treasury Limited ²	St James Capital Seagrave Road Limited ³

1. Dissolved on 6 February 2020.
2. Direct undertakings of the Parent.
3. In liquidation.
4. Non-voting deferred shares.
5. Equity accounted joint ventures.

Registered address: 27 Esplanade, St Helier, Jersey, JE1 1SG

Related undertakings

Capital & Counties CG (No. 1) Limited	CG Investments 2016 (No. 2) Limited
Capital & Counties CG (No. 2) Limited	CG Investments 2016 Group Limited
Capvestco 2 Limited ¹	Covent Garden Limited
Capvestco 3 Limited ¹	Covent Garden LP Limited
Capvestco 3 Holdings Limited	Innova Investment Group Holdings LP Limited
Capvestco Earls Court Limited	Innova Investment Holdings Limited
Capvestco Limited ¹	Lillie Square LP Limited
CG Investments 2016 (No. 1) 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.

ANALYSIS OF PROPERTY PORTFOLIO

1. PROPERTY DATA AS AT 31 DECEMBER 2019

	Market value £m	Ownership
Covent Garden	2,595.6	100%
Lillie Square	177.1	50%
Other	1.5	100%
Group share of total property	2,774.2	
Investment and development property	2,598.9	
Trading property	175.3	

2. ANALYSIS OF CAPITAL RETURN FOR THE YEAR

	Market value 31 December 2019 £m	Market value 31 December 2018 £m	Revaluation loss ¹ 31 December 2019 £m	Decrease
Like-for-like capital				
Covent Garden	2,525.8	2,538.5	(36.0)	(1.4)%
Other ²	178.6	159.6	(10.3)	(5.4)%
Total like-for-like capital	2,704.4	2,698.1	(46.3)	(1.7)%
Investment and development property	2,529.1	2,541.8	(36.0)	(1.4)%
Trading property ³	175.3	156.3	(10.3)	(5.5)%
Non like-for-like capital				
Acquisitions	69.8	–	(5.1)	
Disposals	–	570.2	–	
Group share of total property	2,774.2	3,268.3	(51.4)	(1.8)%
Investment and development property	2,598.9	3,111.1	(41.1)	(1.6)%
Trading property ³	175.3	157.2	(10.3)	(5.5)%
All property				
Covent Garden	2,595.6	2,610.0	(41.1)	(1.6)%
Other ²	178.6	658.3	(10.3)	(5.4)%
Group share of total property	2,774.2	3,268.3	(51.4)	(1.8)%

1. Revaluation loss includes amortisation of lease incentives and fixed head leases.

2. Relates to the Group's interest in Lillie Square and Earls Court Properties. Earls Court Properties was disposed of 29 November 2019.

3. 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

	2019 £m	2018 £m	Increase
Like-for-like net rental income from continuing operations			
Covent Garden	55.6	54.7	1.8%
Other	(0.2)	–	
Total like-for-like net rental income	55.4	54.7	1.7%
Like-for-like investment and development property	55.4	54.7	1.7%
Non like-for-like net rental income			
Acquisitions	0.3	–	
Developments	5.4	2.5	
Disposals	–	0.1	
Prior year acquisitions (like-for-like capital)	0.1	0.2	
Total net rental income	61.2	57.5	6.8%
Investment and development property	61.3	57.6	6.8%
Trading property	(0.1)	(0.1)	
All property			
Covent Garden	61.5	57.5	7.0%
Other	(0.3)	–	
Group share of total net rental income	61.2	57.5	6.8%

4. ANALYSIS OF COVENT GARDEN BY USE

31 December 2019

	Initial yield (EPRA)	Nominal equivalent yield	Passing rent £m	Occupancy rate	Weighted average unexpired lease years	Market value £m	ERV £m	Net area million Sq. ft.
Retail						1,386.8	55.5	0.4
F&B						568.5	24.0	0.2
Office						360.2	19.7	0.3
Residential						198.4	5.7	0.2
Leisure						80.4	3.4	0.1
Other						1.3	0.1	–
Total	2.50%	3.65%	66.4	96.8%	8.6	2,595.6	108.4	1.2

CONSOLIDATED UNDERLYING PROFIT STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

Group share	2019 £m	2018 £m
Continuing operations		
Net rental income	61.2	57.5
Other income	0.9	1.8
Administration expenses	(32.9)	(28.8)
Operating profit	29.2	30.5
Finance costs	(21.4)	(19.5)
Finance income	0.5	0.3
Net finance costs	(20.9)	(19.2)
Profit before tax	8.3	11.3
Taxation	1.2	(1.5)
Underlying earnings from continuing operations	9.5	9.8
Underlying earnings from discontinued operation	(0.5)	(1.8)
Underlying earnings	9.0	8.0
Underlying earnings per share (pence):		
From continuing operations	1.1	1.1
From discontinued operation	(0.1)	(0.2)
Underlying earnings per share (pence)	1.0	0.9
Weighted average number of shares	853.0m	852.4m

FINANCIAL COVENANTS FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL COVENANTS ON NON-RECOURSE DEBT

Group share	Maturity	31 December 2019		
		Loan(s) outstanding at 31 December 2019 ¹ £m	LTV covenant	Interest cover covenant
Covent Garden ²	2022–2037	550.0	60%	120%
Lillie Square	2021	55.5	75%	n/a
Total		605.5		

1. The loan values are the nominal values at 31 December 2019 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.

ALTERNATIVE PERFORMANCE MEASURES FOR THE YEAR ENDED 31 DECEMBER 2019

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 12
EPRA NAV and NAV per share	Net assets attributable to shareholders	
Underlying earnings and earnings per share	Basic earnings per share	Note 13
Market value of property portfolio	Investment, development and trading properties	
Loan to value	N/A	Note 25
Interest cover	N/A	
Gross debt with interest rate protection	N/A	Financial Review, page 37
Weighted average cost of debt	N/A	

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	2019	2018
Alternative to Income Statement				
EPRA earnings	Recurring earnings from core operational activity	119	(£6.7)m	£4.3m
EPRA earnings per share	EPRA earnings per weighted number of ordinary shares	119	(0.8)p	0.5p
Underlying earnings	Profit for the year excluding unrealised and one-off items	119	£9.0m	£8.0m
Underlying earnings per share	Underlying earnings per weighted number of ordinary shares	119	1.0p	0.9p
Alternative to Balance Sheet				
Market value of property portfolio	Market value of investment, development and trading properties	121	£2,774.2m	£3,268.3m
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	120	£2,505.8m	£2,777.0m
EPRA NAV per share	EPRA NAV per the diluted number of ordinary shares	120	292.9p	325.7p
EPRA triple net assets	EPRA NAV amended to include the fair value of financial instruments and debt	120	£2,501.3m	£2,788.2m
EPRA triple net assets per share	Diluted triple net assets per the diluted number of ordinary shares	120	292.4p	327.0p

ALTERNATIVE PERFORMANCE MEASURES FOR THE YEAR ENDED 31 DECEMBER 2019

SELECTED PERFORMANCE MEASURES CONTINUED

APM	Definition of measure	Page	2019	2018
Other				
Cash and undrawn committed facilities (Group share)	Cash and cash equivalents plus undrawn committed facilities shown on a Group share basis	37	£895.2m	£854.4m
Cash and undrawn committed facilities (IFRS)	Cash and cash equivalents plus undrawn committed facilities shown on an IFRS basis	37	£868.1m	£834.0m
EPRA net initial yield	Annualised rental income less non-recoverable costs as a percentage of market value plus assumed purchaser's costs	N/A	2.5%	2.4%
EPRA topped-up initial yield	Net initial yield adjusted for the expiration of rentfree periods	N/A	2.9%	2.7%
EPRA vacancy	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	40	3.2%	2.7%
Occupancy	ERV of occupied space as a percentage of ERV of combined portfolio	N/A	96.8%	97.3%
Loan to value	Net debt divided by the carrying value of the property portfolio	134	16.3%	17.9%
Interest cover	Underlying operating profit divided by net underlying finance costs	134	130.8%	149.0%
Gross debt with interest rate protection	Proportion of the gross debt with interest rate protection	131	91%	88%
Weighted average cost of debt	Cost of debt weighted by the drawn balance of external borrowings	113	3.0%	2.9%

EPRA PERFORMANCE MEASURES

EPRA NET ASSET VALUE METRICS

In October 2019 EPRA released updated Best Practice Recommendations which will become effective for accounting periods commencing 1 January 2020. As required, the Group has continued to present the EPRA NAV and EPRA NNNNAV within Note 12 'Earnings per share and Net Assets per share'. In addition to this, the new metrics are set out below for illustrative purposes:

Group	2019		
	EPRA NRV ¹	EPRA NTA ²	EPRA NDV ³
IFRS Equity attributable to shareholders	2,477.5	2,477.5	2,477.5
Diluted NAV	2,477.5	2,477.5	2,477.5
<i>Group adjustments:</i>			
Revaluation of other non-current assets ⁴	9.6	9.6	9.6
Unrecognised surplus on trading property – Joint venture	15.9	15.9	15.9
Diluted NAV at Fair Value	2,503.0	2,503.0	2,503.0
Fair value of derivative financial instruments	3.6	3.6	–
Real Estate Transfer Tax ⁵	171.6	–	–
Excess fair value of debt over carrying value	–	–	(1.7)
Deferred tax adjustments	(0.8)	(0.8)	–
NAV	2,677.4	2,505.8	2,501.3
Diluted number of shares	855.5	855.5	855.5
NAV per share (pence)	312.9	292.9	292.4

1. NRV is defined by EPRA as net reinstatement value.

2. For the Group, the EPRA NTA (net tangible assets) results in the same NAV and NAV per share as the current EPRA NAV measure.

3. For the Group, the EPRA NDV (net disposal value) results in the same NAV and NAV per share as the current EPRA NNNNAV measure.

4. 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 4 'Impairment of Other Receivables'.

5. Real Estate Transfer Tax represents purchasers' costs.

HISTORICAL RECORD

CONTINUING AND DISCONTINUED OPERATIONS

	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Consolidated income statement					
Net rental income	63.3	63.5	73.4	81.5	74.9
Profit on sale of trading property	0.9	6.7	14.5	4.4	2.0
Other income	1.0	1.8	2.3	2.7	2.6
(Loss)/gain on revaluation and sale of investment and development property	(139.8)	(78.8)	(28.0)	(124.8)	421.8
(Loss)/profit on disposal and IFRS 5 impairment of discontinued operation	(94.2)	29.5	–	–	–
Non-recurring (costs)/income	(15.4)	(4.3)	1.5	(5.0)	(0.2)
Administration expenses	(46.6)	(41.6)	(41.4)	(50.5)	(52.5)
Operating (loss)/profit	(230.8)	(23.2)	22.3	(91.7)	448.6
Net finance costs	(25.5)	(17.1)	(16.0)	(37.8)	(20.6)
(Loss)/profit before tax	(256.3)	(40.3)	6.3	(129.5)	428.0
Taxation	0.1	(4.3)	(6.7)	10.9	3.1
(Loss)/profit for the year	(256.2)	(44.6)	(0.4)	(118.6)	431.1
Consolidated balance sheet					
Investment and development property	2,547.3	3,066.7	3,318.1	3,443.0	3,385.2
Other non-current assets	165.1	157.2	155.1	120.0	96.0
Cash and cash equivalents	170.6	49.9	52.3	64.8	91.0
Other current assets	302.3	181.8	158.7	231.1	173.7
Total assets	3,185.3	3,455.6	3,684.2	3,858.9	3,745.9
Non-current borrowings, including finance leases	(610.8)	(621.9)	(785.3)	(881.1)	(651.4)
Other non-current liabilities	(3.6)	–	(5.8)	(17.5)	(16.8)
Current borrowings, including finance leases	(1.6)	(0.7)	(0.7)	(31.1)	(18.5)
Other current liabilities	(82.2)	(84.5)	(92.6)	(124.2)	(125.2)
Total liabilities	(698.2)	(707.1)	(884.4)	(1,053.9)	(811.9)
Net assets	2,487.1	2,748.5	2,799.8	2,805.0	2,934.0
Prepared on a Group share basis.					
Per share information	Pence	Pence	Pence	Pence	Pence
Basic (loss)/earnings per share	(29.7)	(6.7)	(0.1)	(14.0)	51.3
Underlying earnings per share	1.0	0.9	1.3	1.4	0.9
Basic net assets per share	290.0	321.6	329.7	331.5	348.5
EPRA NAV	292.9	325.7	333.8	339.6	360.9
Dividend per share	1.5	1.5	1.5	1.5	1.5

CHAIRMAN

Henry Staunton

EXECUTIVE DIRECTORS

Ian Hawksworth, Chief Executive
 Situl Jobanputra, Chief Financial Officer
 Michelle McGrath, Executive Director
 (with effect from 26 February 2020)

NON-EXECUTIVE DIRECTORS

Charlotte Boyle
 Jonathan Lane OBE
 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

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 GBooB62G9D36) of 1.0 pence payable on 14 May 2020.

DATES

The following are the salient dates for payment of the proposed final dividend:

Sterling/Rand exchange rate struck	2 April 2020
Sterling/Rand exchange rate and dividend amount in Rand announced	3 April 2020
Ordinary shares listed ex-dividend on the Johannesburg Stock Exchange	15 April 2020
Ordinary shares listed ex-dividend on the London Stock Exchange	16 April 2020
Record date for final dividend in UK and South Africa	17 April 2020
Election date for scrip dividend alternative (SA) by noon	24 April 2020
Election date for scrip dividend alternative (UK) by 5.30pm	24 April 2020
Dividend payment date for shareholders	14 May 2020

South African shareholders should note that, in accordance with the requirements of Strate, the last day to trade cum-dividend will be 14 April 2020 and that no dematerialisation of shares will be possible from 15 April 2020 to 17 April 2020 inclusive. No transfers between the UK and South Africa registers may take place from 3 April 2020 to 17 April 2020 inclusive.

Subject to SARB approval, the Board intends to offer an optional scrip dividend alternative in respect of the 2019 final dividend.

No element of the 2019 final dividend will be treated as a Property Income Distribution ("PID") for tax purposes. The Board intends that the interim dividend for 2020 will include an element which will be treated as a PID, for tax purposes, in respect of the qualifying rental profits arising in 2019.

The above dates are proposed and subject to change.

Important information for South African shareholders:

The final dividend declared by the Company is a foreign payment and the funds are sourced from the UK.

The final cash dividend declared by the Company will constitute a dividend for Dividends Tax purposes, declared in respect of a share listed on the exchange operated by the JSE. 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 should not comprise of a "foreign dividend" nor a "foreign return of capital" and will be treated as having been acquired for nil consideration.

Any residual cash payments to account for fractional share payments will be subject to Dividends Tax, which will be withheld from the residual payment to South African shareholders 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 Scrip Dividend Scheme Booklet) are in place by the requisite date.

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”.

CASH AND UNDRAWN FACILITIES

Cash and cash equivalents plus undrawn committed facilities.

CLSA

Conditional Land Sale Agreement, an agreement with the London Borough of Hammersmith and Fulham relating to its land in the Earls Court and West Kensington Opportunity Area. The CLSA was disposed of as part of the Earls Court Properties disposal on 29 November 2019.

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 (up until disposal on 29 November 2019), 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 (a number of which were disposed on 29 November 2019).

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 held 63 per cent controlling interest (up to disposal on 29 November 2019) 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 DISPOSAL VALUE (NDV)

The net assets as at the end of the year including the excess of the fair value of trading property over its cost, revaluation of other non-current investments and the fair value of fixed interest rate debt over their carrying value.

EPRA NET DISPOSAL VALUE PER SHARE

EPRA net disposal 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 NET TANGIBLE ASSETS (NTA)

The net assets as at the end of the year including the excess of the fair value of trading property over its cost and revaluation of other non-current investments, excluding the fair value of financial instruments and deferred tax on revaluations.

EPRA NET TANGIBLE ASSETS PER SHARE

EPRA net tangible assets divided by the diluted number of ordinary shares.

EPRA NET REINSTATEMENT VALUE (NRV)

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 plus a gross up adjustment for related costs such as Real Estate Transfer Tax.

EPRA NET REINSTATEMENT VALUE PER SHARE

EPRA net reinstatement value divided by the diluted number of ordinary shares.

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

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.

GREENHOUSE GAS (GHG) EMISSIONS METHODOLOGY

Capco continues to monitor and report all greenhouse gas emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. The report is prepared by following the 'Greenhouse Gas ("GHG") Protocol: A Corporate Accounting and Reporting Standard' published by the World Resources Institute ("WRI") and the operational consolidation method is adopted, as this reflects where Capco has the ability to influence energy use. For Scope 2 emissions, those arising from generated electricity usage are report in two ways. Firstly, Capco calculate the 'location-based' emissions which reflect emissions according to the energy mix of the National Grid. Secondly, Capco report 'market-based' emissions which reflect the energy mix provided by our energy suppliers. This helps Capco 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 2019 greenhouse gas emissions assertion, in accordance with the industry recognised standard ISO 14064-3.

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.

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.

PROPERTY INCOME DISTRIBUTIONS (PID)

Distribution under the REIT regime that constitutes at least 90% of the Group's taxable income profits arising from its qualifying property rental business, by way of dividend. PIDs can be subject to withholding tax at 20%. If the Group distributes profits from their non-qualifying business, the distribution will be taxed as an ordinary dividend in the hands of the investors.

RBKC

Royal Borough of Kensington and Chelsea.

REAL ESTATE INVESTMENT TRUST (REIT)

On 9 December 2019, Capital & Counties Properties PLC elected to convert to REIT status. A REIT is exempt from corporation tax on income and gains of its property rental business (qualifying activities) provided a number of conditions are met. It remains subject to corporation tax on non-exempt income and gains (non-qualifying activities) which would include any trading activity, interest income and development/management fee income.

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: 0371 664 0300.

Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 am-17:30 pm, Monday to Friday excluding public holidays in England and Wales

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: Private Bag X9000,
Saxonwold, 2132, 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 GBooB62G9D36. 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); 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 an independent non-profit and registered 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/scamsmart or by calling the FCA's consumer helpline on 0800 111 6768.

