



SPRING



SUMMER



AUTUMN



WINTER

A YEAR IN THE LIFE

Shaftesbury

Annual Report 2016

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STRATEGIC REPORT OVERVIEW

Who we are...

WE ARE A REAL ESTATE INVESTMENT TRUST WHICH INVESTS EXCLUSIVELY IN THE HEART OF LONDON'S WEST END. OUR OBJECTIVE IS TO DELIVER LONG-TERM GROWTH IN RENTAL INCOME, CAPITAL VALUES AND SHAREHOLDER RETURNS.

Our exceptional portfolio extends to over 14 acres, together with a 50% share of 1.9 acres in our Longmartin joint venture. Located close to the West End's major visitor attractions, it is mainly clustered in **Carnaby**, **Seven Dials** and **Chinatown**, but also includes substantial ownerships in east and west **Covent Garden**, **Soho** and **Charlotte Street**.

Our 584 restaurants, cafés, pubs and shops provide 70% of annualised current income. In the West End, there is a structural imbalance between demand and availability of this space, which is an important factor in our portfolio's long-term rental prospects.

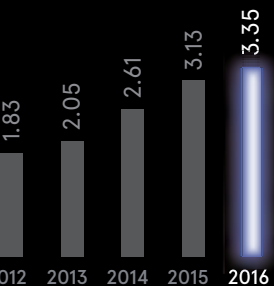
Our upper floors comprise 406,000 sq. ft. of generally small offices and 559 apartments, which we let.

We have a proven, comprehensive and long-term management strategy which creates and fosters distinctive, lively and prosperous environments. With our clusters of ownerships, improvements we make through our management activities compound to benefit our adjacent and nearby holdings.

FINANCIAL HIGHLIGHTS

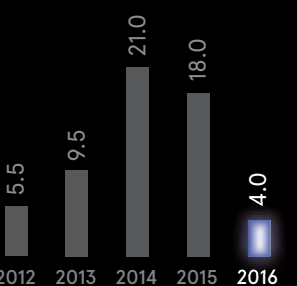
PORTFOLIO HIGHLIGHTS

PORTFOLIO VALUATION¹
(£BN)



£3.35bn

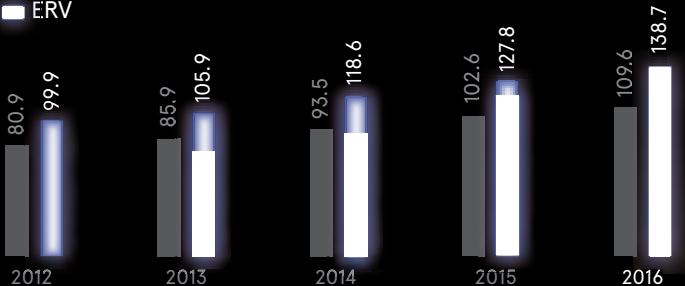
LIKE-FOR-LIKE PORTFOLIO
VALUATION GROWTH¹ (%)



+4.0%

REVERSIONARY POTENTIAL¹ (£M)

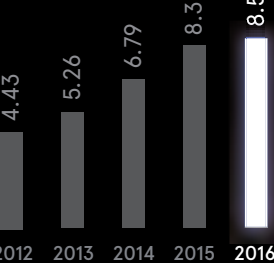
■ Annualised current income
■ ERV



£29.1m

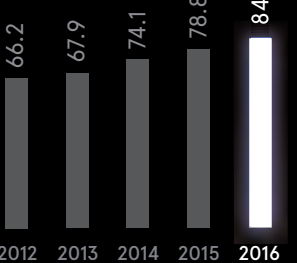
REPORTED RESULTS

DILUTED NAV PER SHARE
(£ PER SHARE)



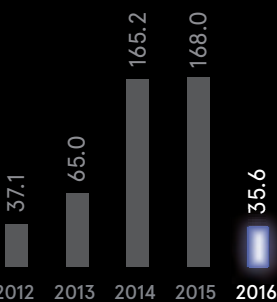
+2.6%

NET PROPERTY INCOME
(£M)



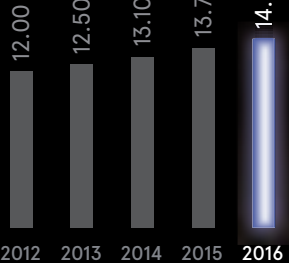
+6.7%

BASIC EPS (PENCE PER SHARE)



-78.8%

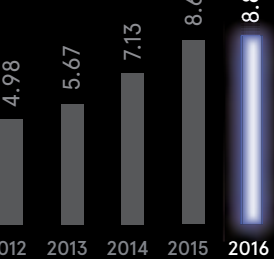
DIVIDENDS (PENCE
PER SHARE)



+6.9%

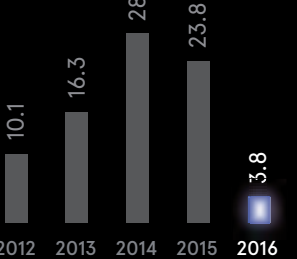
EPRA RESULTS²

NAV PER SHARE
(£ PER SHARE)



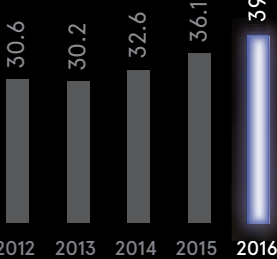
+2.2%

NET ASSET VALUE RETURN
(%)



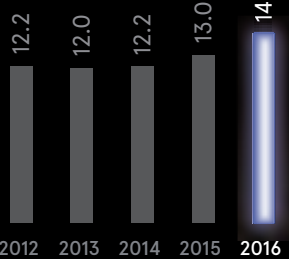
+3.8%

EPRA EARNINGS
(£M)



+8.0%

EPRA EPS (PENCE
PER SHARE)



+7.7%

LUMIERE LONDON

Lumiere London was London's largest-ever light festival, a free four-day event enjoyed by an estimated one million people. Our installation, by Julian Opie, was entitled 'Shaïda Walking'. Situated on Broadwick Street, at the eastern gateway to Carnaby, this was the only installation in the West End which was retained after the festival.

¹ Including our 50% share of property held in joint venture

² For EPRA definitions, see Glossary on page 166



CHAIRMAN'S STATEMENT



IN THIS, MY FIRST STATEMENT AS CHAIRMAN, I WOULD LIKE TO THANK THE BOARD AND STAFF, NOT ONLY FOR WELCOMING ME AND HELPING ME THROUGH MY INDUCTION TO THE BUSINESS OVER THE PAST FEW MONTHS, BUT, MORE IMPORTANTLY, FOR DELIVERING SUCH A STRONG SET OF RESULTS.

Our proven long-term strategy, with its relentless focus on the delivery of sustainable rental growth, continues to produce market-leading total shareholder returns and we are confident it will continue to do so.

OUR PORTFOLIO

Our portfolio is exceptional not only in its geographical concentration in the lively heart of London's West End, but its focus on restaurants, cafés, leisure and retail across over 1 million sq. ft. in some 600 buildings. Our innovative and enterprising management strategy has a long record of creating and fostering distinctive locations in which our tenants' businesses can prosper through growing footfall and visitor spending. This, in turn, supports our goal of generating sustainable demand, which drives rental and capital value growth but with relatively low capital expenditure, all of which enhances shareholder returns. Our portfolio, which is now valued at £3.35 billion, is unique in London and would be impossible to replicate.

GOVERNANCE AND RESPONSIBILITY

I join a company which has shown an exceptional commitment to high standards of corporate governance, transparency and social responsibility. We strive to adopt best practice across every aspect of the business, overseen by an effective and knowledgeable Board.

We maintain a regular dialogue with all our institutional shareholders through meetings and tours of our portfolio, and always welcome the views, both positive and negative, from all stakeholders, on our performance and standards of corporate behaviour.

I have been particularly impressed with the Group's commitment to sustainability in the management of its portfolio and its socially-responsible approach to its operations. We have a widely-recognised reputation for the stewardship of our extensive ownership of mainly older buildings. Our skill in bringing both environmental and economic sustainability, preserving and enhancing the iconic West End locations we own, is a key aspect of our long-term success. We are very active in, and committed to, the communities in which we operate. We work with local resident and stakeholder groups, addressing a range of social and other issues and support our local councils and other statutory authorities wherever we can assist.

JONATHAN LANE

On behalf of the Board and our shareholders, I would like to thank Jonathan Lane for his outstanding contribution to Shaftesbury's development over its first 30 years. The qualities and strength of the business today, and its long-term prospects, are a testament to his commitment, determination, wide experience and vision. He has handed over a company in great shape.

OUTLOOK

Despite current political and economic uncertainties around the world, London and the West End are flourishing, and their long-term prospects remain as bright as ever. National and international businesses are continuing to invest and locate here and domestic and overseas visitors are coming, in ever-growing numbers, to experience its world-class attractions, shopping, restaurant, leisure and entertainment choices. A combination of vast public and private investment in London's transport network, public realm, infrastructure and building stock is supporting both the city's reputation as a global destination and the long-term prospects for the West End and our portfolio.

With the company's patient, long-term strategy, and a committed, experienced and enthusiastic management team, the Board and I are confident we shall continue our successful record of delivering growing dividends and out-performance in total returns for our shareholders.

Jonathan Nicholls
Chairman

29 November 2016

CHIEF EXECUTIVE'S STATEMENT

+2.2%

£8.88

EPRA NAV per share

+8.0%

£39.0m

EPRA earnings

+6.9%

14.7p

Dividends per share



WE ARE PLEASED TO REPORT ANOTHER YEAR OF EXCELLENT PERFORMANCE. AGAINST A BACKGROUND OF GROWING CAUTION IN PROPERTY MARKETS, WHICH IS BEGINNING TO AFFECT SOME PROPERTY VALUES, OUR EXCEPTIONAL PORTFOLIO HAS DELIVERED UNDERLYING CAPITAL VALUE GROWTH¹ OF 4.9%.

Progression in current and potential future rental income has been resilient and investment yields attributed by our valuers have remained firm. After adjusting for the increase in SDLT announced in the March 2016 Budget, which has affected the valuation of all UK property assets, capital value growth over the year reduces to 4.0%.

The increase in our net property income of 6.7% to £84.1 million reflects sustained occupier demand and high levels of occupancy across our portfolio and has delivered an 8.0% increase in our EPRA earnings to £39.0 million. This translates into a 7.7% increase in EPRA earnings per share, and supports a 6.9% increase in dividends paid and proposed in respect of the year to 14.7 pence per share.

The growth in the value of our portfolio added 43 pence to the net asset value of £8.69 we reported last year, an increase of 4.9%. This has been offset by the costs of refinancing our debenture stock and terminating certain interest rate swaps, which amounted to 24 pence per share, resulting in a net asset value per share of £8.88, an overall increase of 2.2%. This well-timed refinancing has provided us with new, low-coupon, long-term funding, which has increased our financial resources and will improve earnings in the years ahead.

OUR FOCUS ON LONDON'S WEST END

Over our 30-year history, we have patiently assembled an exceptional portfolio of over 14 acres in the heart of London's West End, a location which is underpinned by an unrivalled variety of attractions for local, domestic and international visitors. Our investment strategy is focused on restaurants, cafés, leisure and retail, where our ownerships extend to over 1 million sq. ft. and provide 70% of our annualised rental income. Our long-term management strategy is aimed at creating lively destinations, which attract both footfall and spending by offering a distinctive variety of retail and leisure choices. As space in the West End for these core uses is constrained by planning policies, the structural imbalance in demand and availability brings great resilience in occupancy and rental levels.

In addition, with over 400,000 sq. ft. of office accommodation, we are the largest single provider of accommodation for SME businesses in Soho and Covent Garden. We have also built up an ownership of 559 apartments which we rent and which appeal to younger people who are studying or working in central London.

The unique features of the West End attract a wide variety of national and international businesses, and provide a large local working population, particularly from the creative, media and tech sectors, whose activity and spending throughout the working week make an important contribution to its economy and character. We benefit from the substantial investment being made by others in improving and extending the stock of office accommodation around our locations and across the West End.

¹ Like-for-like, before the impact of increased SDLT

CHIEF EXECUTIVE'S STATEMENT CONTINUED

THE WEST END ECONOMY

The buoyant conditions we reported last year in our local market have continued throughout the current year. Although there have been growing concerns of an economic slowdown nationally since the beginning of 2016, the West End continues to prosper, with steadily rising domestic and international visitor numbers and spending and demand from a broad-spectrum of businesses seeking space across all uses.

These conditions, and the special appeal of our high-profile and carefully-curated areas, have underwritten the low level of vacancy in our portfolio, and good growth in both current rental income and rental tones, throughout the year. We concluded £27.8 million of leasing transactions, achieving rents for commercial space 7.7% above ERV at the previous year end. This activity converts our portfolio's reversionary potential into contracted income, whilst at the same time providing valuable rental evidence for growing income, over time, from our adjacent and nearby holdings.

Although the outcome of the EU referendum has created uncertainty for business nationally, we have not, so far, seen any adverse impact on occupier demand, footfall or trading in our areas. The recent depreciation in sterling has already added to the spending power of international visitors and, if sustained, may lead to increased visitor numbers above their long-term growth trend. Domestic inflationary pressures, which are expected to increase next year, may impact UK consumer confidence but will be less important for visitors who benefit from a strong local currency. Until future trading and other arrangements with the EU become clearer, there is a risk that business decisions may be deferred, slowing the UK economy, but we expect the West End's wide appeal and economy will maintain its history of resilience.

The recently announced revaluation of business rates across England will increase the levy on business premises in London from next April. Across our portfolio, we anticipate increases in the range 30% to 45%, depending on location. Broadly, we estimate that this will increase tenants' occupancy costs by c. 2% to 3% of turnover. The average increases across our streets will be less marked than for some nearby locations and other Central London destinations, increasing the competitive advantage of the more-modestly priced accommodation we offer. Whilst the transitional arrangements for larger premises are not as generous as they have been in the past, we estimate that half of our 584 restaurants, cafés and shops, and three quarters of our offices will qualify for the transition to the new levels to be effected over four years.

We support Westminster City Council's initiative to seek to retain more of the £1.8 billion of business rates they collect on behalf of the Treasury. An increase from the 4% they currently keep would support their ambition to further invest in the borough's infrastructure, in partnership with property owners and other stakeholders.

IMPROVING ACCESS TO THE WEST END

We expect our portfolio will, in the coming years, benefit from a number of transport infrastructure improvements. The opening of the Elizabeth Line in late 2018, improved rail and tube capacity, and initiatives such as weekend night time running on the Underground, are expected to bring more footfall and spending to the West End. Whilst the increased rates burden on tenants, coupled with wider economic uncertainties, are not welcome, these improvements will enhance the West End's connectivity and should, over time, enable restaurant, leisure and retail businesses to absorb increased costs through turnover growth.

INVESTING IN OUR PORTFOLIO

Our strategy is to refurbish, reconfigure and adapt, rather than redevelop, our buildings. Despite our extensive management activity, our focus on uses which limit the exposure to obsolescence in our portfolio continues to result in a relatively low level of capital expenditure, which this year totalled £32.6 million, less than 1% of the valuation of our portfolio.

We are making good progress with our major projects in Seven Dials, Chinatown and Carnaby. Each of these schemes is located on streets which are expected to benefit from greater forecast footfall from the completion of the new Tottenham Court Road transport hub and associated public realm improvements. Our selection of occupiers, and the creativity they bring with their trading formats, will be of particular importance. Inevitably with retail and restaurant accommodation of the sizes we are offering, where occupiers will be investing heavily in their fit-outs, letting periods are likely to be longer than for the smaller space we traditionally have to offer. In total, these three schemes will, on completion and letting, add an estimated £7.4 million to our contracted income. We expect each will bring significant benefits to our neighbouring ownerships as well as producing long-term rental growth.

We continue to identify and negotiate early vacant possession of under-utilised space to implement improvement schemes, introducing new, more valuable uses, where possible. These projects unlock value and enhance the rental potential of our holdings, often producing compound benefits across our extensive adjacent ownerships.

CHIEF EXECUTIVE'S STATEMENT CONTINUED

ADDING TO OUR OWNERSHIPS

Over the year, additions to our portfolio totalled £62.7 million.

In our locations, the availability of properties to acquire, which meet our strict investment criteria, continues to be limited. Existing owners, who are mainly private, rather than institutional, are reluctant to sell, recognising the long-term security and growth prospects their ownerships offer. This situation, which has existed for many years, is unlikely to change, even as a result of current economic uncertainties, so assembling a portfolio of 14 acres, like ours, in the heart of the West End, would be impossible.

However, as in the past, our patient approach and forensic knowledge of our local market will lead to a steady flow of purchases which extend and complement our ownership clusters, and provide further opportunities to add value through our intensive management strategies.

IMPORTANT REFINANCING INITIATIVES

With a scarcity of the type of properties we seek to acquire, we need to act swiftly when opportunities arise and, therefore access to stable long-term funding and committed financial resources is critical. In October 2016 we completed the early redemption of our historical debenture stock and issued £285 million of 15 year bonds, providing additional net resources of £189.4 million,

enabling us to continue to fund additions to, as well as investment in, our already-extensive portfolio. This new debt was secured at an exceptionally low fixed coupon of 2.487%. Coupled with the termination of £55 million of interest rate swaps in October 2016, these transactions have usefully reduced the cost of our debt, benefiting future earnings and dividends.

LOOKING AHEAD

2016 will be remembered as a year of unprecedented political turbulence, not just in the UK but in many parts of the world. The impact of the events we have seen this year have not yet become clear, and their longer term ramifications may not become apparent for some considerable time. This will inevitably bring uncertainty to the general business climate, with risks to consumer confidence and economic growth.

Whilst London and, at its heart, the West End, cannot be completely immune from the influences of the macro environment, its global city status, exceptionally dynamic and broad-based economy and enduring appeal for domestic and international businesses and visitors, will continue to support its long-term prospects for sustained growth and prosperity. This positive outlook underpins the potential in our portfolio.

Our management strategy, executed by an experienced and enthusiastic team, with a forensic knowledge of the local market, has a long record of delivering sustained rental growth, which is key to the long-term growth in the value of our portfolio and shareholder returns. Our strategy is deliberately long-term in outlook and is not influenced by short-term market or economic conditions. Its implementation constantly evolves to ensure that our buildings and locations adapt and respond to the challenges of technological developments and environmental sustainability, as well as expectations of both occupiers and the vast, and ever-growing, numbers who visit every day, throughout the year.

The exceptional qualities and resilience of our business have delivered long-term sector out-performance. Despite present uncertainties, we are confident our impossible-to-replicate portfolio and the innovative, long-term management we bring to it, will continue this record of delivering sustained growth in total returns for shareholders.

Brian Bickell
Chief Executive
29 November 2016

TOTAL SHAREHOLDER RETURNS (TO SEPTEMBER 2016)



OUR BUSINESS MODEL: HOW WE CREATE AND DELIVER VALUE

EXCEPTIONAL PORTFOLIO IN THE HEART OF LONDON'S WEST END

Global destination attracting high volumes of footfall and spending

Broad-based local economy, not solely reliant on the fortunes of the UK

Record of long-term prosperity, economic resilience and growth

PAGES 12 TO 19



FOCUS ON RESTAURANTS, LEISURE AND SHOPS

Long history of demand exceeding availability of space

- Rental levels have not shown declines, even in times of economic uncertainty
- Low vacancy and sustained rental growth

Space provided in shell-form only, so limited exposure to obsolescence

PAGES 21 TO 29



CREATE PROSPEROUS ENVIRONMENTS FOR TENANTS

Establish ownership clusters

Curate distinctive destinations which appeal to visitors, businesses and residents

Reconfigure and improve space

Drive footfall and spending

Improve the public realm

PAGES 31 TO 32



OUR BUSINESS MODEL: HOW WE CREATE AND DELIVER VALUE CONTINUED

Together with...

EXPERIENCED MANAGEMENT TEAM Long-established, innovative team with forensic knowledge of the West End property and occupier markets PAGE 34	PRUDENT FINANCIAL MANAGEMENT Modest leverage Long-term financing Tax-efficient REIT structure PAGE 35
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...drives long-term growth in income and capital values through...

SUSTAINED DEMAND Fundamental to long-term growth in rental income and capital values	LOW VACANCY Maximises income generated by the portfolio	LIMITED OBSOLESCENCE Limits expenditure needed to maintain our portfolio
---	--	---

...to deliver...

LONG-TERM GROWTH IN DIVIDENDS AND SHAREHOLDER RETURNS PAGES 38 TO 39 ON HOW WE MEASURE SUCCESS





FEBRUARY

S	M	T	W	T	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29					

CHINESE NEW YEAR

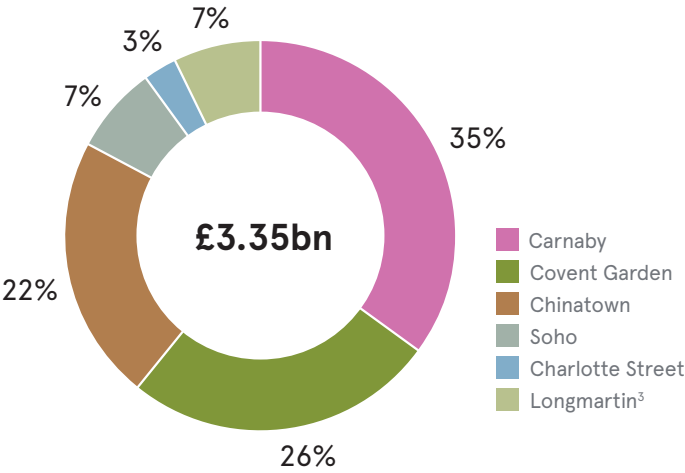
Each year we support and promote Chinese New Year celebrations. This year was 'The Year of the Monkey'. Chinatown played a major role as London's West End celebrated with a festival filled with music, acrobatics and a parade with ten lion-dance teams.

EXCEPTIONAL PORTFOLIO IN THE HEART OF LONDON'S WEST END

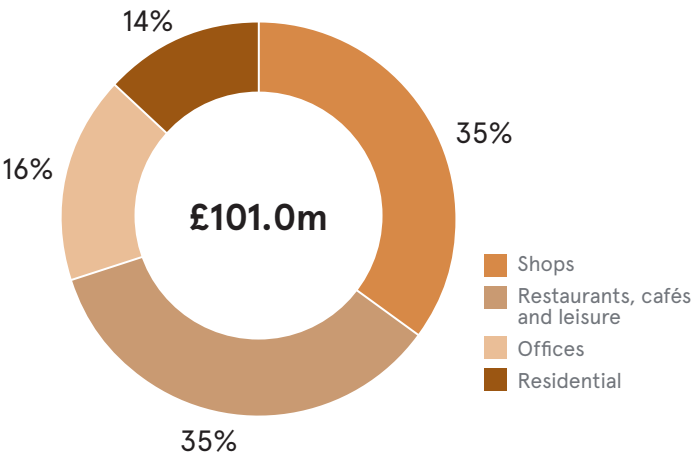
CLUSTERED IN ICONIC AREAS WITH HIGH FOOTFALL
FOCUSED ON OVER 1 MILLION SQ. FT. OF RESTAURANTS,
LEISURE AND SHOPS



VILLAGES (% OF VALUATION¹)



USES (% OF ANNUALISED CURRENT INCOME²)



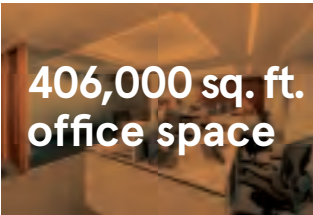
Accumulated over 30 years, our portfolio comprises nearly 600 buildings, mostly of domestic size, in Carnaby, Covent Garden, Chinatown, Soho and Charlotte Street, close to the West End’s world-class visitor attractions.

The areas in which we invest are long-established, with street patterns generally laid out between 1680 and 1720. Our wholly-owned portfolio is all within Conservation Areas and around 20% of our buildings are listed as being of special architectural interest.

The buildings we seek to acquire are mainly in long-term private ownership. Existing owners remain unwilling to sell properties in this resilient area. Therefore, it would be virtually impossible to replicate a portfolio of this size and concentration, and with such a mix of uses, in these vibrant and prosperous locations.

With the benefit of our proven management strategies, our portfolio delivers sustainable growth in rents, through the wider property market cycles, which is fundamental to long-term value creation.

WHOLLY-OWNED PORTFOLIO



1 Including our 50% share of property held in joint venture
2 Wholly-owned portfolio

3 Shaftesbury has a 50% interest in this joint venture
4 Estimated annual passenger numbers by the mid-2020's



Over 14 acres

in the heart of London's West End² and 1.9 acres owned in joint venture³

CHARLOTTE STREET
0.8 acres



100%

of our portfolio is between five and ten minutes' walk of a Crossrail station

BOND STREET
102m⁴
PASSENGERS

OXFORD CIRCUS
92m
PASSENGERS

CARNABY
4.2 acres

SOHO
1.4 acres

108m⁴
PASSENGERS

37m⁴
PASSENGERS

SEVEN DIALS
3.1 acres

ST MARTIN'S COURTYARD³
1.9 acres

COVENT GARDEN
15m
PASSENGERS

CHINATOWN
3.2 acres

LEICESTER SQUARE
44m
PASSENGERS

OPERA QUARTER
0.6 acres

PICCADILLY CIRCUS
43m
PASSENGERS

COLISEUM
1.0 acre

CHARING CROSS



1.8m sq. ft.

of commercial and residential accommodation² plus 0.3m sq. ft. held in joint venture³



£3.35bn

portfolio valuation¹

 London Underground
 Elizabeth Line

EXCEPTIONAL PORTFOLIO IN THE HEART OF LONDON'S WEST END

OUR VILLAGES

CARNABY

35% OF OUR PORTFOLIO¹

Carnaby is a unique and iconic shopping and dining destination, two minutes away from both Oxford Circus and Piccadilly Circus. It offers over 100 retail brands and 53 restaurants, cafés and bars across our ownership of 13 streets covering 4.2 acres. Attracting footfall, estimated at over 40 million people each year, it is a popular and internationally-renowned destination for fashion retail, focused on new concepts and brands, and targeted at a 15 – 25 age-range. In recent years, its reputation for lively casual dining and leisure choices, centred on Kingly Court and Kingly Street, has become increasingly important.

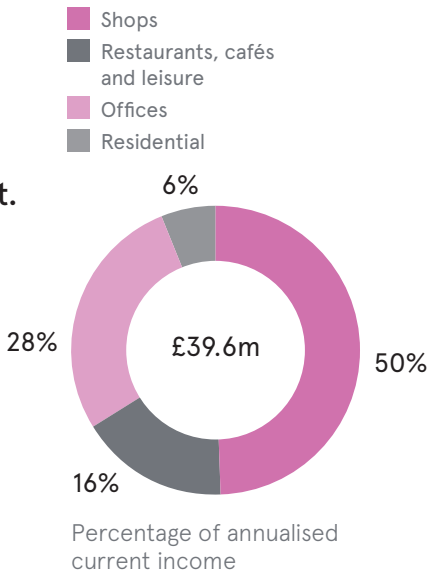
61% of the Group's office space is in Carnaby.

101 shops
181,000 sq. ft.

53 restaurants,
cafés and pubs
103,000 sq. ft.

247,000 sq. ft.
offices

94 apartments
56,000 sq. ft.



1 By value





COVENT GARDEN

33% OF OUR PORTFOLIO¹

Covent Garden, famous for its historic street patterns and architecture, is home to half of London's West End theatres. It has a broad range of shops, restaurants, bars and cafés, giving it a distinctive atmosphere, appealing to a wide range of audiences. There is also a long-established and flourishing residential community.

Our wholly-owned holdings, extending to 4.7 acres, are principally centred on Seven Dials in north Covent Garden, in close proximity to the Tottenham Court Road transport hub. They also include the Coliseum and Opera Quarter restaurant districts to the east and west of the Piazza. Annual footfall in Seven Dials alone is estimated at over 30 million people.

This location also includes our 50% interest in the Longmartin joint venture, close to Leicester Square.

WHOLLY-OWNED

94 shops
138,000 sq. ft.

92 restaurants,
cafés and pubs
176,000 sq. ft.

LONGMARTIN²

21 shops
67,000 sq. ft.

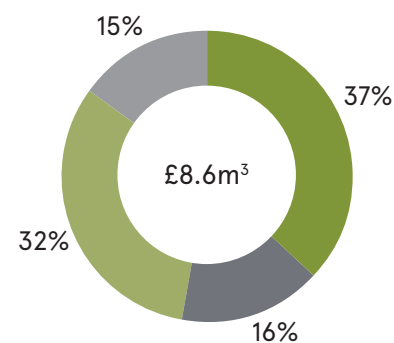
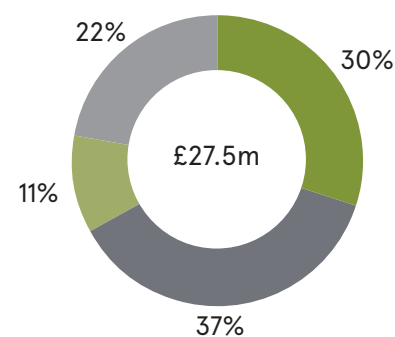
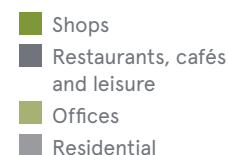
10 restaurants,
cafés and pubs
45,000 sq. ft.

84,000 sq. ft.
offices

221 apartments
137,000 sq. ft.

102,000 sq. ft.
offices

75 apartments
55,000 sq. ft.



Percentage of annualised current income

¹ By value

² Shaftesbury has a 50% interest in these

³ Our 50% share

EXCEPTIONAL PORTFOLIO IN THE HEART OF LONDON'S WEST END
OUR VILLAGES

CHINATOWN
22% OF OUR PORTFOLIO¹

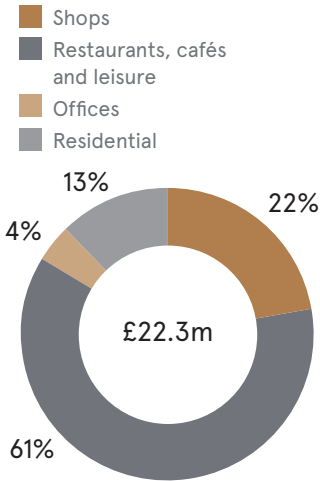
Chinatown is at the heart of London's West End entertainment district, next to Leicester Square, Piccadilly Circus and Shaftesbury Avenue. It has an exceptional concentration of restaurants which offer an ever-widening range of Far Eastern dining choices. The prosperity of this thriving destination is underpinned by the large number of visitors it attracts throughout the day, and into the night, seven days a week, estimated at over 50 million annually. We are the dominant owner, with holdings extending to 3.2 acres.

66 shops
95,000 sq. ft.

77 restaurants,
cafés and pubs
206,000 sq. ft.

29,000 sq. ft.
offices

124 apartments
78,000 sq. ft.



Percentage of annualised current income

¹ By value





SOHO

7% OF OUR PORTFOLIO¹

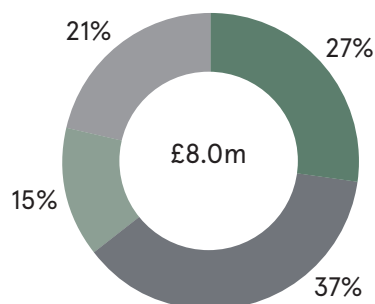
Soho is unique in its combination of a flourishing day-time business community and an important evening and night-time economy. By day, it offers a wide variety of independent, quirky shops and is a hub for creativity with many small businesses, typically in the media, tech and fashion businesses. In the evening and night-time, its distinctive atmosphere and exceptional choice of restaurants, cafés, bars and clubs, together with nearby theatres, create a popular destination for visitors as well as a valuable amenity for the West End's large working population. It has a diverse residential community.

39 shops
43,000 sq. ft.

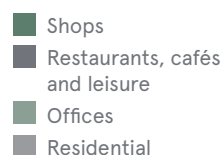
30 restaurants,
cafés and pubs
58,000 sq. ft.

36,000 sq. ft.
offices

69 apartments
38,000 sq. ft.



Percentage of annualised current income



CHARLOTTE STREET

3% OF OUR PORTFOLIO¹

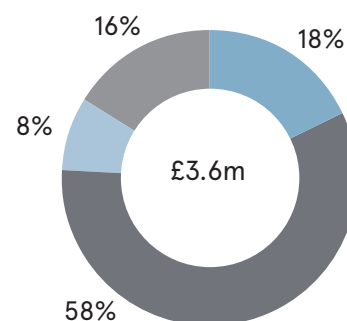
Charlotte Street, encompassing Goodge Street and Rathbone Place, is a bustling location and renowned dining district, just north of Oxford Street and close to Tottenham Court Road. Its rapidly increasing office concentration, dominated by creative, media, fashion and tech businesses, together with a large student population, add to the cosmopolitan feel of the area.

9 shops
14,000 sq. ft.

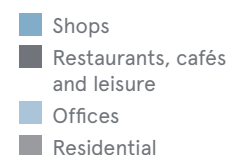
23 restaurants,
cafés and pubs
47,000 sq. ft.

10,000 sq. ft.
offices

51 apartments
23,000 sq. ft.



Percentage of annualised current income



¹ By value



EXCEPTIONAL PORTFOLIO IN THE HEART OF LONDON'S WEST END

WHY LONDON'S WEST END?

POPULAR VISITOR AND BUSINESS DESTINATION

WITH A LONG RECORD OF PROSPERITY AND RESILIENCE

LONDON: PROSPEROUS AND GROWING

London is the largest city in Western Europe. Not only one of the world’s leading business centres, its unrivalled variety of heritage and cultural attractions draws huge numbers of domestic and international visitors. It was ranked the world’s most popular tourist city destination in 2015¹.

Its population, currently 8.6 million, is expected to grow to more than 10 million by 2036². Additionally, there is a similar, and growing, population in southern England which can easily visit for a day.

With its global appeal, long-term growth in London’s economy, population and visitor numbers gives it a resilient economic base which is not reliant solely on the fortunes of the wider UK economy.

THE WEST END: POPULAR DESTINATION BRINGING STRONG FOOTFALL AND CONSUMER SPENDING

The West End is a popular destination, attracting huge numbers of domestic and international visitors. Annual visits are estimated at over 300 million.

Its unrivalled concentration of entertainment and cultural attractions, historic buildings, and public spaces are complemented by a world-class variety of shopping. Importantly, these attractions are enhanced by a wide choice of innovative and accessible dining and leisure concepts. Together, these provide an all-round experience sought by today’s visitors.

The West End is also a location for a wide range of global, national and local businesses, and a popular place to live. The City of Westminster, generating over 3% of UK economic output, has a working population across the borough of over 650,000. Together with the West End’s visitors, and its residential community, this brings high footfall and spending, both of which have shown long-term resilient growth.

AVAILABILITY OF SPACE IS CONSTRAINED

Availability of commercial space in the West End is constrained, planning regulations are tight and there is demand from a wide variety of national and international occupiers. This structural imbalance in supply and demand is fundamental to our portfolio’s rental prospects and capital value, both of which have shown significantly greater long-term growth and stability through the economic cycles than the wider real estate market.

EXCEPTIONAL AND IMPROVING TRANSPORT LINKS

The West End is at the heart of the capital’s underground and bus network. The six underground stations closest to our villages handle over 200 million passengers annually. The transport network is critical to the success of the West End and huge infrastructure investment, to improve capacity and reliability, is underway.

Already, we are seeing the benefits of the Underground running through the night on Fridays and Saturdays, which started in late summer. We also expect to be a major beneficiary of the Elizabeth Line, which opens in 2018. Apart from increasing network capacity, it will extend the West End’s provincial catchment area and shorten travel times, factors which are expected to increase visitor numbers and retail and leisure spending. Passenger numbers at the Tottenham Court Road and Bond Street transport hubs are forecast to reach over 200 million by the mid-2020s³, materially changing footfall patterns in the vicinity. All our properties are within ten minutes’ walk, and approximately 80% within five minutes, of these two West End stations.

Responding to the expected substantial increase in footfall around the new stations and in nearby streets, a number of improvements to the public realm are planned, or underway, to ease pavement congestion and provide stronger connections between retail, cultural and leisure attractions.

LONDON FASHION WEEK

We supported London Fashion Week with a focus on womenswear brands in Carnaby and Seven Dials. The campaign ran throughout social media, and on each village website, with a competition to win tickets to a London Fashion Week show.



FEBRUARY

S	M	T	W	T	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29					

1 Mastercard – Global City Index

2 The London Plan, March 2015

3 Arup, The Impact of Crossrail on Visitor Numbers in the West End, January 2014

FEBRUARY

S	M	T	W	T	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29					

DOUBLE DATES

Seven Dials partnered with Double, a new dating app featured on Dragons' Den and invited 28 single people to enjoy a date in Seven Dials.



MARCH

S	M	T	W	T	F	S
	1	2	3	4	5	
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

MOTHER'S DAY

Unique products, gift ideas and experiences were showcased through our consumer newsletters and social media channels across our portfolio.

FOCUS ON RESTAURANTS, LEISURE AND RETAIL MIX OF USES, FOCUSED ON RESTAURANTS, LEISURE AND RETAIL OVER LOWER FLOORS UPPER FLOORS – MIX OF OFFICES AND RESIDENTIAL



RESTAURANTS, LEISURE AND SHOPS GENERATE 70% OF CURRENT ANNUALISED INCOME¹

We have over 1 million sq. ft. of restaurant leisure and retail space, which provides 70% of our current income¹. It comprises 309 shops, mainly of medium or small size, and 275 restaurants, cafés and pubs. The combination of these uses and variety of interesting brands in our villages gives visitors an experience unmatched by other destinations.

CAREFUL SELECTION OF TENANTS: NEW CONCEPTS AND INDEPENDENTS FAVOURED

The careful selection of restaurant, leisure and retail tenants is fundamental to our strategy. We favour new concepts, independent operators and international retailers making their UK debut and prefer mid-market, innovative and accessible concepts; our shops are neither luxury nor value-led and our restaurants typically are neither Michelin-starred nor low-end fast food.

STRONG DEMAND, RESTRICTED SUPPLY AND LOW VACANCY

In the West End, there is a long history of occupier demand for restaurant, leisure and retail space exceeding availability, which is often restricted by planning policies.

As a result, rents for these uses, in our areas, have not demonstrated cyclical or structural decline, even in times of major economic uncertainty. Our vacancy levels have been low historically, averaging 3.3% of ERV for retail and 1.4% of ERV for restaurants, cafés and leisure over the past ten years^{1,2}.

SPACE PROVIDED IN SHELL FORM SO OBSOLESCENCE IS LIMITED

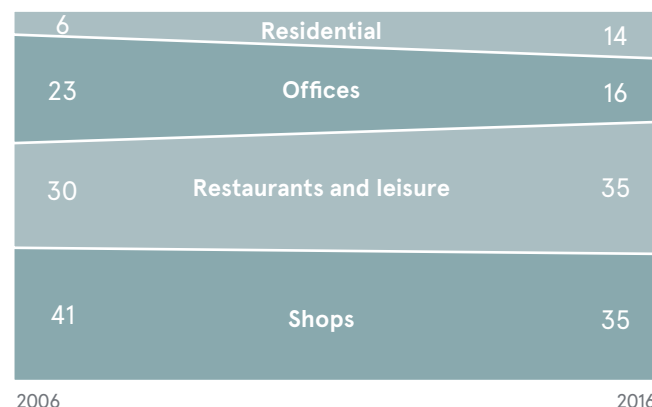
Importantly, we provide our retail, restaurant, café and leisure accommodation in shell form. Tenants are responsible for fit-out, with no capital contribution from us. At the end of the lease, we re-let the shell of space without incurring significant refurbishment costs, limiting our exposure to obsolescence.

UPPER FLOORS – A MIX OF OFFICES AND RESIDENTIAL

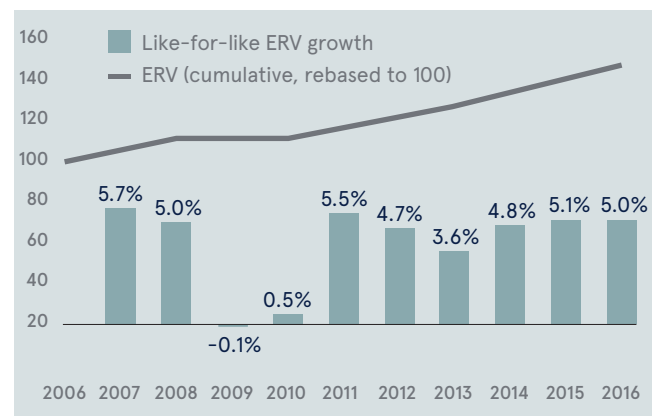
The space above our shops and restaurants comprises small offices, residential, or a mix of both. A local working population and a residential community are essential elements of the character and economy of our areas, bringing added life and vibrancy, and providing regular customers for our shops, restaurants, cafés, and leisure operators.

In response to the growing demand for residential accommodation, where possible, we convert our smaller offices, which were no longer suitable for office use, back to their original residential use.

EVOLUTION OF USES OVER TIME (% OF ANNUALISED CURRENT INCOME¹)



LIKE-FOR-LIKE ERV GROWTH¹ RESTAURANTS, LEISURE AND RETAIL



¹ Wholly-owned portfolio

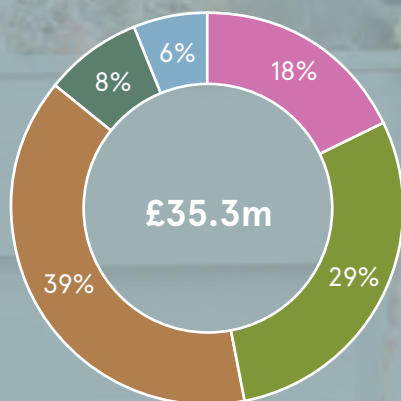
² EPRA vacancy

➔ SEE PAGE 53 FOR INFORMATION ON VACANCY

RESTAURANTS, CAFÉS AND LEISURE



ANNUALISED CURRENT INCOME
BY VILLAGE¹



- Carnaby
- Covent Garden
- Chinatown
- Soho
- Charlotte Street

WHOLLY-OWNED

Restaurants, cafés and pubs

275

Area sq. ft.

590,000

Weighted average unexpired
lease term

11 years

Current income

£35.3m

LONGMARTIN

Restaurants, cafés and pubs

10

Area sq. ft.

45,000

Weighted average unexpired
lease term

13 years

Current income

£1.4m

35%
of annualised
current income¹



IMPORTANT DRIVER OF FOOTFALL

We are the largest single provider of dining and leisure space in the West End, owning nearly one in five of the licensed premises. Restaurants, cafés and leisure choices are important to the mix of uses in our villages. Most of our restaurants provide a casual dining experience, often with an all-day offer. The broad variety of concepts and cuisines is a major driver of footfall and social media interest.

HIGH DEMAND, RESTRICTED AVAILABILITY OF SPACE

The availability of restaurant and leisure space in the West End is constrained by restrictive planning policies, which seek to preserve the balance of commercial uses and amenity of local residents. The barriers to entry are high with existing operators reluctant to relinquish their valuable sites, other than for significant premiums. As a consequence, tenants ensure they preserve their valuable occupation rights and our bad debt history is negligible.

Demand for space in our busy areas is strong, particularly from independent operators, established street-food concepts and start-ups seeking their first site. Usually we receive numerous offers for available units and vacancy levels are minimal.

LONGER LEASES, BUT TERMS IMPROVING

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

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

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

TYPICAL LEASE TERMS

	HISTORICAL LEASES	NEW LEASES
Term	25 years	15 years
Rent reviews	Five-yearly, upward-only	Five-yearly, upward-only
Security of tenure on expiry	Yes	No
Turnover-related top-up	No	Yes
Space leases typically granted over	Whole buildings	Operational space only (i.e. not upper floors)
Proportion of our restaurant leases (by income)	62%	38%
Incentives	N/A	Short rent-free period to help cover tenant fit-out time. No contribution to fit-out costs

LETTING ACTIVITY DURING THE YEAR

Lettings/rent reviews¹:
£8.2 million
(19.4% of restaurant, cafés & leisure ERV)

- 15 New lettings
- 4 Lease renewals
- 29 Rent reviews

EPRA vacancy¹ at 30 September 2016:
0.9%, of which 0.7% was under offer.
Our share of lettings and rent reviews in the Longmartin joint venture: £0.2m.

- KEY PRIORITIES FOR 2017**
- Identify further opportunities to negotiate vacant possession of restaurants let on historical leases.
 - Introduce new restaurant operators to our villages.
 - Completion of our Charing Cross Road/Chinatown scheme and associated public realm improvements

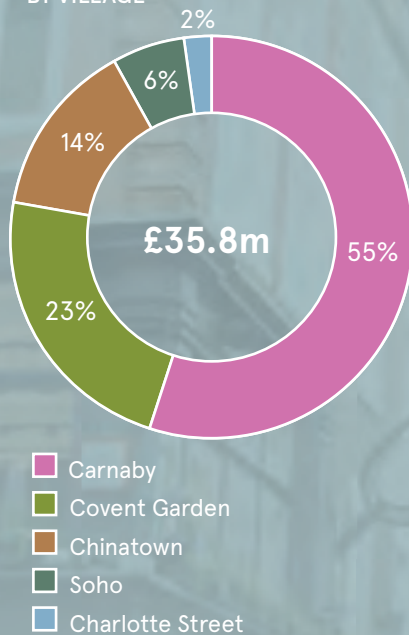
1 Wholly-owned portfolio

➡ SEE PAGE 51 FOR FURTHER INFORMATION ON THE CHARING CROSS ROAD/CHINATOWN SCHEME

RETAIL



ANNUALISED CURRENT INCOME
BY VILLAGE¹



WHOLLY-OWNED

Shops

309

Larger shops² 88 (64% of current income)
Smaller shops³ 221 (36% of current income)

Area sq. ft.

471,000

**Weighted average unexpired
lease term**

4 years

Current income

£35.8m

LONGMARTIN

Shops

21

Larger shops² 10 (85% of current income)
Smaller shops³ 11 (15% of current income)

Area sq. ft.

67,000

**Weighted average unexpired
lease term**

4 years

Current income

£3.2m

35%
of annualised
current income¹



Our retail areas in Carnaby and Seven Dials make an important contribution to the West End's reputation as a global shopping destination.

COMPETITIVE RENTAL LEVELS COMPARED WITH NEARBY STREETS

An important element of the character and mix in our villages is the wide range of shop sizes and rental levels across our streets, from small starter units to larger shops for more-established retailers. This enables us to provide a wide diversity of retail formats and offers great flexibility for retailers to grow, or open new concepts, within our areas.

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

TYPICAL LEASE TERMS

Our retail leases generally are short, giving us the opportunity to refresh tenant mix, an important aspect of maintaining our villages' appeal.

Smaller shops: 3-5 years

Larger shops: 5-10 years

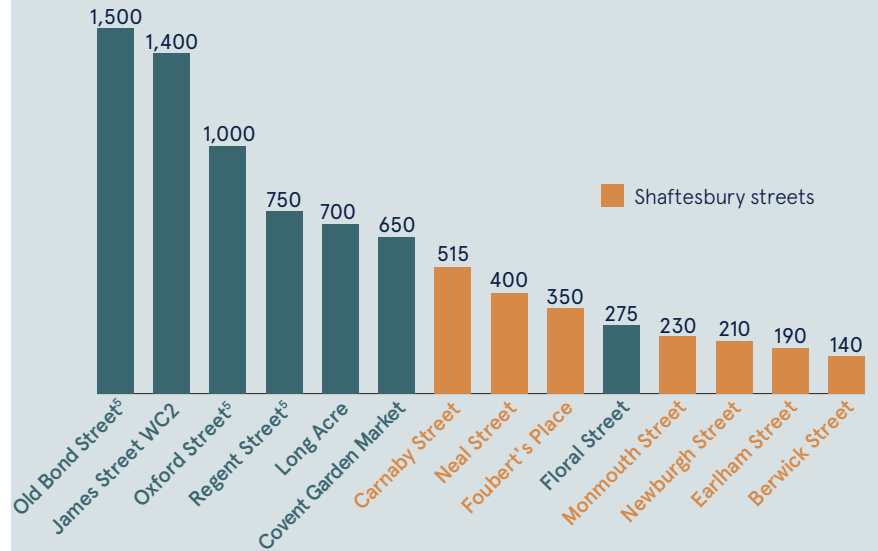
Short rent-free period to help cover tenant fit-out periods.

SUSTAINED DEMAND

The majority of our space is let to fashion and lifestyle retailers. Quality and variety are becoming ever-more important as shoppers' behaviour changes, with a bias towards innovation, experience, fulfilment and the ability to find something different from that commonly offered by high streets and shopping centres. To attract visitors, we seek out new, interesting concepts from across the world, to maintain a fresh retail mix.

With the huge potential customer base offered by the West End, demand for space in our iconic retail destinations remains good, with interest both from domestic and international retailers, often opening new concept stores or flagships.

WEST END RETAIL RENTAL TONES⁴ (PRIME ZONE A PER SQ. FT.)



LETTING ACTIVITY DURING THE YEAR

Lettings/rent reviews¹:

£10.3 million

(22.5% of retail ERV)

25 New lettings

26 Lease renewals

21 Rent reviews

EPRA vacancy¹ at 30 September 2016: 0.7%.

Our share of lettings and rent reviews in the Longmartin joint venture: £1.4m.

KEY PRIORITIES FOR 2017

Completion of our Thomas Neal's Warehouse and Charing Cross Road schemes.

Introduce further interesting retail concepts to our villages.

¹ Wholly-owned portfolio

² Rental value > £150,000 pa

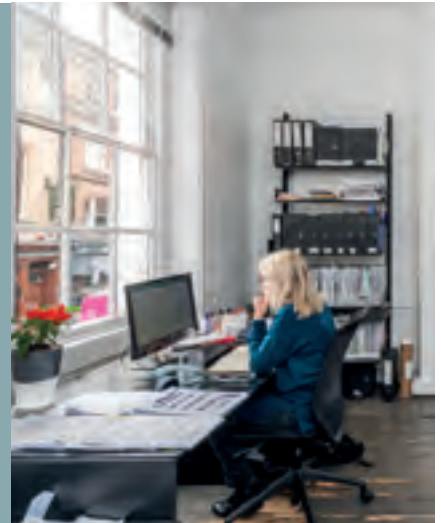
³ Rental value < £150,000 pa

⁴ Source: Cushman & Wakefield, published information and company data

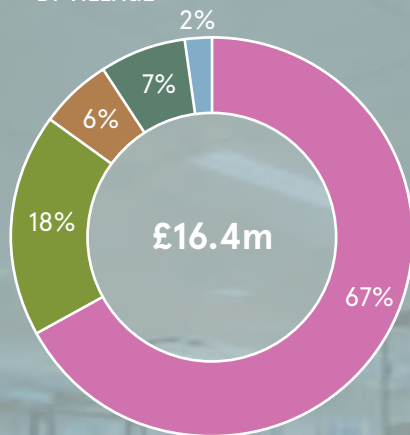
⁵ Based on 30 ft zones

➡ SEE PAGE 51 FOR FURTHER INFORMATION ON THE THOMAS NEAL'S WAREHOUSE AND CHARING CROSS ROAD SCHEMES

OFFICES



ANNUALISED CURRENT INCOME
BY VILLAGE¹



- Carnaby
- Covent Garden
- Chinatown
- Soho
- Charlotte Street

WHOLLY-OWNED

Area sq. ft.

406,000

Weighted average unexpired
lease term

4 years

Current income

£16.4m

LONGMARTIN

Area sq. ft.

102,000

Weighted average unexpired
lease term

5 years

Current income

£2.7m

16%
of annualised
current income¹



LARGE PROVIDER OF SMALL OFFICE SPACE IN THE CORE WEST END

We are an important provider of small, affordable office space in the core West End, with 406,000 sq. ft. of accommodation in the wholly-owned portfolio, let to 246 tenants, of which 87% occupy less than 2,500 sq. ft.

Our average letting is 1,440 sq. ft., often over more than one floor, at £51 per sq. ft. (2015: £46 per sq. ft.). The average ERV is £61 per sq. ft. (2015: £56 per sq. ft.).

STRONG DEMAND, WITH LOW AVAILABILITY OF SPACE

Demand for our smaller office accommodation is good, particularly from the SME media, creative, fashion and tech sectors, which traditionally have been based in Soho and Covent Garden.

Over recent years, office-to-residential conversions and redevelopment of multi-let office buildings, to higher specification, larger floor plate space, has reduced the availability of smaller office accommodation across our locations.

With occupier demand outstripping availability of space, rental levels have grown and vacancy levels remain extremely low.

TYPICAL LEASE TERMS

Smaller offices: 3-5 years

Larger offices: 5-10 years, with break options at year 5

Incentives: Short rent-free period. No contribution to fit-out costs

LETTING ACTIVITY DURING THE YEAR

Lettings/rent reviews¹:

£3.1 million

(12.8% of office ERV)

26 New lettings

35 Lease renewals

1 Rent review

EPRA vacancy¹ at 30 September 2016:
4.1%, of which 3.3% was under offer.

Our share of lettings and rent reviews
in the Longmartin joint venture: £0.6m.

KEY PRIORITIES FOR 2017

Continue reconfiguring/
upgrading our office space
to ensure it meets modern,
flexible working space standards
and to improve its environmental
performance to minimise
occupation costs.

Progress our 57 Broadwick
Street redevelopment.

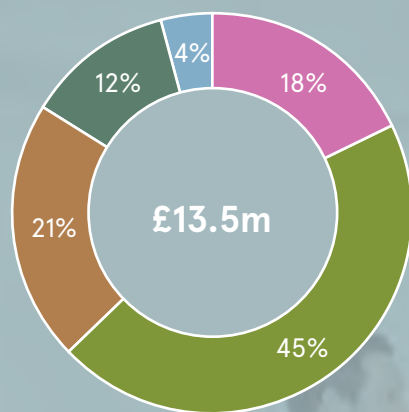
¹ Wholly-owned portfolio

➡ SEE PAGE 51 FOR FURTHER INFORMATION ON
THE 57 BROADWICK STREET SCHEME

RESIDENTIAL



ANNUALISED CURRENT INCOME
BY VILLAGE¹



- Carnaby
- Covent Garden
- Chinatown
- Soho
- Charlotte Street

WHOLLY-OWNED

Apartments

559

Area sq. ft.

332,000

Current income

£13.5m

LONGMARTIN

Apartments

75

Area sq. ft.

55,000

Current income

£1.2m

14%
of annualised
current income¹



POPULAR AREA TO LIVE

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

RELIABLE AND GROWING CASH FLOW

Occupancy levels in our apartments are high and, with strong demand, they produce a growing and reliable income stream.

GENERALLY, WE DO NOT SELL OUR APARTMENTS

Most of the value of our buildings is in the commercial uses on the lower floors. We prefer to retain control over whole buildings to avoid compromising the management flexibility needed to realise the long-term potential in those valuable lower floors. Therefore, generally, we choose not to sell our apartments.

TYPICAL LEASE TERMS

Three year Assured Shorthold Tenancies

Let unfurnished

Annual RPI uplifts

Mutual break options on a rolling two-month basis after the first six months

LETTING ACTIVITY DURING THE YEAR

Lettings/renewals¹

£6.2 million

(37.6% of residential ERV)

200 Lettings

29 Renewals

Vacancy¹ at 30 September 2016:
eleven apartments, of which ten were
under offer.

Our share of lettings and renewals
in the Longmartin joint venture: £0.5m.

KEY PRIORITIES FOR 2017

Continue our rolling
refurbishment programme to
upgrade our apartments and
improve their rental prospects.

Identify future potential
residential conversions.

¹ Wholly-owned portfolio

B E R W I C K
S T R E E T
C A L L I N G



APRIL						
S	M	T	W	T	F	S
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3	4	5	6	7	8	9
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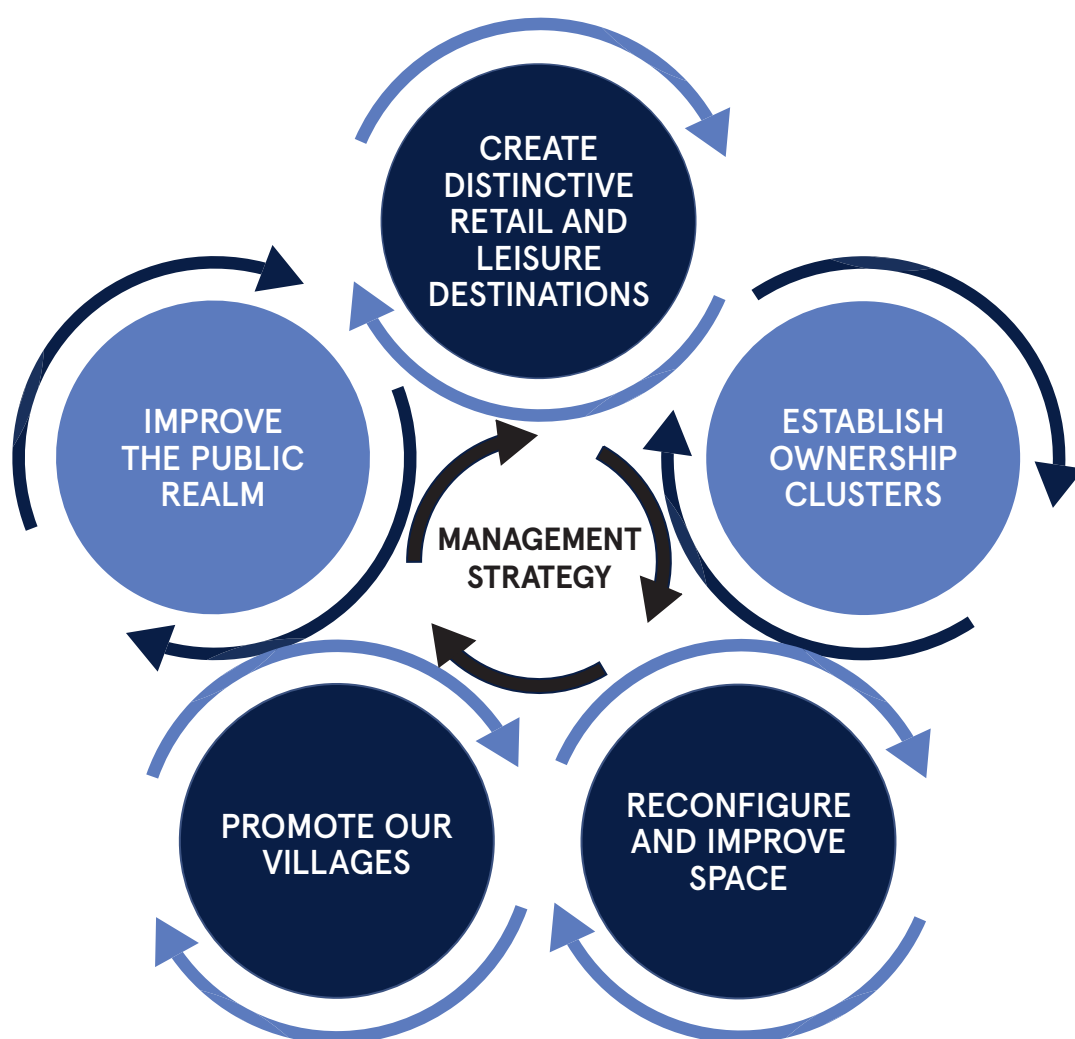
BERWICK
STREET
CALLING/
RECORD
STORE
DAY

Our three-month campaign to discover up-and-coming music talent, the start of which coincided with Record Store Day, had over 4,000 entries. The winning band was awarded a studio session to produce a vinyl record, which was sold in ten Berwick Street shops, with proceeds going to charity partner House of St Barnabas.



"Vinyl is the real deal. I've always loved it until you buy the vinyl record. It's your own thing or something."

CREATE PROSPEROUS ENVIRONMENTS FOR TENANTS



CREATING DISTINCTIVE RETAIL AND LEISURE DESTINATIONS

Our proven management strategy creates long-term prosperity by establishing and fostering distinctive and attractive destinations which appeal to visitors, occupiers and residents. Providing our retail, restaurant and leisure tenants with an environment where they can prosper is essential to the long-term success of our business.

We achieve this through:

- Managing the long-term retail and leisure tenant-mix strategy. This includes clustering similar uses and brands
- Encouraging new retail, restaurant and leisure formats to ensure our villages respond to ever-changing tastes and expectations
- Managing planning uses to maximise rental and capital values

OWNERSHIP CLUSTERS

Over the years, we have identified well-located areas where the footfall potential is good but rents are initially low, often because they have suffered from fragmented ownership, lack of investment, and the absence of a coherent strategy for uses and tenant mix.

Establishing ownership clusters enable us to take a long-term holistic view in our investment and management strategies. This allows us to unlock rental and capital value potential whilst compounding the benefits of individual transactions, such as improved tenant quality and higher rental tones, across our adjacent and nearby holdings.

CREATE PROSPEROUS ENVIRONMENTS FOR TENANTS CONTINUED

ACTIVE REFURBISHMENT PROGRAMME TO IMPROVE OUR BUILDINGS, GROW RENTS, AND UNLOCK VALUE

We estimate that the average age of our buildings is around 150 years. In our experience, these buildings offer much greater flexibility than more modern buildings. Conservation and listed building legislation limits wholesale development in our areas. However, our skill is in bringing long-term economic and environmental sustainability to our properties and areas through refurbishment and reconfiguration to improve our buildings, enhance their rental potential and capital values, and extend their useful lives. This involves a combination of:

- Maximising retail, restaurant and leisure space
- Reconfiguring buildings to provide occupiers with more efficient trading space
- Maintaining and improving buildings to ensure they are capable of meeting the needs of modern occupiers
- Maximising environmental performance whilst maintaining buildings' individual characters
- Converting under-utilised space on upper floors to introduce more valuable uses and bring long-term economic sustainability to buildings as a whole

Typically, the duration of our schemes is short and the costs are modest. Annual capital expenditure is normally less than 1% of portfolio value.

Details of the impact of our business on the environment are set out in Sustainability on pages 72 to 76.

PROMOTING OUR VILLAGES AS DESTINATIONS WITH A WIDE VARIETY OF INTERESTING, INNOVATIVE AND EVER-CHANGING CHOICES

We work closely with our tenants to promote our areas and their businesses to the West End's wide domestic and international audience.

Our multi-channel marketing includes:

- Widely publicised initiatives such as shopping, street food and music events
- An active digital strategy, including dedicated websites for our villages, and an extensive social media presence
- Decorating our villages e.g. at Christmas and for Chinese New Year

We build on relationships with our existing tenants who are not only a great source of new ideas, but also have their own promotional and digital strategies which bring further footfall to our villages.

We invest considerable resources in promoting our areas to potential retail, restaurant and leisure operators. This includes active engagement with trade press, research visits to UK and international cities, and attendance at trade events.

INVESTING IN THE PUBLIC REALM TO CREATE SAFE AND WELCOMING AREAS

We identify, promote and contribute to public realm improvements in our villages to ensure our streetscapes provide a safe and welcoming environment for tenants, their customers, and residents. In our experience, this is an important catalyst for increasing footfall.



APRIL

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3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30

LONDON COFFEE NIGHT

The London Coffee Festival celebrates London's bustling and vibrant coffee scene. We supported this campaign with a series of digital promotions to showcase cafés and café-culture across our portfolio.



EXPERIENCED MANAGEMENT TEAM WITH AN INNOVATIVE APPROACH TO LONG-TERM, SUSTAINABLE INCOME AND VALUE CREATION



FORENSIC KNOWLEDGE OF THE WEST END

Our long-established team has a forensic knowledge of the West End and experience of management through different economic cycles. Our executive directors have an average length of service of nearly 23 years, and the senior management team has twelve years’ average service. The experience and diversity of our team is an essential element of our success. Details of our diversity policy are set out in the Nomination Committee report on page 88. How we invest in the welfare and development of staff is set out in Sustainability on page 76.

We are supported by a broad range of external advisors, who bring us both ideas and their wide experience, gained from other clients. Everybody involved with Shaftesbury – staff and advisors – shares a passion and enthusiasm for the West End and our locations.

RELATIONSHIPS WITH KEY STAKEHOLDERS

Based in Carnaby, we are within fifteen minutes’ walk of all our holdings. We maintain regular contact with tenants, community groups, neighbouring owners and other stakeholders, and are able to respond quickly to opportunities and issues as they arise.

As a long-term investor in our areas, we are active in working with, and supporting, our local community to address issues and challenges of mutual interest and concern.

Also, we work closely with Westminster City Council and the London Borough of Camden to achieve our shared goal of a safe, lively and prosperous West End. We assist with the challenges of managing areas which attract huge numbers of visitors throughout the day and late into the night, every day of the week, whilst balancing the needs of local businesses and residents.

Details of how our activities are aligned with the local community and key stakeholders are set out in Sustainability on page 75. Human Rights are discussed in the Corporate Governance Report on page 84.



APRIL						
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THE MAGIC CIRCLE
The magician, Dynamo, unveiled a blue plaque to commemorate the Magic Circle, which was founded in 1905 at the Pinoli Restaurant, 17 Wardour Street, Chinatown.

➡ SEE PAGES 80 TO 81 FOR DIRECTOR BIOGRAPHIES

➡ SEE SUSTAINABILITY ON PAGES 72 TO 76

PRUDENT FINANCIAL MANAGEMENT A STRONG BALANCE SHEET AND A TAX-EFFICIENT STRUCTURE



SOURCES OF CAPITAL

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

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

LOW-RISK DEBT STRUCTURE

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

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

TAX-EFFICIENT REIT STRUCTURE

As a REIT, we are a tax-efficient vehicle for many investors. We do not pay tax in respect of rental profits and chargeable gains relating to our property rental business. However, we are required to distribute at least 90% of the qualifying REIT income as a PID. This is treated as income for investors, and is taxed according to their own tax status. PIDs are subject to withholding tax at basic rate income tax, except for certain classes of investors who can register to receive their distributions gross, rather than net.

Healthy interest cover	→	Year ended 30 September 2016: 2.1 times
Low loan-to-value ratio ¹	→	30 September 2016: 25.8%
Spread of maturities and diversity of lenders	→	Earliest maturity: 2018 Latest maturity: 2035 Weighted average maturity ¹ at 30 September 2016: 10.8 years
Limited exposure to interest rate movements	→	% of debt fixed ¹ at 30 September 2016: 99%

➡ SEE PAGES 58 AND 59 FOR FURTHER INFORMATION ON OUR REIT STATUS AND DIVIDENDS

➡ SEE FINANCE REVIEW ON PAGE 62

¹ Pro-forma for the issue of 2.487% Mortgage Bonds 2031 and redemption of 8.5% Debenture Stock 2024, and for cancellation of interest rate swaps with a notional principal of £55m in October 2016



CARNABY STYLE NIGHT

This was the fifth year for the Carnaby shopping event in partnership with GQ. 120 shops and restaurants participated, offering 20% discounts, music, and other activities.



MAY

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HOW WE MEASURE SUCCESS ALIGNMENT WITH REMUNERATION



LONG-TERM PERFORMANCE MEASURES TOTAL SHAREHOLDER RETURN (TSR)

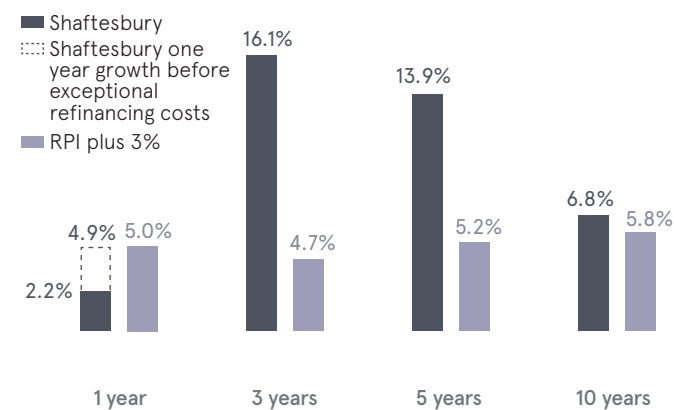


This measures returns to shareholders, taking into account share price movements and dividends in the period.

For LTIPs granted before 2016, we benchmark TSR against the FTSE 350 Real Estate Index. Thereafter, LTIPs are benchmarked against the FTSE 350 REIT Index. The benchmark used in chart above is the FTSE 350 Real Estate Index.

We have outperformed the benchmark over each period measured.

EPRA NAV (COMPOUND ANNUAL GROWTH)



This is the traditional sector measure of value creation.

We benchmark the compound annualised growth rate against the Retail Price Index plus 3%.

With the exception of the current year, we have outperformed the benchmark over each period measured.

EPRA NAV at 30 September 2016 took into account the exceptional costs of refinancing our 8.5% Debenture Stock 2024 and for the cancellation of interest rate swaps with a notional principal of £55m. These reduced EPRA NAV by 24 pence per share. Excluding these exceptional costs, one-year growth was 4.9%.

Alignment with remuneration: The three-year relative performance for each of these measures is used in calculating performance for the LTIP.

OPERATIONAL MEASURES (KPIs)

SUSTAINED RENTAL GROWTH

Typically, we crystallise our portfolio's reversionary potential into cash flow over a three-to-five year period. In measuring our success, achieving rents above ERV is a KPI. With every letting, lease renewal and rent review, we aim to establish rental tones which exceed the ERV assessed by our external valuers. In doing so, we improve the reversionary potential by

generating market rental evidence on individual properties and across our neighbouring holdings. It is this rental potential which delivers future income and capital growth.

Our strategy has delivered sustained growth in current income and rental values over many years. The 10-year compound annual growth rate in annualised current

income and ERV of our portfolio has been 7.4% p.a. and 7.7% p.a. respectively, with growth in current income every year¹.

Over the past decade, the ERV of the portfolio has been, on average, 24.6% above annualised current income at each year end. The reversion currently stands at £29.1 million, 26.6% above annualised current income.



ANNUAL KPI

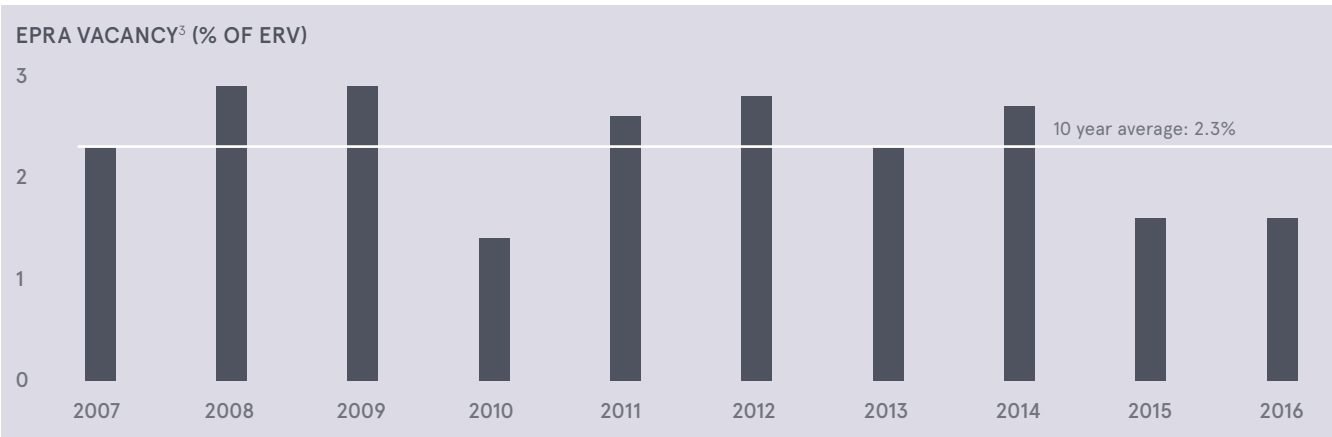
Achieve growth in ERVs

RESULT FOR YEAR ENDED 30 SEPTEMBER 2016

Commercial lettings/renewals/rent reviews³: +7.7% vs ERV at September 2015

MAXIMISE OCCUPANCY

With sustained tenant demand, vacancy levels are typically low, with average EPRA vacancy³ over the past ten years of 2.3% of ERV. At 30 September 2016, EPRA vacancy was 1.6%.



ANNUAL KPI

Let vacant space quickly

RESULT FOR YEAR ENDED 30 SEPTEMBER 2016

1.2 months' average letting time³

Alignment with remuneration: We use these KPIs as targets for the annual bonus scheme.

SEE PAGE 100 FOR HOW THESE MEASURES FORM PART OF THE BONUS FOR THE YEAR ENDED 30 SEPTEMBER 2016

SEE PAGE 53 FOR MORE INFORMATION ON VACANCY

¹ Data includes acquisitions

² Including our 50% share of property held in joint venture

³ Wholly-owned portfolio





STRATEGIC REPORT **ANNUAL REVIEW**

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JUNE

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STYLE SATURDAY

Traffic-free and filled with entertainment, the area around the iconic monument, at the centre of Seven Dials, was transformed into an urban garden, complete with pop-up tepee, green lawn with deck chairs and garden games. Across the seven streets, a series of free activities could be found both in-store and outdoors. Celebrating everything that's stylish in Seven Dials, the day involved fashion, food, music, shopping and more.



PORTFOLIO VALUATION

ACROSS OUR PORTFOLIO, STRONG DEMAND AND EXTENSIVE ASSET MANAGEMENT ACTIVITY IS DELIVERING CONTINUED GROWTH IN CURRENT RENTS AND ERVs, DRIVING CAPITAL VALUE GROWTH.

£3.35bn

Portfolio valuation¹

4.0%

Capital value growth^{1,2}

5.7%

ERV growth^{1,2}

4.9%

Underlying growth^{1,2}
before SDLT increase

The valuation of our portfolio, including our 50% share of the Longmartin joint venture, increased by £216 million to £3.35 billion over the year. The ungeared, like-for-like valuation growth was 4.0%, after a reduction of 0.9% as a result of an increase in SDLT on commercial property of 1%, imposed in the March 2016 Budget.

VILLAGE	2016 CAPITAL GROWTH ²	3-YEAR CAGR ²
Carnaby	4.9%	16.9%
Covent Garden	3.2%	12.2%
Chinatown	2.7%	12.4%
Soho	5.3%	12.1%
Charlotte Street	4.0%	13.2%
Longmartin JV ³	5.1%	15.2%
	4.0%	14.1%

	VALUATION £M	% OF PORTFOLIO	ANNUALISED CURRENT INCOME £M	ERV £M	TOPPED-UP INITIAL YIELD %	EQUIVALENT YIELD %
Wholly-owned portfolio						
Carnaby	1,161.0	35%	39.6	48.8	3.22%	3.65%
Covent Garden	875.0	26%	27.5	35.9	2.89%	3.57%
Chinatown	725.9	22%	22.3	29.2	3.09%	3.40%
Soho	244.0	7%	8.0	10.0	3.30%	3.63%
Charlotte Street	117.7	3%	3.6	4.8	2.79%	3.52%
	3,123.6	93%	101.0	128.7	3.08%	3.57%
Longmartin joint venture ³	224.4	7%	8.6	10.0	3.38%	3.79%
Total portfolio¹	3,348.0	100%	109.6	138.7		

¹ Including our 50% share of the Longmartin joint venture

² Like-for-like

³ Our 50% share





JUNE						
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PRIDE IN LONDON

Pride in London is the capital's biggest LGBT community event. We became a corporate sponsor for the first time in 2016 and the iconic Carnaby arch was decorated as a rainbow, with the Pride campaign hash tag #NoFilter. Restaurants and bars across Carnaby, Seven Dials and Berwick Street, celebrated with a host of exclusive offers, events and promotions.



PORTFOLIO VALUATION CONTINUED

VALUATION INCREASE DRIVEN BY STRONG RENTAL GROWTH

Sustained demand for space across our portfolio, together with extensive asset management activity, continue to deliver growth in current income and rental values. Our management strategies have a relentless focus on, and a long record of, converting the potential reversion in our portfolio into cash flow, whilst further increasing rental values.

Annualised current income increased on a like-for-like basis by 6.2%. Importantly, the ERV of our portfolio¹, which is based on currently established rental tones, increased on a like-for-like basis by 5.7% and currently stands at £138.7m, 26.6% above current income. The components of this reversionary potential are shown opposite.

64% of the uncontracted, under-rented reversion is accounted for by shops, restaurants, cafés and pubs. In our locations, these uses have a long history of sustained, non-cyclical demand, which, together with a restricted supply of space, underpins their growth prospects. We remain confident that, with our proven long-term management strategy, we shall not only continue to convert this rental potential into cash flow, but also deliver further long-term growth in rental values.

INVESTMENT SECURITY, GROWING RETURNS AND LOW OBSOLESCENCE

Investor interest remains strong for properties like ours, which provide investment security, low vacancy, growing returns and limited exposure to obsolescence. This is further fuelled by the current availability of finance at historically low levels.

Against this backdrop of strong demand, availability of properties to purchase remains limited.

Equivalent yields, attributed by our external valuers, have remained broadly unchanged over the year with the wholly-owned portfolio at 3.57% (2015: 3.61%), and the Longmartin joint venture at 3.79% (2015: 3.75%).

The valuation of our larger schemes does not include expected development profits which will be recognised once they are completed and let.

POTENTIAL GREATER VALUE FOR SOME, OR ALL, PARTS OF THE PORTFOLIO

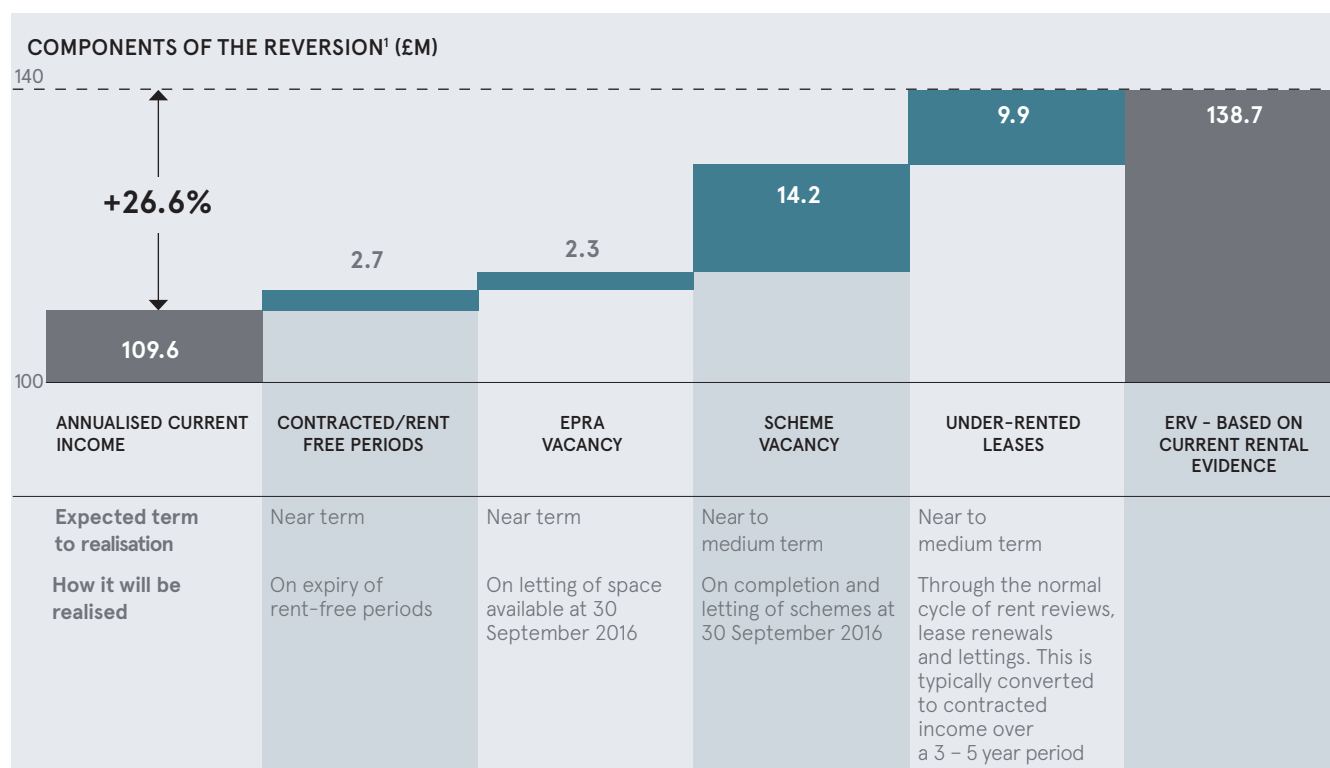
DTZ, independent valuer of our wholly-owned portfolio, has continued to note that:

- our portfolio is unusual in its substantial number of predominantly restaurant and retail properties in adjacent, or adjoining, locations in London's West End; and
- there is a long record of strong occupier demand for these uses in this location and, consequently, high occupancy levels throughout the portfolio.

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

PORTFOLIO VALUATION CONTINUED

RENTAL GROWTH	ANNUALISED CURRENT INCOME ¹ £M	ERV ¹ £M	REVERSIONARY POTENTIAL ¹ £M
At 30 September 2015	102.6	127.8	25.2
Contribution from acquisitions	1.4	2.6	1.2
Impact of major schemes ²	(0.6)	1.3	1.9
Underlying growth	6.2	7.0	0.8
At 30 September 2016	109.6	138.7	29.1
Like-for-like growth³	6.2%	5.7%	



➡ SEE PAGE 50 FOR FURTHER DETAILS OF SCHEME VACANCY

➡ SEE PAGE 53 FOR INFORMATION ON EPRA VACANCY

1 Including our 50% share of the joint venture

2 Charing Cross Road/Chinatown, Thomas Neal's Warehouse, Seven Dials, 57 Broadwick Street, Carnaby and Foubert's Place/Kingly Street, Carnaby

3 Excluding acquisitions and the impact of major schemes





STREET EAT

Carnaby's Street Eat returned in July for a free one-day food festival in the heart of London's West End. Visitors enjoyed over 30 delicious food stalls serving over 20 cuisines from around the world, courtesy of Carnaby's restaurants, bars and cafés. It created a family-friendly carnival atmosphere with live music and entertainment on the streets. Also, we used the event as an opportunity to promote biodiversity and explain our role in Wild West End.

JULY

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INVESTING IN OUR PORTFOLIO

EXTENSIVE ASSET MANAGEMENT AND REFURBISHMENT

ACTIVITY DELIVERING INCREASING INCOME AND UNLOCKING VALUE.

249,000 sq. ft.

Space under refurbishment during the year

£32.6 million

Capital expenditure

£62.7 million

Acquisitions

EXTENSIVE ACTIVITY

Schemes during the year extended to 249,000 sq. ft. (circa 14% of wholly-owned floor space), at a cost, during the year, of £32.6 million. Where possible, we seek to negotiate early vacant possession of under-rented space to implement further asset management initiatives to accelerate the capture of, and growth in, our portfolio's reversionary potential. During the year we secured 71 planning consents, a vital part of maintaining a pipeline of projects.

GOOD PROGRESS WITH MAJOR SCHEMES

At 30 September 2016, space held for, or under, refurbishment extended to 202,000 sq. ft., and represented 11% of ERV, an increase of 6.7% during the year. This included our three major schemes: Thomas Neal's Warehouse, Seven Dials, Charing Cross Road/Chinatown and 57 Broadwick Street, Carnaby, which totalled 101,200 sq. ft. and represented 5.7% of ERV.

Each of these major schemes is well-positioned to benefit from expected changes in footfall following the opening of the Elizabeth Line in 2018 and will bring significant long-term benefits to our

neighbouring ownerships. Our selection of tenants, and how they intend to use this exciting new space, will be particularly important to their success. Inevitably, with space of this size, where occupiers will be investing heavily in their fit-outs, letting periods are likely to be longer than the smaller space we traditionally have to offer.

Once let, these schemes will add £7.4 million to our annual income. Importantly, since the restaurant and retail space on the lower floors, extending to 79,200 sq. ft., will be provided in shell form only, further rental growth will come with little, or no further, capital expenditure.

VACANT SPACE HELD FOR, OR UNDERGOING, REFURBISHMENT AT 30 SEPTEMBER 2016¹

	RESTAURANTS, CAFÉS AND LEISURE £M	% OF TOTAL ERV					
		SHOPS £M	OFFICES £M	RESIDENTIAL £M	TOTAL £M	30.9.16 %	30.9.15 %
Major schemes ²	1.4	4.2	1.7	0.1	7.4	5.7%	1.4%
Other schemes	1.4	1.5	1.9	2.0	6.8	5.3%	2.9%
Total	2.8	5.7	3.6	2.1	14.2	11.0%	4.3%
Area ('000 sq. ft.)	35	80	51	36	202		82

¹ Wholly-owned portfolio

² Charing Cross Road/Chinatown, Thomas Neal's Warehouse, Seven Dials, 57 Broadwick Street, Carnaby.

INVESTING IN OUR PORTFOLIO CONTINUED

THOMAS NEAL'S WAREHOUSE, SEVEN DIALS

We completed the reconfiguration of Thomas Neal's Warehouse, Seven Dials, in October 2016.

The scheme provides 22,700 sq. ft. of retail space, including up to 3,000 sq. ft. for restaurant use. Marketing is now underway and the level of initial interest is encouraging.

Located close to the new Tottenham Court Road transport hub, this flagship accommodation, together with major public realm improvements in 2017, will further strengthen Seven Dials as a popular and distinctive retail and leisure destination.

Earlham Street, which is part of an important pedestrian route from Soho towards Thomas Neal's Warehouse, is set to undergo a major upgrade, commencing in spring 2017. Rental tones in this important gateway into Seven Dials from Cambridge Circus have lagged behind nearby streets for some time. However, with an expectation of increased footfall from Tottenham Court Road and the benefit of improvements to Cambridge Circus to relieve pedestrian congestion, planned for early 2017, this should bring material long-term benefits to this street, as well as our other holdings in Seven Dials.



CHARING CROSS ROAD/CHINATOWN

Having commenced this scheme in January 2016, we have now passed the half-way point and are on track to complete our works in spring 2017. Located next to Leicester Square Underground station, and within a short walk of Tottenham Court Road station, it will bring major improvements to this important block on Chinatown's eastern boundary, which we expect to provide material benefits to our other holdings in Chinatown.

The scheme will provide:

- 35,000 sq. ft. of retail along a 330-foot frontage on Charing Cross Road, a street with high footfall, which is expected to grow materially once the Elizabeth Line opens.
- 13,500 sq. ft. of restaurant space, fronting Newport Place and Newport Court.
- a much-improved gateway into Chinatown.

We are creating space with exceptional floor-to-ceiling heights, providing an opportunity to increase floor space by adding mezzanine floors in a number of locations within our scheme, if required by tenants.

Formal marketing will commence in early 2017, once works are sufficiently progressed to show the accommodation to prospective occupiers. The expected cost is £14.5 million, of which £8.4 million had been incurred by 30 September 2016.

We continue to support Westminster City Council's plans to create a part-pedestrianised public square in Newport Place, at the eastern end of Gerrard Street. This will provide the opportunity, subject to licensing and planning consents, for al fresco dining for our newly-created restaurants, and significantly improve the public realm in Chinatown. Currently we expect works to begin in late spring 2017.

57 BROADWICK STREET, CARNABY

Having completed strip-out works, in September construction commenced at our major mixed-use project at 57 Broadwick Street, Carnaby. Situated within a few minutes' walk of Tottenham Court Road's new western ticket hall on Dean Street, this 30,000 sq. ft. scheme at this eastern gateway to Carnaby will provide:

- flagship retail space and a restaurant, together extending to 8,000 sq. ft., over the lower floors;
- 20,000 sq. ft. of refurbished and extended grade A office accommodation across the upper floors; and
- two apartments totalling 2,000 sq. ft.

The project will complete in phases from late 2017, at an estimated cost of £14.5 million, of which £3.1 million had been incurred by 30 September 2016.

With an expectation of increased footfall along Broadwick Street, Westminster City Council have designated this improving thoroughfare as a priority pedestrian route and have now begun a programme to improve the streetscape.



OTHER SCHEMES

At 30 September 2016, we were progressing other projects, extending to 100,800 sq. ft. and representing 5.3% of ERV. These included the reconfiguration and improvement of 16,800 sq. ft. of retail, 19,000 sq. ft. of restaurants and cafés, 31,000 sq. ft. of office space, and 56 apartments either being created or upgraded. We expect these to complete and become income-producing in the coming year.

INVESTING IN OUR PORTFOLIO CONTINUED

ACQUISITIONS WITH THE POTENTIAL FOR RENTAL AND CAPITAL GROWTH

Acquisitions during the year totalled £62.7 million. These additions to our portfolio in Covent Garden, Soho and Charlotte Street comprised nine shops, five restaurants and cafés, 2,850 sq. ft. of office space and four apartments.

On acquisition, they produced an average net initial yield of 2.4%. As we integrate them with our existing ownerships, they offer the potential for good rental and capital growth through short and medium-term asset management initiatives, some of which have already commenced.

We continue to seek out new acquisitions, but remain disciplined, concentrating on buildings:

- in, and around, our villages;
- which have a predominance of, or potential for, restaurant, leisure and retail uses; and
- which offer the potential for future rental growth, either individually or through combination with our existing ownerships.

As ever, the availability of buildings which fit these strict investment criteria remains limited, with existing owners reluctant to sell assets which they will find hard to replace in this exceptionally prosperous and resilient area.

JULY

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CHINATOWN GATE

A new authentic Chinatown gate was inaugurated by H.R.H. The Duke of York and the Chinese Ambassador to the UK. The gate, made in China from traditional materials and crafts, acknowledges the important contribution the Chinese community makes to London and the West End. We supported the initial planning for this community-inspired project.

LEASING AND OCCUPANCY

DEMAND CONTINUES TO BE STRONG FOR ALL USES AND ACROSS EACH LOCATION. SPACE CONTINUES TO LET QUICKLY AND VACANCY LEVELS REMAIN LOW.

LEASING

During the year, we concluded lettings, lease renewals and rent reviews in the wholly-owned portfolio with a rental value of £27.8 million (2015: £27.3 million), representing 21.6% of total ERV. Of this, commercial transactions totalled £21.6 million (2015: £21.6 million) and residential lettings and renewals amounted to £6.2 million (2015: £5.7 million). Rents achieved for commercial uses were, on average, 7.7% above ERV at 30 September 2015.

Our share of leasing activity in the Longmartin joint venture was £2.7 million. Commercial rents achieved were, on average, 6.2% above ERV at 30 September 2015.

	£m	
Commercial		
Lettings and lease renewals	11.4	+9.2% vs September 2015 ERV
Rent reviews	10.2	+29.2% vs previous rent (equivalent to 5.3% CAGR over five years)
	21.6	+7.7% vs September 2015 ERV
Residential		
Lettings and renewals	6.2	+2.5% vs prior rent
Total¹	27.8	

VACANCY

With sustained tenant demand for space, EPRA vacancy has been, on average, 1.9% of total ERV over the year. At 30 September 2016, it stood at 1.6%, of which 1.1% was under offer.

Available-to-let vacancy comprised: five small shops, one restaurant, 3,000 sq. ft. of office space and one apartment.

Space under offer at 30 September 2016 included four cafés, 11,000 sq. ft. of office accommodation and ten apartments.

In the Longmartin joint venture, two shops, 4,000 sq. ft. of office space and two apartments were available-to-let or under offer. The ERV of our 50% share of EPRA vacancy was £0.3 million.

EPRA VACANCY AT 30 SEPTEMBER 2016¹

	RESTAURANTS, CAFÉS AND LEISURE £M	SHOPS £M	OFFICES £M	RESIDENTIAL £M	% OF TOTAL ERV		
					TOTAL £M	30.9.16 %	30.9.15 %
Under offer	0.3	–	0.8	0.3	1.4	1.1%	0.3%
Available-to-let	0.1	0.3	0.2	–	0.6	0.5%	1.3%
EPRA vacancy	0.4	0.3	1.0	0.3	2.0	1.6%	1.6%
Area ('000 sq. ft.)	6	4	14	7	31		28

¹ Wholly-owned portfolio



THE OLYMPICS

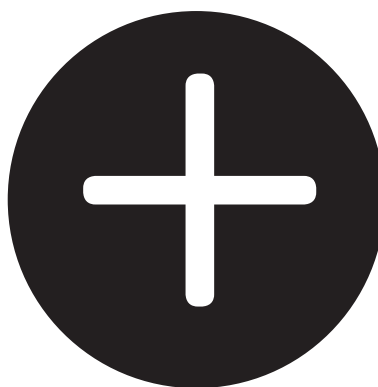
To cheer on Team GB at the 2016 Olympic Games in Rio, we created a 200 metre interactive art installation stretching around our Charing Cross Road/Chinatown scheme. Passers-by could take a pin badge, from the 10,000 which created the artwork, to show their support for our athletes.

AUGUST

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HURDLES



WRESTLING



TRACK



WEIGHTLIFTING



GOLF



TABLE TENNIS



HOCKEY



WOMEN'S FOOTBALL



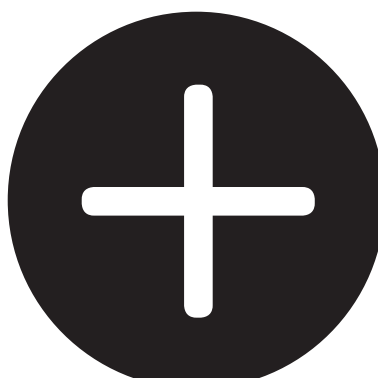
RHYTHMIC GYMNASTICS



BOXING



SHOW JUMPING



TRACK CYCLING

FINANCIAL RESULTS

THIS HAS BEEN ANOTHER GOOD YEAR FOR SHAFTESBURY WITH FURTHER GROWTH IN INCOME, EARNINGS, DIVIDENDS AND NAV.

REPORTED RESULTS

+2.6%

£8.54

Diluted NAV

+6.7%

£84.1m

Net property income

-78.8%

35.6p

Basic EPS

+6.9%

14.7p

Dividends per share

EPRA RESULTS

+2.2%

£8.88

EPRA NAV

+3.8%

NAV return

+8.0%

£39.0m

EPRA earnings

+7.7%

14.0p

EPRA EPS

INCOME STATEMENT

Reported earnings

Profit after tax for the year was £99.1 million (2015: £467.3 million) and basic earnings per share was 35.6 pence, compared with 168.0 pence in 2015. The decrease was largely due to a lower revaluation surplus on our portfolio¹, which contributed 43 pence (2015: 167 pence), and the recognition of the fair value of our 8.5% Debenture Stock, which reduced basic earnings per share by 10 pence.

EPRA earnings

As is usual practice in our sector, we produce an alternative measure for certain indicators, including earnings, making adjustments set out by EPRA in its Best Practice and Policy Recommendations. EPRA earnings are a measure of the level of underlying operating results and an indication of the extent to which current dividend payments are supported by recurring earnings. In our case, EPRA earnings excludes valuation movements in respect of our properties and interest rate swaps and ignores deferred tax arising in

our Longmartin joint venture. The one-off charge from recognising the fair value of our Debenture Stock in the current year has also been excluded, as set out in the reconciliation opposite.

EPRA earnings increased by 8.0% to £39.0 million (2015: £36.1 million). EPRA EPS was 14.0 pence, 7.7% above last year (2015: 13.0 pence). The increase in earnings was driven principally by increased net property income, partly offset by higher finance costs.

¹ Including our 50% share of the joint venture

➔ SEE PAGE 62 FOR DETAILS ON THE REFINANCING OF OUR DEBENTURE STOCK

FINANCIAL RESULTS CONTINUED

EPRA EARNINGS	2016 £M	2015 £M
IFRS profit after tax	99.1	467.3
Adjusted for:		
Change in value of investment properties	(108.3)	(432.0)
Change in fair value of financial derivatives	34.9	28.5
Recognition of fair value of Debenture Stock	29.2	-
Adjustments in respect of the Longmartin joint venture:		
Change in value of investment properties	(11.3)	(34.6)
Deferred tax	(4.6)	6.9
EPRA earnings	39.0	36.1
EPRA EPS	14.0p	13.0p

Net property income

Rents receivable increased by 7.2% to £98.4 million (2015: £91.8 million) as we continue to convert our portfolio's reversionary potential into contracted cash flow.

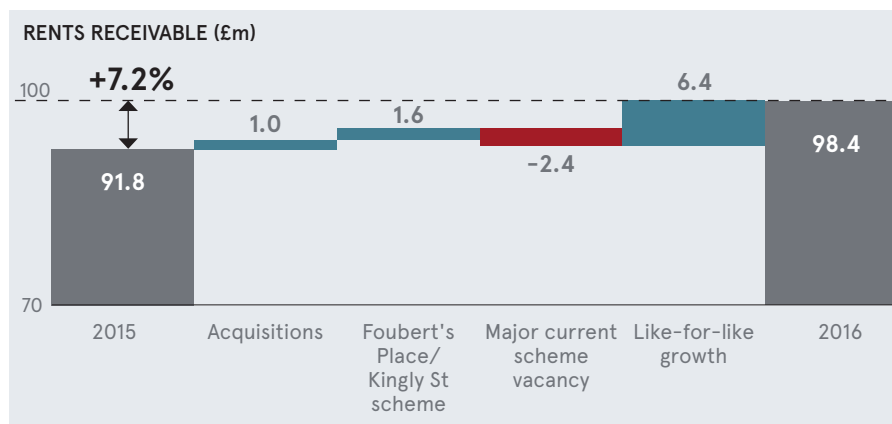
Acquisitions accounted for £1.0 million of this increase. Our scheme at Foubert's Place/Kingly Street, Carnaby, which became income-producing in the second half of last year, contributed £1.6 million. This was offset by vacancy at major schemes which commenced this year, reducing rents receivable by £2.4 million compared with 2015.

Like-for-like growth in rental income, excluding the impact of acquisitions and major refurbishment schemes, was 7.3%.

Irrecoverable property charges were £14.3 million (2015: £13.0 million), representing 14.5% of rents receivable (2015: 14.2%).

The increase compared with last year is, in part, due to a higher level of asset management activity. Also, it reflects increased marketing and promotion of our villages, a key aspect of our long-term strategy.

Net property income was £84.1 million, an increase of 6.7% on last year (2015: £78.8 million).



➡ SEE PAGES 50 TO 52 FOR FURTHER INFORMATION ON THESE MAJOR REFURBISHMENT SCHEMES AND ACQUISITIONS

SPORTING HEROES

As part of the 50th anniversary of the 1966 World Cup, Carnaby was visited by football icons Geoff Hurst and Pelé. Current England cricketers, Ben Stokes and Joe Root, gave cricket coaching to competition winners and visitors to St Martin's Courtyard were treated to a "Haka", ahead of the forthcoming British Lions tour.

Photographs of Geoff Hurst, Pelé, Ben Stokes and Joe Root courtesy of Pro Direct



Administrative expenses

Administrative expenses, excluding the charge for equity-settled remuneration, totalled £11.6 million (2015: £11.0 million). This includes a charge for annual bonuses of £3.0 million (2015: £2.2 million).

The charge for equity-settled remuneration was £2.5 million (2015: £3.0 million). This included a non-cash accounting provision of £1.9 million (2015: £2.3 million) and a charge for employer's National Insurance of £0.6 million (2015: £0.7 million).

Revaluation surplus

The revaluation surplus from our wholly-owned portfolio was £108.3 million (2015: £432.0 million). This surplus represented a like-for-like increase of 3.9%, principally driven by like-for-like growth in contracted income and ERV of 6.0% and 5.5% respectively. The increase in SDLT for commercial properties reduced values by 0.9%.

Finance costs

With higher net debt as a result of acquisitions and further investment in our portfolio, net finance costs (excluding the change in fair value of our interest rate swaps and the one-off charge from recognising the fair value of our Debenture Stock) increased by £2.9 million to £33.6 million (2015: £30.7 million).

Having modified the terms of our 8.5% Debenture Stock 2024 in September 2016, in anticipation of a new bond issue, we

recognised the fair value of the Stock, to reflect the expected net present value of the future cash flows, including an early redemption penalty. This resulted in a one-off, non-cash charge to finance costs of £29.2 million. This deficit was crystallised in October 2016.

The fair value deficit on our interest rate swaps increased by £34.9 million to £114.1 million, following a fall in long-dated interest rates, particularly after the EU referendum in June 2016. The Board regularly reviews the Group's interest hedging strategy and the impact these derivatives have on the long-term financing of the business. In October 2016, we terminated swaps with a notional principal of £55 million, at a cost of £34.1 million. We have now cancelled around 65% of our legacy interest rate swaps over the past three years.

Longmartin results

Our share of post-tax profit from the Longmartin joint venture decreased by £11.2 million to £18.5 million (2015: £29.7 million). This decrease was largely due to a lower revaluation surplus of £11.3 million (2015: £34.6 million), which was partly offset by a deferred tax credit.

Our share of EPRA earnings from the joint venture increased by £0.6 million to £2.6 million (2015: £2.0 million), principally due to an increase in net property income of 14.4% to £6.7 million (2015: £5.9 million), following a number of rent reviews over the past twelve months.

Tax

As a REIT, the Group's activities are largely exempt from corporation tax and, as a result, there is no tax charge in the year (2015: £Nil).

Despite our REIT status, we do collect and pay other taxes eg payroll taxes, VAT, Stamp Duty Land Tax and Business Rates. During the year, the total tax paid in respect of these taxes amounted to £21.0 million. In addition, £1.2 million of tax was withheld from Property Income Distributions and paid to HMRC. In addition, our share of corporation tax incurred by the Longmartin joint venture was £0.6 million.

The group's tax strategy is to account for tax on an accurate and timely basis. Our appetite for tax risk is low and we only structure our affairs based on sound commercial principles. We do not engage in aggressive tax planning. Rather, we maintain an open dialogue with HMRC with a view to identifying and solving issues promptly. HMRC have designated us as a 'low risk' taxpayer, a status we aim to maintain. Our detailed tax strategy is available on our website.

➡ SEE PAGES 100 TO 101 FOR DETAILS OF THE CURRENT YEAR ANNUAL BONUS AND SHARE OPTION VESTING

➡ SEE PORTFOLIO VALUATION ON PAGES 43 TO 47

➡ SEE FINANCE REVIEW ON PAGE 62

FINANCIAL RESULTS CONTINUED



DIVIDEND

The Board has recommended a final dividend of 7.55 pence per share, an increase of 9.0% on last year's final dividend (6.925 pence). This brings the total dividend for the year to 14.7 pence per share, an increase of 6.9% on 2015 (13.75 pence).

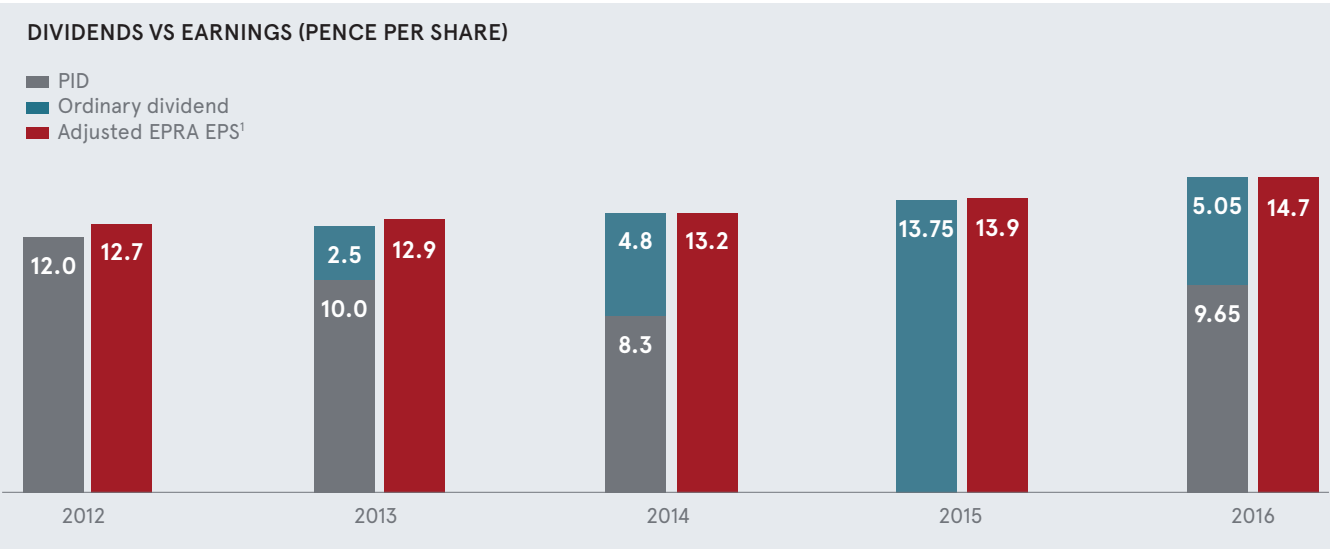
The dividend for the year ended 30 September 2016 is covered by EPRA earnings, after adding back the non-cash accounting charge in the year for equity-settled remuneration of £1.9 million. If approved at the 2017 AGM, the final dividend will be paid on 17 February 2017. It will comprise 5.2 pence as a PID and 2.35 pence as an ordinary dividend.

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

As a REIT, we are required to distribute a minimum of 90% of net rental income, calculated by reference to tax rather than accounting rules, as a PID. Notwithstanding this, our dividend policy is to maintain steady growth in dividends, reflecting the long-term trend in our income and adjusted EPRA earnings¹. To the extent that dividends exceed the amount available to distribute as a PID, we pay the balance as ordinary dividends.

We have substantial distributable reserves, as disclosed in note 21 to the financial statements.

The exceptional charges associated with the recent refinancing of our debenture stock and termination of interest rate swaps will be charged against our qualifying REIT income and, consequently, it is likely that any dividend in relation to the year ending 30 September 2017 will be paid as an ordinary dividend, with PID distributions resuming in the following year.



¹ EPRA EPS, adjusted to add back the non-cash accounting charge for equity-settled remuneration and accelerated write-off of loan issue costs

FINANCIAL RESULTS CONTINUED

NET ASSET VALUE

Reported diluted net asset value per share increased by 22 pence to £8.54 per share, largely due to diluted earnings per share of 35.5 pence less dividends paid totalling 14.075 pence.

EPRA NAV makes adjustments to reported NAV, to provide a measure of the fair value of net assets on a long-term basis. Assets and liabilities that are not expected to crystallise in normal circumstances are excluded. In our case, the calculation excludes the fair value of interest rate swaps, other than those which we expect to terminate, and deferred tax related to property valuation surpluses in the Longmartin joint venture.

EPRA NAV per share increased by 19 pence (2.2%) to £8.88 (2015: £8.69). EPRA earnings of 14 pence per share were offset by dividends paid in the year (14.075 pence per share). The revaluation surpluses from the wholly-owned portfolio and the Longmartin joint venture added 43 pence.

The exceptional charges from refinancing activity reduced EPRA NAV by 24 pence, of which 10 pence arose from recognising the fair value of our Debenture Stock and 14 pence was charged in respect of interest rate swaps, with a notional principal of £55 million and fair value deficit of £38.0 million, which we intended to cancel. These swaps were cancelled in October 2016, at a cost of £34.1 million. The saving, compared with the deficit at 30 September 2016, will increase NAV by 1.4 pence per share in the coming year.

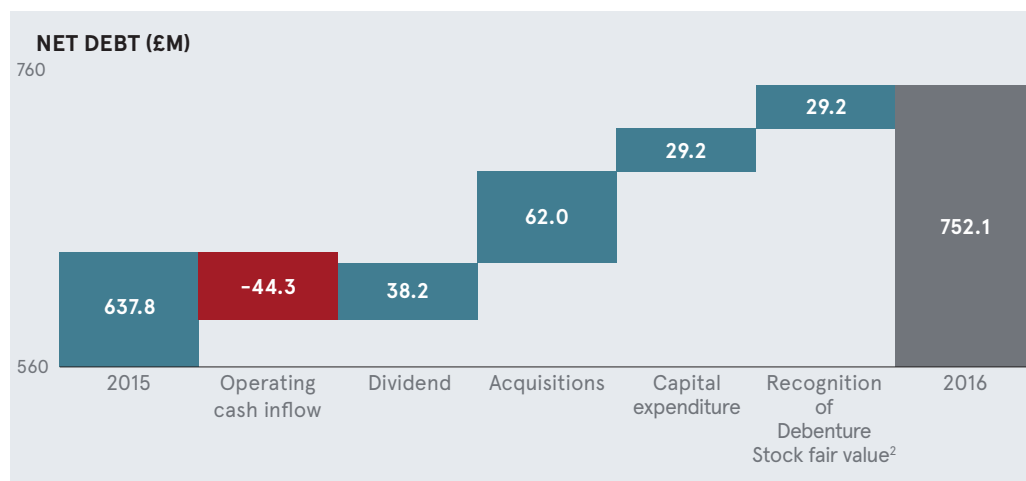
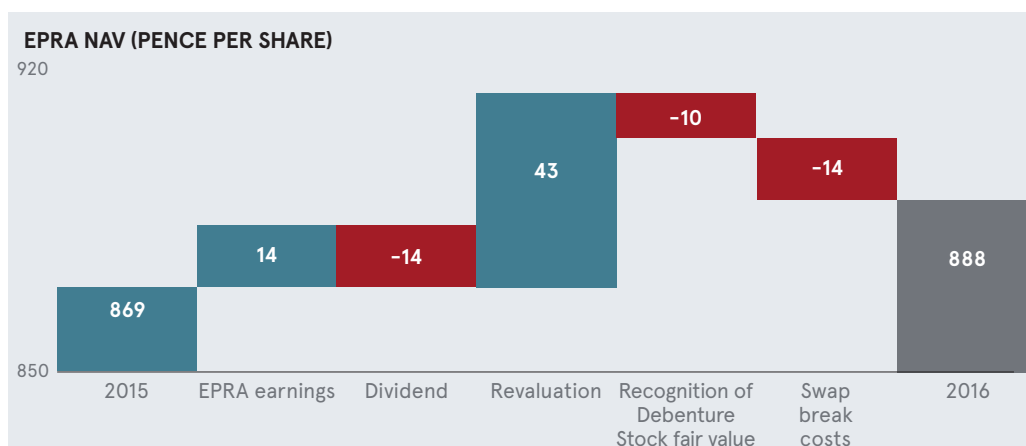
CASH FLOWS AND NET DEBT

Net debt increased by £114.3 million to £752.1 million over the year (2015: £637.8 million), and now includes £92.2 million in respect of the 8.5% Debenture Stock (2015: £61.0 million) following the recognition of its fair value.

The major cash flows were:

- Operating cash inflow totalling £44.3 million
- Dividends paid amounting to £38.2 million
- Acquisitions and capital expenditure of £91.2 million

EPRA NAV	2016 £M	2015 £M
IFRS net assets	2,387.1	2,325.4
Effect of exercise of options	0.5	0.4
Diluted net assets	2,387.6	2,325.8
Adjusted for:		
Fair value of financial instruments ¹	76.1	79.2
Adjustment in respect of our joint venture:		
Deferred tax	18.0	22.6
EPRA NAV	2,481.7	2,427.6
EPRA NAV per share	£8.88	£8.69



➔ SEE PORTFOLIO VALUATION ON PAGES 43 TO 47
➔ SEE FINANCE REVIEW ON PAGE 62

¹ Excluding interest rate swaps with a notional principal of £55 million, which, at 30 September 2016, the Board intended to cancel

² Non-cash item in 2016, which crystallised in October 2017



AUGUST

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27	28	29	30	31		

SPOTLIGHT

Seven Dials played tribute to the cultural scene which weaves its way throughout this area. Spotlight returned with a free one-day music, comedy and arts festival. The area was transformed into a traffic-free, entertainment hot spot where visitors enjoyed a series of free live performances, as well as exclusive activities and promotions in over 120 shops and restaurants.



FINANCE REVIEW

IMPORTANT REFINANCING OF HISTORICAL DEBT INCREASED FINANCIAL RESOURCES, EXTENDED AVERAGE DEBT MATURITY AND REDUCED BLENDED COST.

£214.6m

Available facilities¹

25.8%

Loan-to-value^{1,2}

10.8 years

Weighted average debt maturity^{1,2}

DEBENTURE STOCK REFINANCING

In September 2016, we amended our 8.5% First Mortgage Debenture Stock 2024, to set the terms under which we could refinance this Stock, in exchange for a new issue of Guaranteed First Mortgage Bonds. In October 2016, taking advantage of extremely low gilt yields, we issued £285 million of bonds with a coupon of 2.487% and maturity in September 2031.

Part of the proceeds of the issue were used to:

- redeem our existing £61 million 8.5% First Mortgage Debenture Stock due 2024, including a prepayment cost of £31.1 million.
- cancel interest rate swaps with a notional principal of £55 million, at a cost of £34.1 million.

The balance of the proceeds was used to reduce drawings under our revolving credit facilities, which are available to be re-drawn.

INCREASE IN FINANCIAL RESOURCES

The issue significantly increased our financial resources for further investment in our portfolio, whilst extending our weighted average debt maturity and reducing our blended cost of debt.

The table opposite sets out a summary of our debt, both at 30 September 2016, and on a pro-forma basis for these transactions.

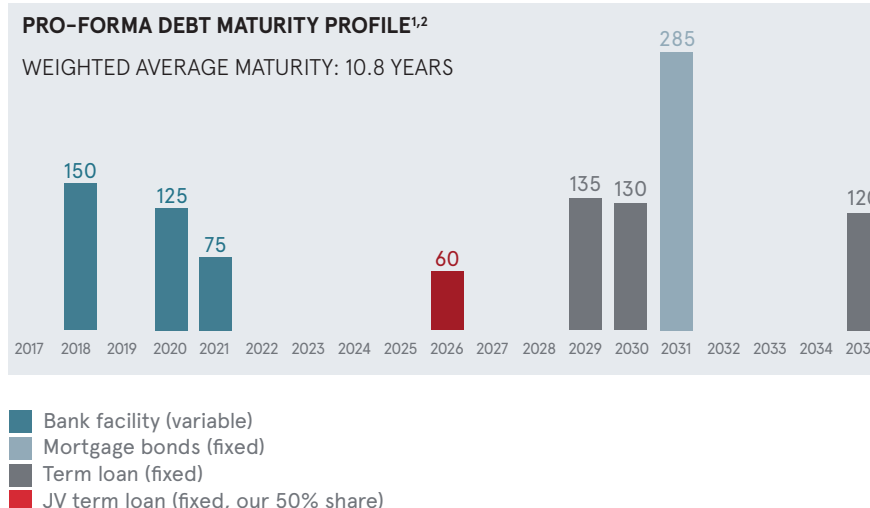
On a pro-forma basis, at 30 September 2016, our loan-to-value ratio was 25.8% (2015: 22.5%) and we had committed undrawn facilities totalling £214.6 million (2015: £150.3 million). Of our drawn debt, 98.8% was fixed or hedged (2015: 97.2%).

The blended cost of debt was 3.9%, 1.0% lower than at 30 September 2015. The marginal cost of our undrawn committed facilities is around 1.2% (2015: 1.5%) and, so, as additional drawings are made, our cost of debt will fall further. If our facilities were fully drawn, the blended cost of debt would be 3.4%.

DEBT SUMMARY	REPORTED 2016 £M	PRO-FORMA ¹ 2016 £M	2015 £M
Debt excluding Longmartin JV			
- Fixed/hedged debt ³	657.0	794.8	625.8
- Drawn unhedged bank debt	110.7	10.4	19.7
	767.7	805.2	645.5
Longmartin non-recourse debt (50% share)	60.0	60.0	60.0
Total debt	827.7	865.2	705.5
Undrawn floating rate facilities	59.3	214.6	150.3
Loan-to-value^{2,3}	24.7%	25.8%	22.5%
Gearing^{2,3,4}	33.4%	34.9%	29.1%
Interest cover²	2.1x	2.3x	2.1x
% debt fixed²	87%	99%	97%
Blended cost of debt⁵	4.5%	3.9%	4.9%
Marginal cost of undrawn floating rate facilities	1.3%	1.2%	1.5%

PRO-FORMA DEBT MATURITY PROFILE^{1,2}

WEIGHTED AVERAGE MATURITY: 10.8 YEARS



¹ Pro-forma for the issue of 2.487% Mortgage Bonds 2031 and redemption of 8.5% Debenture Stock 2024, and for the cancellation of interest rate swaps with a notional principal of £55m in October 2016.

² Including our 50% share of the Longmartin joint venture

³ Based on nominal value of debt

⁴ Based on EPRA net assets

⁵ Including non-utilisation fees on undrawn bank facilities

RISK MANAGEMENT

THE BOARD'S ATTITUDE TO RISK MANAGEMENT IS CONSISTENT WITH ITS LOW OVERALL APPETITE FOR RISK.

THIS REPORT SHOULD BE READ IN CONJUNCTION WITH THE VIABILITY STATEMENT ON PAGE 71.

OVERVIEW

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

Important factors in the relative low risk of our business include:

- The Group invests only in London's West End, where there is a long history of resilience, stability and sustained occupier demand for our principal uses: restaurants, leisure and retail.
- With a diverse tenant base, there is limited exposure to any single tenant
- The nature of our portfolio does not expose us to risks inherent in material speculative development schemes

- We have an established and experienced management team, based in one location, close to all our holdings
- We manage our balance sheet on a conservative basis with moderate leverage, long-term finance, a spread of loan maturities, good interest cover and with the majority of interest costs fixed.

MANAGEMENT STRUCTURE

As a foundation to effective day-to-day risk management, we encourage an open and honest culture within which staff can operate. Our team, based in one office, within fifteen minutes' walk of all our holdings, comprises four executive directors and 23 staff. The senior management team, with an average tenure of 16 years, has an in-depth knowledge of our business and the West End property market.

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

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

RESPONSIBILITIES





SEPTEMBER

S	M	T	W	T	F	S
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25	26	27	28	29	30	

CARNABY LONDON FASHION WEEK

Carnaby was the only place in London's West End that visitors could watch live streaming, on a giant screen, direct from the catwalk showing the latest trends. Throughout the five days, complimentary fashion and beauty services were offered within a pamper-van.

RISK MANAGEMENT CONTINUED

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

- Close involvement of the executive directors in all aspects of day-to-day operations, including regular meetings with employees to review risks and controls
- Clearly defined responsibilities and limits of authority
- Defined schedule of matters for decision by the Board including significant acquisitions, disposals, major contracts, material refurbishment/development proposals and any other transaction outside the normal course of business

- A comprehensive system of financial reporting and forecasting, which is updated on a quarterly basis and includes forecast liquidity requirements and loan covenant compliance
- The day-to-day management of the Group's portfolio is outsourced to three managing agents. The Group monitors the performance of each managing agent and has established extensive financial and operational controls to ensure that each maintains an acceptable level of service and provides reliable financial and operational information. The managing agents share with the Group their internal control assessments. The Group periodically uses the services of an external consultant to review the managing agents' operational processes and controls.

RISK ASSESSMENT

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

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

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

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

PRINCIPAL RISKS AND UNCERTAINTIES

The Board has carried out a robust assessment of the principal risks and uncertainties which might prevent the Group achieving its goal of long-term growth in rental income, capital values and shareholder returns. These risks and uncertainties are largely consistent with those reported in 2015. We no longer consider meeting the requirements of legislation to improve environmental performance of buildings to be a principal risk or uncertainty. This is because the legislation has become more clear and, through our rolling refurbishment activities, we are able to meet its requirements without significant cost.

To date we have seen no adverse impact on occupier demand, footfall or trading as a result of political and economic uncertainties following the EU referendum. Until the UK's future exit arrangements are negotiated, we are unable to draw any firm conclusions as to the longer-term impact on our business. However, with London's status and broad-based economy, we believe it will be less adversely affected than the wider UK.

Details of the principal risks and uncertainties, mitigation and evolution of risk during the year are set out on pages 66 to 69.

PRINCIPAL RISKS AND UNCERTAINTIES

GEOGRAPHIC CONCENTRATION RISK

RISK	POTENTIAL IMPACT	LINK TO BUSINESS MODEL
Events which discourage visitors to the West End e.g. • Threats to security or public safety due to terrorism • Health concerns (e.g. pandemics) • Major, long-term disruption to the public transport network upon which the area depends	• Reduced visitor numbers, spending and occupier demand • Reduced rental income and/or capital values • Potential increased vacancy and declining profitability • Damage to property	• Exceptional portfolio in the heart of London's West End
Competing destinations lead to long-term decline in footfall in our villages	• Reduced visitor numbers and occupier demand • Reduced rental income and/or capital values • Potential increased vacancy and declining profitability	• Exceptional portfolio in the heart of London's West End • Create prosperous environments for tenants

REGULATORY RISK

RISK	POTENTIAL IMPACT	LINK TO BUSINESS MODEL
All our properties are in the boroughs of Westminster and Camden. Changes to national or local policies, particularly planning and licensing, could have a significant impact on our ability to maximise the long-term potential of its assets	• Limit our ability to optimise revenues • Reduced profitability • Reduced capital values	• Exceptional portfolio in the heart of London's West End • Focus on restaurants, leisure and retail

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

MITIGATION	COMMENTARY	HOW RISK HAS CHANGED
• Inherent risk given the geographic concentration of our investments in a high profile location • Insurance cover maintained for terrorism and loss-of-rent • Close liaison with statutory authorities to maximise safety of visitors • Detailed emergency response plans	London has a growing population, is the most visited city in the western world, and current forecasts are for further growth in tourism Across the West End, visitor numbers, spending and occupier demand continue to be buoyant The UK's terrorism threat level remains severe	→
• Ensure our villages maintain a distinct identity • Management strategies to create prosperous destinations within which tenants can operate • Seek out new concepts, brands and ideas to keep our villages vibrant and appealing • Consistent strategy on tenant mix, which evolves over time • Marketing and promotion of our villages • KPI to deliver sustainable rental growth • Regular board monitoring of performance and prospects	Footfall and occupier demand across our villages remains strong. We continue to see sustained rental growth and low vacancy	→

MITIGATION	COMMENTARY	HOW RISK HAS CHANGED
• Ensure our properties are operated in compliance with local regulations • Make representations on proposed policy changes, to ensure our views and experience are considered • Mix of uses in our portfolio means we are not reliant on income from one particular use	There are no current indications that the evolution of the planning and licensing framework, either as a result of national or local legislation, will have a material impact on the Group's business for the foreseeable future	→

→ Risk unchanged
 ↗ Risk increased
 ↘ Risk decreased

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

ECONOMIC RISK		
RISK	POTENTIAL IMPACT	LINK TO BUSINESS MODEL
Periods of economic uncertainty and lower confidence could reduce consumer spending, tenant profitability and occupier demand	• Pressure on rents • Declining profitability • Reduced capital values	• Exceptional portfolio in the heart of London's West End • Focus on restaurants, leisure and retail • Create prosperous environments for tenants
Decline in the UK real estate market due to macro-economic factors e.g. global political landscape, currency expectations, bond yields, interest rate expectations, availability and cost of finance, relative attractiveness of property compared with other asset classes	• Reduced capital values • Decrease in NAV, amplified by gearing • Loan covenant defaults	• Prudent financial management

NOVEMBER						
S	M	T	W	T	F	S
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13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30			



TEA DANCE
We are headline sponsor of the annual Westminster City Council senior citizens' tea dance. Supported by the Sir Simon Milton Foundation, it hosts 1,000 residents, from across the borough, at the Grosvenor House Hotel.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

MITIGATION	COMMENTARY	HOW RISK HAS CHANGED
• Focus on assets, locations and uses which have historically proved to be economically resilient and have demonstrated much lower valuation volatility than the wider market • Diverse tenant base with limited exposure to any one tenant • Tenant deposits held against unpaid rent obligations at 30 September 2016: £18.0m	Restaurant, leisure and retail tenants provide 70% of our annualised current income Trading, footfall and spending has been resilient since the EU referendum and we continue to benefit from strong demand, footfall and rental growth. However, uncertainty will remain until the UK's future arrangements with the EU are negotiated	
• Focus on assets, locations and uses which have historically proved to be economically resilient and have demonstrated much lower valuation volatility than the wider market • Regular review of investment market conditions including bi-annual external valuations • Maintain conservative levels of leverage • Quarterly forecasts including covenant headroom review • Substantial pool of uncharged assets available to top up security held by lenders	Interest rates have continued at historically low levels Present market sentiment is that increases will be moderate and gradual, although the current political and economic backdrop increases uncertainty	

-  Risk unchanged
-  Risk increased
-  Risk decreased



THE START OF THE SWINGING SIXTIES

A green plaque was unveiled at 5 Newburgh Street to commemorate the revolutionary menswear shop 'Vince', which was located at this address from 1954 through the 1960s, and is credited with kick-starting the "Swinging Sixties" fashion revolution in Carnaby Street.

NOVEMBER						
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12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30		



HALLOWEEN

The Carnaby streets were lined with hundreds of pumpkins as part of Halloween festivities.

OCTOBER

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2	3	4	5	6	7	8
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16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					



VIABILITY STATEMENT

THE BOARD HAS ASSESSED THE PROSPECTS OF THE GROUP OVER A FIVE-YEAR PERIOD.

REVIEW OF PROSPECTS

The Board considered a review of the Group's prospects, prepared by senior management. This covered a five-year period, corresponding with the period covered by the Group's current forecasts. These forecasts are updated quarterly and reflect the Group's established strategy of long-term investment in London's West End, its existing commitments, available financial resources, and long-term financing arrangements. They consider profits, cash flows, funding requirements and other key financial ratios over the period, as well as the headroom in the financial covenants contained in the Group's various loan agreements. Important assumptions underlying the forecasts include:

FORECAST KEY ASSUMPTIONS

ASSUMPTIONS	COMMENT
On a pro-forma basis ¹ , the Group had undrawn committed loan facilities at 30 September 2016 totalling £214.6 million, which comfortably exceeds the Group's commitments over the assessment period. This assumes an ability to refinance revolving credit facilities totalling £150 million, £125 million and £75 million which mature in 2018, 2020 and 2021 respectively.	The Group maintains a prudent approach to gearing, with debt facilities which are largely fixed and long-term in nature. At 30 September, our loan-to-value ratio¹ was 25.8%. The facilities which mature during the period of assessment represent 32.4% of our total committed debt facilities. The Board has reasonable confidence that we shall be able to refinance these facilities and intends to do so in advance of their contractual maturities.
Crystallisation of the portfolio reversionary potential over the period	We have a long record of crystallising the independently-assessed ERV of our portfolio over a three-to-five year period. 64% of the total portfolio reversion arises from shops, restaurants, cafés and pubs, the demand for which, in our locations, is not cyclical and has demonstrated sustained long-term growth over many years. ERVs are based on current, proven rental tones, and do not assume any further growth.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties are set out on pages 66 to 69 and the most relevant potential impact of these risks on viability was considered to be:

- A substantial and sustained decrease in visitor numbers to the West End and our villages which could result in reduced occupier demand, rental income and/or capital values, higher vacancy and declining profitability
- Regulatory changes which could reduce profitability and capital values
- Changing economic conditions which could reduce capital values, reducing headroom in loan covenants

SCENARIO ANALYSIS

The review overlaid the potential impact of the principal risks which could affect solvency or liquidity in 'severe but plausible' scenarios onto the five-year forecasts and concluded that the business would remain viable. It included sensitivity analyses which flexed inputs to the forecasts including reduced income, profitability and capital values, both individually and in unison, to reflect these severe but plausible scenarios. Asset value declines, similar to market movements in 2008/09, were also modelled, along with an assessment of how far property yields would need to rise, and rental income would have to fall, before the Group would be at risk of breaching the financial covenants in its various loan arrangements.

VIABILITY

Based on the results of the procedures outlined above, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the five-year period of their assessment.

The Strategic Report on pages 1 to 76 was approved by the Board on 29 November 2016.

Brian Bickell
Chief Executive

Chris Ward
Finance Director

¹ Pro-forma for the issue of 2.487% Mortgage Bonds 2031, redemption of 8.5% Debenture Stock 2024 and cancellation of interest rate swaps with a notional principal of £55 million in October 2016 (see page 62 for further information)

SUSTAINABILITY

SUSTAINABILITY IS EMBEDDED IN THE MANAGEMENT OF OUR BUSINESS. WE CONTINUE TO DEVELOP OUR STRATEGY AND ITS IMPLEMENTATION ACROSS ALL ASPECTS OF OUR OPERATIONS.

Our strategic focus continues to be the re-use and careful management of existing buildings. We pride ourselves on our ability to extend the economic useful lives of our buildings through changes of use and reconfiguration, within the constraints of legislation, so that they continue to meet the needs of modern occupiers. This emphasis on restoration and repair forms the core of our sustainability strategy and is measured through an increased number of schemes on course to achieve BREEAM* certification.

In an urban location, which is intensively used by huge numbers of visitors and a large working population and residential community, social issues and challenges are bound to arise. We therefore focus on community related activities which help to support organisations that tackle these problems. We are long-term, socially responsible neighbours and investors in our area and are integrated into our community. We measure our continued involvement in line with the London Benchmarking Group methodology.

We remain committed in our support of the United Nations Global Compact (UNGC) and its ten principles in the areas of human rights, labour, environment and anti-corruption. We are implementing programmes internally and across our supply chain with emphasis on engaging with our principal suppliers and how they operate in the management of our portfolio. We are encouraging the payment of the London living wage and are progressing the requirements of the Modern Slavery Act 2015 throughout our supply chain as objectives for 2017.

We have also continued to engage and collaborate with neighbouring owners and other stakeholders to further sustainability objectives in London's West End. We are an active member of both, the Better Building Partnership and the Wild West End biodiversity collaboration. Through the latter we are gaining momentum with the implementation of biodiversity features throughout the portfolio. We are also an associate member of the New West End Company which is working on the Air Quality 2020 initiative – a partnership of London companies concerned about congestion and resulting air pollution issues in the West End.

In the year ahead we will work together with stakeholders to identify and implement practical measures that can contribute to reducing traffic movements, through coordinated delivery and servicing, and consequently reduce air pollution.

This is a condensed version of our Sustainability Report (and Communication on Progress for the UN Global Compact). The environmental information, including biodiversity, is set out on pages 158 to 165. The full report is available on our website.



*BREEAM Building Research Establishment Environmental Assessment Method

SUSTAINABILITY CONTINUED

MANAGEMENT OF SUSTAINABILITY

With the growth of our business and the increasing importance that we are placing on sustainability, we have formed a Sustainability Committee. Chaired by the Chief Executive, it comprises members of the management team and the Company Secretary. It meets quarterly to define objectives, agree strategies and review progress. We have a robust Sustainability Policy which is reviewed annually by the Board and is available on our website. This is supported by a materiality framework outlined below.

MATERIALITY

We have based our sustainability strategies and goals on the following core factors:

Community: engaging with community groups and charities to ensure we are aligned in our community.

Stakeholders: engaging with our tenants, investors and principal advisors ensures that we are aware of their expectations and can respond accordingly. In particular, we work with tenants to identify ways in which they can use our buildings more efficiently and operate in a more sustainable manner.

Environment: the re-use and careful management of existing buildings is inherently sustainable. In addition, reducing the running costs of the buildings and improving their operational efficiencies is essential to attract tenants, as well as meet future regulatory requirements. See page 161.

Suppliers: working closely with our suppliers enables us to control our potentially most significant indirect impacts and facilitate better standards of service.

Employees: investing in the welfare and development of our employees ensures high standards of performance and continuing low turnover of staff.

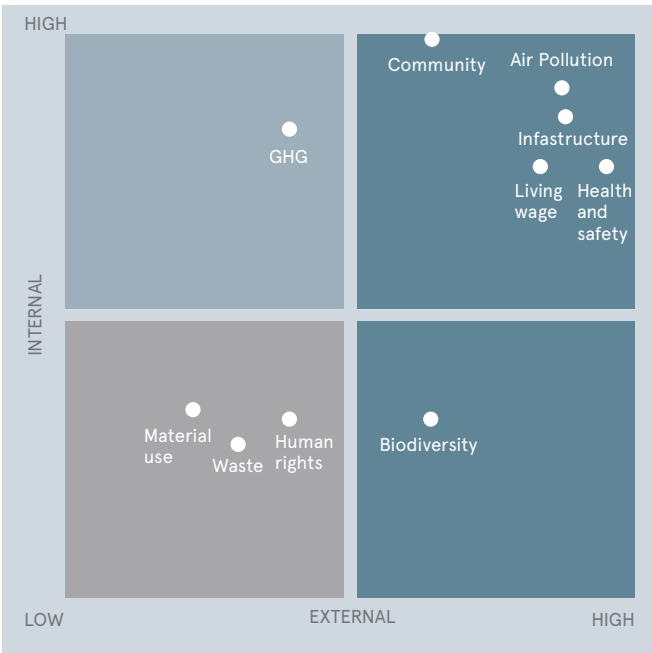
We aim to progress towards reporting in line with the Global Reporting Initiative (GRI) G4 requirements and formalise a materiality assessment from an external and internal perspective:

External review – a review of external influences, views of investors, benchmarking indices, activities of our peers and other companies to provide the basis for identifying the issues that are material to the business now and in the future.

Internal review – the findings from the above were reviewed internally by the Sustainability Committee and then we held an internal workshop to establish the relative importance of the issues to our business, balanced with the importance to stakeholders.

Below is the result of our first assessment which shows a materiality matrix setting out the most significant issues. These were identified as: community, central London air pollution, living wage, health and safety, infrastructure, greenhouse gas emissions, human rights, waste, material use and biodiversity.

Whilst we will continue to consider the core factors as part of our sustainability strategy, we will prioritise these top ten issues and aim to address them in the year ahead.



SUSTAINABILITY CONTINUED COMMUNITY

We ensure our activities and engagement are aligned with the community in which our portfolio is located and in the aspects that support the West End both as a community and visitor destination.

We have continued our membership of the London Benchmarking Group (LBG). Our LBG contribution is measured in accordance with their framework and equated to £723,000. The breakdown of the elements that make up this figure are set out opposite.

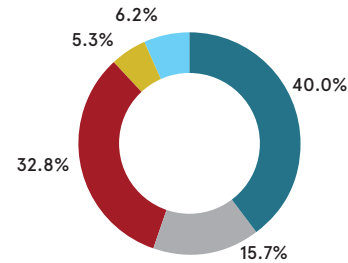
Our Section 106 contributions (an agreement to make a payment to a local authority in respect of planning obligations) were £166,000 giving an overall total of community investment of £889,000.

Our collaborations provided community leverage of £73,000 to stakeholders.



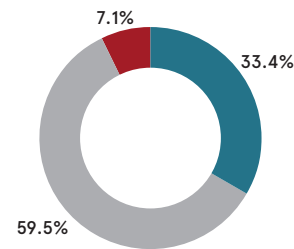
What we contribute

- Cash
- Staff time
- In kind contributions
- Pro bono
- Management costs



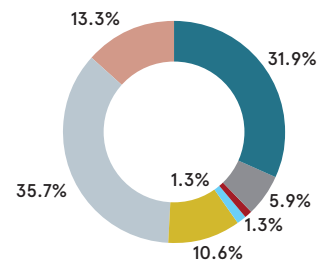
How we contribute

- Charitable gifts
- Community investment
- Commercial initiatives in the community



What we support

- Education
- Health
- Economic development
- Environment
- Arts/culture
- Social welfare
- Other



CHARITY PARTNERS

This year we have continued our relationship with charity partners in our villages. We work with the nominated charity to promote their aims and activities to a wide audience, through events and media activities. We work with other charitable and not-for-profit organisations that we support, as a Group, which reach across a number of our villages. These include:

- LandAid
- London Law Centre
- Sir Simon Milton Foundation (including sponsorship of Westminster City Council tea dance)
- Stage One
- The Sustainable Restaurant Association/Food Made Good
- Westminster Kingsway College
- Westminster Tree Trust
- Zoological Society of London
- University of the Arts
- Westway Trust

OUR VILLAGE CHARITY PARTNERS ARE:

Covent Garden

The Connection at St Martins-in-the-Fields, Covent Garden Community Association, The Seven Dials Trust, Donmar Warehouse, the ENO's community choir and Central St Martins.

Chinatown

The London Chinese Community Centre, London Chinatown Chinese Association, Chinese Information and Advice Centre and China Exchange.

Carnaby

Trekstock, the London College of Fashion, Deal Real Legacy, Stage One, The Samaritans and Pride in London.

Soho

The House of St Barnabas, The Soho Society, Soho Create, Museum of Soho, Soho Parish Primary School and West End Community Trust.

SUSTAINABILITY CONTINUED

STAKEHOLDERS

This year we engaged with the New West End Company, a business improvement district, and their Air Quality 2020 project. Landowners and other stakeholders are working together to identify ways to improve the flow of vehicles, reduce congestion and improve air quality in the West End.

During the reporting period, we commissioned a pilot study to identify potential delivery and servicing consolidation schemes that could be considered by retailers, restaurants and businesses in Seven Dials. Four potential measures were identified: supplier consolidation, re-timing of deliveries, mandating the use of a single approved courier and discouraging personal deliveries. The results of the pilot study will be fed back to participating businesses and the study will be extended to all the restaurants in Seven Dials. The ultimate goal is that through sharing delivery and waste vans, vehicle movements will be reduced, improving traffic flow and consequent emissions ,to the benefit of occupiers, residents and visitors to the area.

We have continued our membership of the Better Building Partnership, a collaboration of the UK’s largest commercial property owners working together to improve the sustainability of their commercial portfolios. Through this we have the opportunity to engage with peer group companies to identify best practice opportunities appropriate to our operations and to benchmark the performance of a selection of our buildings.

Suppliers

With our outsourcing model, we are concentrating our efforts on transparency within our supply chain in the following areas.

In accordance with the Modern Slavery Act 2015, we have published a statement on our website detailing how we are tackling slavery and human trafficking in our supply chain. We have written to all our first tier suppliers to raise awareness of the legislation, telling them of our plans which include carrying out a due diligence exercise throughout our business to establish the areas of risk, and reviewing all relevant contracts and requesting that our suppliers also contact their suppliers to raise awareness of the legislation.

We have other policies in place which address human rights, whistleblowing and the ethical conduct of our business, all of which are included within our Sustainability Policy. Our policy is provided annually to each member of our supply chain to encourage them to adopt and enforce similar policies in their own business.

An objective last year was to address the implementation of the London living wage throughout our supply chain. We are making good progress with our managing agents reviewing facilities contracts for our portfolio to ensure, as a minimum, that the pay scales meet the national living wage and, where possible, meet the London living wage. We recognise that for refurbishment projects, enforcing the requirement is proving more challenging but our project management teams are aware of the requirement and are disseminating it to contractors and subcontractors.

Local Government

We work together with Westminster City Council and Camden Council on public realm projects in order to improve the areas surrounding our portfolio.

Tenant engagement

We continue to provide subsidised membership of the Sustainable Restaurant Association and this is included in the Heads of Terms for new restaurant tenants. Eleven tenants have signed up this year.

An online Building Guide for commercial tenants is being developed and should be completed shortly. The Guide will cover all management issues relevant to the tenants, such as sustainability advice including fit-out, emergency response, fire protection and recycling facilities within the portfolio.

We have over 800 commercial tenants. We aim for each tenant to have direct contact with at least one director and/or member of the property team and, in addition, full time estate managers are available to deal with day-to-day concerns. As in 2015, we conducted a formal customer satisfaction survey of our tenants in Carnaby and Seven Dials. The feedback for Carnaby was largely positive and an improvement on last year but there was a slight drop in performance at Seven Dials which is being addressed. The exercise will be repeated in the forthcoming year in Carnaby and Seven Dials.

Results of customer satisfaction survey:

PROPERTY NAME	AVERAGE RATING	% SATISFIED
Carnaby - Residential	3.94	81%
Carnaby - Office	4.10	90%
Carnaby - Retail	3.97	83%
Carnaby - Restaurant	3.94	75%

Response rate: 35%

Overall average: 82% (2015: 71%)

PROPERTY NAME	AVERAGE RATING	% SATISFIED
Seven Dials - Residential	3.53	62%
Seven Dials - Office	3.44	67%
Seven Dials - Retail	3.46	69%
Seven Dials - Restaurant	2.75	50%

Response rate: 29%

Overall average: 62% (2015: 77%)

SUSTAINABILITY CONTINUED

EMPLOYEES

We recognise the importance of the welfare and professional development of our employees, as well as ensuring an inclusive culture throughout our activities.

We employ 27 staff including executive directors. There continue to be five women in senior executive positions (50% of executive staff excluding directors) and three female non-executive directors. Our commitment to promoting gender equality is reflected in our membership of Real Estate Balance, whose objective is to work with both men and women in the real estate industry and with corporate leaders to achieve a greater gender balance at board and executive management level across the real estate sector by supporting, in a practical way, the development of an enduring female talent pipeline. We have also committed to the RICS Inclusive Employer Quality Mark.

We believe that training and development of our staff is essential and, this year, each employee underwent an average of 12 hours training. All staff also underwent a personal development review. Flexible working is available and 11% of employees currently work part-time.

This year we organised a training session for all staff, conducted by an external law firm, which covered bribery, giving and receiving of gifts and whistleblowing. There have been no instances of non-compliance with our Anti-Bribery Policy during the financial year.

	2014	2015	2016
Percentage of female staff overall	52%	56%	60%
Percentage of female staff in senior positions	50%	50%	50%
Percentage of female board members	30%	30%	30%
Average training hours per employee	30	19	12
Number of staff receiving professional development review	100%	100%	100%
Average length of service	12	12	12
Staff turnover	0	0	1
Absenteeism (average per employee)	1.4 days	2 days	2 days
Number of staff with flexible working	3	3	3

Health and Safety

The Board has overall responsibility for health and safety.

In our refurbishment projects, responsibility for health and safety is identified within all pre-tender documentation and is monitored by site and project managers. Managing agents oversee day-to-day health and safety matters throughout the portfolio.

There were two reportable health and safety incidents in the managed portfolio. The Accident Frequency Rate for Shaftesbury employees was zero (2015 – zero) and there were no health and safety prosecutions, enforcement actions or fatalities in 2016.

	2014	2015	2016
Number of reportable injuries	0	0	2
Work related fatalities	0	0	0
Number of Enforcement Agency prosecutions or fines	0	0	0
Number of prohibition notices	0	0	0
Employee accidents and incidents	0	0	0
Number of employee days off work from injury	0	0	0







GOVERNANCE

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DIRECTORS AND OFFICERS

EXECUTIVE DIRECTORS



Executive Directors from left to right:
Chris Ward, Tom Welton, Brian Bickell, Simon Quayle

BRIAN BICKELL, FCA Chief Executive

Overall responsibility for implementing the Group's strategy and day-to-day operations
Joined the Group in 1986

Board appointment

Appointed Finance Director on 20.7.1987 and Chief Executive on 1.10.2011

External appointments

Director of Longmartin Properties Limited
Board member of Westminster Property Association
Chairman, UK China Visa Alliance
Board member of Freehold

SIMON J QUAYLE, BSc, MRICS Executive director

Responsible for the asset management and operational strategy in Carnaby, Soho and Charlotte Street
Joined the Group in 1987

Board appointment

Appointed Property Director on 1.10.1997

External appointments

ZSL Development Strategy Board

TOM J C WELTON, MRICS Executive director

Responsible for the asset management and operational strategy in Covent Garden and Chinatown
Joined the Group in 1989

Board appointment

Appointed Property Director on 1.10.1997

External appointments

Director of Longmartin Properties Limited

CHRIS P A WARD, MA (Oxon), ACA Finance Director

Responsible for implementation of the Group's financial strategy and all aspects of accounting and taxation
Joined the Group in 2012

Board appointment

Appointed Finance Director on 9.1.2012

External appointments

Westway Trust

SECRETARY

PENNY THOMAS, LLB (Hons), FCIS

REGISTERED OFFICE

22 Ganton Street, London W1F 7FD
Tel: 020 7333 8118
email: shaftesbury@shaftesbury.co.uk
Registered number: 1999238

DIRECTORS AND OFFICERS

NON-EXECUTIVE DIRECTORS

JONATHAN C NICHOLLS ACA, FCT*
Non-executive Chairman and Chairman of the Nomination Committee

Board appointment 1.9.2016 and Chairman on 1.10.2016

Experience

From 1985 various roles at Abbey National. In 1996 joined Hanson plc and became Finance Director in 1998.

Joined Old Mutual plc in 2006 as Group Finance Director

Non-executive director of Man Group plc from 2004-2006

Non-executive director and chairman of the audit committee of Great Portland Estates plc from 2009 until July 2016

Other appointments

Non-executive director and chairman of the audit committee of SIG plc

Non-executive director, senior independent director and chairman of the audit committee of D S Smith plc

Non-executive director, senior independent director and chairman of the audit committee of Istock plc

Skills

Over 18 years' experience of plc boards and their operation

Strong and well-developed finance, commercial and strategic skills

Significant communication, investor relations and management skills

Several decades experience in property and related industries

JILL C LITTLE*

Non-executive director and Senior Independent Director

Board appointment 2010

Experience

John Lewis Partnership 1975 to 2012. Merchandise director 2002-2011 and Business and Development director 2011-2012

Other appointments

Chairman of the Commercial Group of the National Trust

Non-executive director of Joules Group Plc

Consultant to a number of global retailers

Skills

Significant experience in the retail sector
Strong communication and management skills

SALLY E WALDEN*

Non-executive director and chairman of the Remuneration Committee

Board appointment 2012

Experience

From 1984 to 2009 with Fidelity International in senior fund management roles

Other appointments

Trustee of the Fidelity Foundation

Trustee of Wiltshire and Swindon Community Foundation

Skills

Experience of financial markets and fund management

Experience in remuneration structures

Financial analysis skills

DERMOT C A MATHIAS BSC, FCA*

Non-executive director and Chairman of the Audit Committee

Board appointment 2012

Experience

Partner in the corporate finance department of BDO LLP from 1980

From 2002-2009 senior partner of the firm and chairman of the policy board of BDO International

Other appointments

Non-executive director of Rectory Homes Limited

Non-executive chairman of Red & Yellow

Governor of Activate Learning

Skills

Strong financial skills
Extensive experience in leadership and management

OLIVER J D MARRIOTT*

Non-executive director

Board appointment 2009

Experience

Previously a financial journalist with roles as property editor on the Investors Chronicle and financial editor of The Times

Former chairman of Churchbury Estates Limited and Ilex Limited

Non-executive director of P&O from 1985-1991

Skills

Experience in finance and property sectors

HILARY S RIVA, OBE*

Non-executive director

Board appointment 2010

Experience

Previously managing director of various high street brands including Top Shop, Warehouse, Dorothy Perkins and Evans

Chief Executive of the British Fashion Council from 2005-2009 and remained in a non-executive capacity until November 2010

Other appointments

Non-executive director of ASOS plc, London and Partners and Shepherd Neame Limited

Skills

Extensive experience in the fashion retail industry
Understanding of consumer behaviour and strategic planning

*Independent non-executive directors for the purposes of the UK Corporate Governance Code. More detailed biographies are available on our website.



Non-executive directors from left to right:
Oliver Marriott, Jill Little, Jonathan Nicholls, Sally Walden, Dermot Mathias, Hilary Riva

GOVERNANCE AT A GLANCE

LEADERSHIP

DIVISION OF RESPONSIBILITY

- Separation of roles of Chairman and Chief Executive
- Statement of responsibilities

THE ROLE OF THE BOARD

- Schedule of matters reserved for the Board
- D&O cover and deeds of indemnity

THE CHAIRMAN

- Independent Chairman appointed 1.10.2016
- Leadership of the Board

NON-EXECUTIVE DIRECTORS

- Meetings of non-executive directors held without executives
- Senior Independent Director identified

ACCOUNTABILITY

RISK MANAGEMENT AND INTERNAL CONTROL

- Robust assessment of principal risks - page 63
- Risk management and internal control - page 65
- Viability Statement - page 71

FINANCIAL AND BUSINESS REPORTING

- Directors responsible for preparing annual report which is fair, balanced and understandable - page 112
- Auditor's Report - page 113
- Business model description - page 8
- Adopt going concern basis - page 91

AUDIT COMMITTEE AND AUDITORS

- Audit Committee Report - page 90
- Recent and relevant financial experience - Dermot Mathias
- Whistleblowing Policy - page 93
- Review of need for internal audit function - page 92
- External auditor appointment - page 91

UK CORPORATE GOVERNANCE CODE

Compliant except for A.3.1 and B.6 - see page 84

THE LEVEL AND COMPONENTS OF REMUNERATION

- Annual Remuneration Report - pages 98 to 109

REMUNERATION

EFFECTIVENESS

COMPOSITION OF THE BOARD

- Independent Chairman
- Balance of 4 executive directors and 5 independent non-executive directors
- Skills and experience – page 81

RE-ELECTION

- All directors are re-elected on an annual basis
- 3 non-executive directors have more than 6 years service and are subject to rigorous review

EVALUATION

- Board performance evaluation delayed to 2017 – page 84
- External evaluation in 2015

APPOINTMENTS TO THE BOARD

- Nomination Committee process for Chairman appointment – page 87

COMMITMENT

- Time commitment considered when electing and re-electing directors

DEVELOPMENT

- Induction of Chairman – page 89
- Directors training is monitored and updates on regulatory and legislative changes provided

INFORMATION AND SUPPORT

- Company Secretary advises the Board through the Chairman
- Access to independent professional advice
- Good information flows between management and the Board

DIALOGUE WITH SHAREHOLDERS

- Over 235 meetings with investors and potential investors including portfolio tours
- Chairman and Senior Independent Director available to shareholders

CONSTRUCTIVE USE OF GENERAL MEETINGS

- Accessible AGM with voting on a poll, separate resolutions and proxy voting (for, against or withheld)
- Committee Chairs available at AGM to answer questions
- Notice sent out at least 20 working days before meeting

PROCEDURE

- Remuneration Policy summary table pages 96 to 97
- Annual Remuneration Report – pages 98 to 109
- No director is involved in fixing their own remuneration

RELATIONS WITH SHAREHOLDERS

CORPORATE GOVERNANCE



THE ROLE OF THE BOARD IN GOVERNANCE IS TO SET THE STRATEGIC AIMS OF THE BUSINESS, PROVIDE LEADERSHIP AND SUPERVISION AND REPORT TO SHAREHOLDERS ON ITS STEWARDSHIP.

DEAR SHAREHOLDER

I am delighted to be writing to you as your new Chairman.

Corporate governance is an important component of the day-to-day running of your Company and I intend to follow in the footsteps of good governance set by my predecessors. My background in other listed companies means that I have a wide range of experience to bring to the Board.

We have a well-balanced Board with a good range of skills. I was appointed to the Board on 1 September 2016 and I am standing for election at the 2017 AGM. My fellow directors, in line with good governance, will all stand for re-election. Specifically, the Nomination Committee made the recommendation for the re-election of Jill Little, Hilary Riva and Oliver Marriott who have all served on the Board for more than six years. In making the recommendation, the Nomination Committee considered the contribution that these non-executive directors make to the business and their continuing independence.

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE

The Company has complied with the UK Corporate Governance Code during the year except for two principles:

• **Independence of the Chairman – A.3.1**

Jonathan Lane, who retired as Chairman on 30 September 2016, was formerly Chief Executive of the Company. He was therefore not deemed to be independent upon his appointment. From 1 October 2016, when I took on the role of Chairman, we returned to compliance with this principle.

• **Annual board performance review – B.6**

The Nomination Committee and the Board were focused throughout the year on the Chairman succession process. It was therefore decided not to undertake a board performance review this year but delay it until the new Chairman had joined the Board. An external review had been undertaken in 2015, and no material issues were identified. Therefore, we propose to undertake a full board performance review in early 2017. We will report to you on the results of the board performance review in the 2017 Annual Report.

Our compliance with the UK Corporate Governance Code is summarised on pages 82 to 83 and set out in detail in the following pages.

HUMAN RIGHTS AND THE MODERN SLAVERY ACT 2015

The Group is committed to respecting human rights and as part of that commitment, is a signatory to the UN Global Compact. As a property investment company, human rights in a small head office of 27 people are easy to oversee. With our outsourcing model, we are concentrating our efforts on transparency in the supply chain. The legislation is now in force and we are talking with our first and second tier suppliers about the principles of the UN Global Compact and the Modern Slavery Act. Our statement of compliance with the Modern Slavery Act which sets out how we approach its requirements, is set out on our website with a link from our home page. See also page 75.

MARKET ABUSE REGULATIONS

New regulations came into force in July 2016. In order to assist with meeting the Group’s obligations under the regime, a Disclosure Committee of the Board was set up to monitor inside information and closed periods.

TAX

Earlier this year, the Board approved a statement of its policy on tax. A summary of this policy is set out on page 58 and a copy of the Board’s statement is available on our website.

I look forward to working with my fellow directors over the coming years. I also look forward to meeting shareholders and welcoming you to our AGM on 10 February 2017.

Jonathan Nicholls
Chairman

CORPORATE GOVERNANCE CONTINUED

THE BOARD

The Board has Audit, Remuneration and Nomination Committees. A Disclosure Committee of the Board was established during the year. It deals with the requirements of the market abuse regulations which came into force in July 2016. Responsibilities of each are defined in their terms of reference, which are available on the Group's website and their reports are set out on pages 87 to 109.

During the year, two management committees were established: a Sustainability Committee and a Pensions Committee, both with executive management membership.

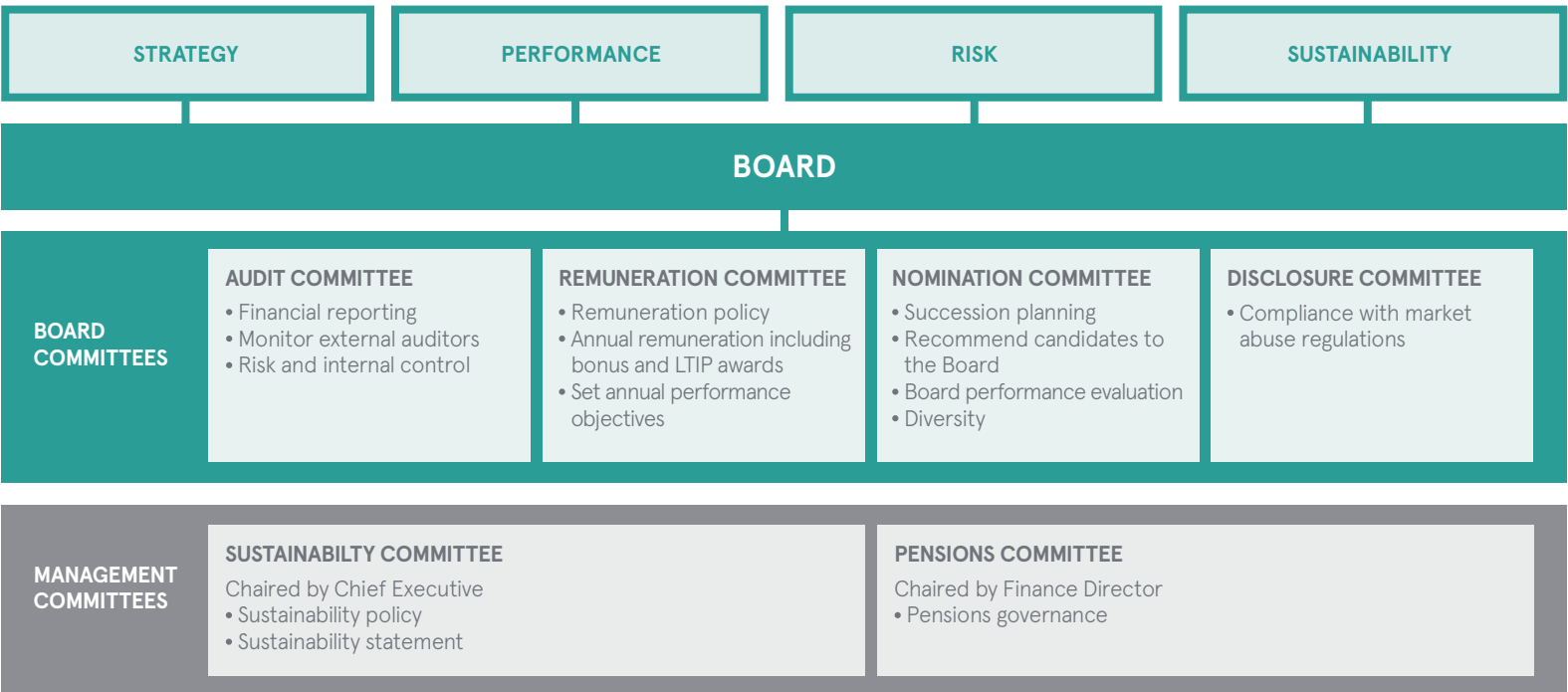
The Board meets regularly and there is an annual cycle of topics to be considered including key management and financial updates as well as approval of significant acquisitions and refurbishment schemes. Each Committee provides a summary of business discussed to the Board and the minutes of all Committees are circulated to the Board.

Employees below Board level are invited to present to the Board on operational topics. Non-executive directors have direct and open access to employees below Board level.

The composition of the Board is important to ensure that there is effective leadership of the Group. There is a balance of executive and non-executive directors, with a wide range of business skills, including property, finance, retail and fund management. All directors contribute to the constructive debate in the boardroom and to the implementation of the Group's strategy.

Jonathan Nicholls, who joined the Board on 1 September 2016 and became Chairman on 1 October 2016, was independent on his appointment to the Board. Each of the other non-executive directors is considered by the Board to be independent.

Set out below is the structure of the Group's Board and Committees:



➡ **AUDIT COMMITTEE**
REPORT PAGES
90 TO 93

➡ **REMUNERATION**
REPORT PAGES
94 TO 109

➡ **NOMINATION COMMITTEE**
REPORT PAGES
87 TO 89

➡ **SUSTAINABILITY**
COMMITTEE
REPORT PAGES
72 TO 76 AND 158 TO 165

CORPORATE GOVERNANCE CONTINUED

Attendance by directors at scheduled Board meetings is set out below. Attendance at scheduled Committee meetings is set out in each Committee report. There was 100% attendance at Board and Committee meetings.

MEMBER	POSITION	NUMBER OF MEETINGS ATTENDED (5 HELD)
Brian Bickell	Chief Executive	●●●●●
Simon Quayle	Property Director	●●●●●
Tom Welton	Property Director	●●●●●
Chris Ward	Finance Director	●●●●●
Jonathan Nicholls*	Chairman from 1 October 2016	●
Jonathan Lane	Chairman to 30 September 2016	●●●●●
Oliver Marriott	Non-executive director	●●●●●
Dermot Mathias	Non-executive director	●●●●●
Jill Little	Senior Independent Director	●●●●●
Hilary Riva	Non-executive director	●●●●●
Sally Walden	Non-executive director	●●●●●

*Attended the one meeting held following his appointment on 1 September 2016.

RELATIONS WITH SHAREHOLDERS

The Board considers regular contact with our shareholders is an important aspect of corporate governance. Investor relations is the responsibility of the Chief Executive.

During the year, the Chief Executive and executive directors held over 235 meetings with UK and overseas institutional investors comprising both current and potential shareholders. Meetings involve either group or individual presentations and tours of the portfolio. The tours provide an opportunity to see the Group’s assets, understand management strategy, and to meet members of the team below Board level. Feedback from these and analyst meetings is provided to the Board.

All directors are present for the AGM and available to answer questions from shareholders.

NOMINATION COMMITTEE REPORT



DEAR SHAREHOLDER

THE PRIMARY ROLE OF THE COMMITTEE IS TO CONSIDER ORDERLY BOARD SUCCESSION, FOR BOTH EXECUTIVE AND NON-EXECUTIVE DIRECTORS.

DURING THE YEAR, THE COMMITTEE UNDERTOOK A PROCESS FOR THE APPOINTMENT OF A NEW CHAIRMAN. I AM DELIGHTED TO HAVE BEEN SELECTED AND RECOMMENDED TO THE BOARD AS YOUR CHAIRMAN. I HAVE ALSO BEEN APPOINTED TO CHAIR THIS COMMITTEE.

Jill Little, the Senior Independent Director, led the process for the Chairman’s succession and her letter to you is below.

As Chairman of the Nomination Committee, my focus will be on Board succession and talent development to ensure that there is a pipeline of talented and experienced people in the business for future senior executive and Board appointments. We have a long-established executive team and development of employees below Board level is important for the continuity of mangement of our Company.

During my induction as Chairman, I have met all employees and have reviewed the plans in place for executive development and succession. We will continue to develop these plans throughout my Chairmanship.

Jonathan Nicholls
Chairman and Chairman – Nomination Committee



DEAR SHAREHOLDER

IN NOVEMBER 2015, WE ANNOUNCED THAT JONATHAN LANE, OUR THEN CHAIRMAN, WOULD RETIRE FROM THE BOARD AND THAT WE WOULD COMMENCE A PROCESS TO IDENTIFY HIS SUCCESSOR. AS JONATHAN LANE COULD NOT BE INVOLVED IN THE APPOINTMENT PROCESS, THE COMMITTEE ASKED ME TO LEAD THE SEARCH IN MY CAPACITY AS SENIOR INDEPENDENT DIRECTOR.

The Committee agreed a role specification and matrix of the skills that candidates should demonstrate. Some of the key attributes that the Committee felt a new Chairman should demonstrate included a broad commerical knowledge, listed company and property experience, as well as sufficient time to commit to the role. The Committee appointed The Zygos Partnership, who had previously worked with the Company on the appointment of the Chief Executive and Finance Director, to advise on the appointment process. They were felt to understand the culture and structure of the Company including the Company’s very specific and defined strategy and philosophy.

A long list of candidates was produced and from there a number were selected for interview. Non-executive directors interviewed the shortlisted candidates. The list was narrowed down further and all remaining candidates met the Chief Executive as well as the other executive directors and were taken on a tour of the Group’s portfolio. All directors were kept informed at every stage of the process.

Jonathan Nicholls was the preferred candidate and the Committee recommended his appointment to the Board. The full Board wholeheartedly agreed with the Committee’s recommendation. It was announced in May 2016 that he would join the Board on 1 September 2016 as a non-executive director and succeed Jonathan Lane as Chairman from the start of the new financial year on 1 October 2016.

Jill Little
Senior Independent Director

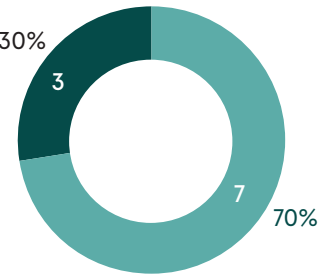
NOMINATION COMMITTEE REPORT CONTINUED

POLICY ON DIVERSITY

All aspects of diversity, including but not limited to gender, are considered at every level of recruitment. All appointments to the Board, and elsewhere in the Company, are made on merit. The Board policy on diversity is to ensure its composition has an appropriate balance of skills and diversity to meet the requirements of the business. The Board considers that quotas are not appropriate in determining its composition and has therefore chosen not to set targets.

Board composition is 30% female and 70% male. Gender diversity of the Board and Company is set out below, showing both number of employees (total 27) and percentage that this relates to.

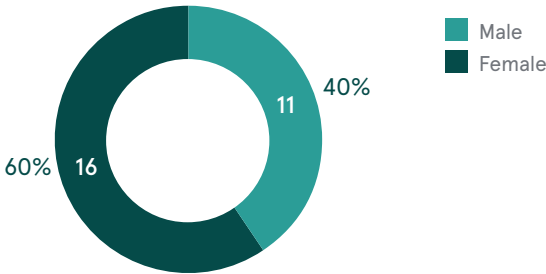
DIRECTORS



SENIOR MANAGEMENT EXCLUDING EXECUTIVE DIRECTORS



ALL EMPLOYEES



The Group supports initiatives to promote diversity within the property industry. Brian Bickell is a board member of Freehold, a forum for LGBT real estate professionals.

The Group has committed to the RICS Inclusive Employer Quality Mark scheme which aims to drive behaviour changes by encouraging businesses in the real estate sector to look carefully at their employment practices and to ensure inclusivity is embedded in their operations.

The Group is a member of Real Estate Balance whose objective is to achieve a better gender balance in the real estate industry, at board and executive management level, by supporting the development of a female talent pipeline across the sector.

SUCCESSION PLANNING AND DEVELOPMENT

The Committee advises the Board on succession planning. It ensures that evolution of the Board's membership is planned and properly managed, and that in the event of unforeseen changes, management and oversight of the Group's business and long-term strategy will not be disrupted. The Committee will continue to monitor non-executive director succession. In the year ahead it will ensure that the Audit Committee has the right skills to meet the Group's obligations under the new requirement of the UK Corporate Governance Code, to have competence relevant to the sector on the Committee.

To manage executive director succession, the Committee also addresses continuity in, and development of, the executive management team below board level. It recognises that for when future executive directors are needed, it is important to have developed internal talent. Current executive directors have a long tenure and there are no foreseeable vacancies at Board level. However, it is important the development of the Group's employees is monitored by the Committee. The development programme continues and all employees are encouraged to fulfil their potential in their roles.

DIRECTORS STANDING FOR ELECTION AND RE-ELECTION

As Jonathan Nicholls joined the Board on 1 September 2016, he will be proposed for election by shareholders at the 2017 AGM. All other directors will stand for re-election at the 2017 AGM. Oliver Marriott, Jill Little and Hilary Riva have been on the Board for more than six years. The Committee has ensured that these directors continue to have the appropriate range of skills and expertise to operate effectively (as described in the biographies on pages 80 to 81) and maintain their independence. The Committee therefore recommends that they remain on the Board for a further year.

On the advice of the Committee, the Board recommends the re-election of each director.

The tenure of directors at 30 September 2016 (excluding Jonathan Lane who retired on that date) is set out below.

Jonathan Nicholls	1 month
Oliver Marriott	7 years
Hilary Riva	6 years 7 months
Jill Little	6 years 7 months
Dermot Mathias	4 years
Sally Walden	4 years
Brian Bickell	30 years
Simon Quayle	*19 years
Tom Welton	*19 years
Chris Ward	4 years 9 months

SEE PAGES 80 TO 81 AND THE WEBSITE FOR BIOGRAPHICAL INFORMATION ON EACH DIRECTOR

* Period of Board membership

NOMINATION COMMITTEE REPORT CONTINUED

CHAIRMAN INDUCTION

The Senior Independent Director, assisted by the Company Secretary, led a detailed induction for the new Chairman.

In the period between the announcement of his appointment and taking over as Chairman on 1 October 2016, Jonathan Nicholls met the Group’s key corporate advisors, undertook a number of tours around the Group’s

portfolio, met all the Group’s employees, and received detailed materials to enable him to be fully briefed for his first Board meeting in September 2016.

COMMITTEE MEMBERS AND ATTENDANCE

MEMBER	POSITION	NUMBER OF MEETINGS ATTENDED (3 HELD)
Jonathan Lane*	Chairman	● ● ●
Jill Little	Senior Independent Director	● ● ●
Oliver Marriott	Member	● ● ●
Dermot Mathias	Member	● ● ●
Hilary Riva	Member	● ● ●
Sally Walden	Member	● ● ●

COMMITTEE ATTENDEES BY INVITATION ONLY

ATTENDEES	POSITION
Brian Bickell	Chief Executive
Penny Thomas	Secretary to the Committee
The Zygos Partnership	Search consultants

KEY ACTIVITIES DURING THE YEAR

SUCCESSION	PERFORMANCE AND SKILLS	RE-APPOINTMENT OF DIRECTORS
Search and selection of a new Chairman	Reviewed the skills of the directors for re-election, with particular focus on non-executive directors with more than six years service	Proposed to the Board directors for re-election
Recommendation of Jonathan Nicholls to the Board	Reviewed diversity policy	
Succession planning for the Board and senior executives	Reviewed the annual committee report	

* Jonathan Lane resigned from the Committee on 30 September 2016. He was replaced by Jonathan Nicholls who joined the Committee on 1 October 2016 and is thus excluded from these figures.

AUDIT COMMITTEE REPORT



DEAR SHAREHOLDER

THE COMMITTEE IS TASKED WITH REVIEWING AND ADVISING THE BOARD ON FINANCIAL REPORTING, INTERNAL CONTROL AND RISK MANAGEMENT, AND REVIEWS THE PERFORMANCE, INDEPENDENCE AND EFFECTIVENESS OF THE EXTERNAL AUDITORS IN CARRYING OUT THE STATUTORY AUDIT.

The Committee advises the Board on various statements made in the Annual Report, including those on viability, going concern, risk and controls and whether, when read as a whole, the Annual Report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

The Board appointed Ernst & Young LLP as independent auditors during the year, following a tender process in 2015.

Dermot Mathias

Chairman – Audit Committee

FINANCIAL REPORTING AND SIGNIFICANT FINANCIAL JUDGEMENTS

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

The directors are responsible for preparing the Annual Report. The Committee considered whether the Annual Report was fair, balanced and understandable and whether it provided the necessary information for shareholders to assess the Group's performance, business model and strategy. In carrying out this exercise, the Committee had regard to the systems and controls around the preparation of the accounts, the procedures to bring relevant information to the attention of the preparers of the accounts, the consistency of the reports and whether they are in accordance with the information provided to the Board during the year. It considered whether the Annual Report had been written in straightforward language, without unnecessary repetition of information, and the use of any adjusted measures, eg EPRA, were adequately explained.

The Committee was satisfied that, taken as a whole, the Annual Report is fair, balanced and understandable and included the necessary information as set out above. It confirmed this to the Board, whose statement in this regard is set out on page 112.

Consideration was also given to the Principal Risks and Uncertainties and the Viability Statement, set out on pages 66 to 69. The Committee has reviewed the scenario analysis prepared by management including the assumptions made and has recommended the statement to the Board.

The Committee considered the appropriateness of the accounting policies used in preparing the financial statements, and in particular, paid attention to matters it considered to be important by virtue of their impact on the Group's results and remuneration, and those which involve a high level of complexity, judgement or estimation by management. The significant areas considered are set out below:

• Valuation of investment properties

The valuation opinion is provided by independent external valuers and is one of the critical components of the annual and half year financial results. It is inherently subjective, requiring significant judgement. As well as a detailed review of the valuations by management, members of the Committee met the Group's valuers, without management present, before finalisation of the annual and half year results. At these meetings, they discussed the valuations, reviewed the key judgements and discussed whether there were any significant disagreements with management. They also discussed current market conditions, including the impact of the EU Referendum, recent transactions in the market and any impact these have had on the valuation. The auditors use internal real estate specialists, who meet with the valuers as part of their audit and report their findings and conclusions to the Committee. The Board considered the valuation at its meeting to approve the financial statements; at which the valuers of the Group's wholly-owned portfolio attended and explained the assumptions underlying their valuation opinion.

AUDIT COMMITTEE REPORT CONTINUED

• Other areas of judgement

In addition, the Committee has considered a number of other judgements which have been made by management, none of which were material in the context of the Group's or net assets. These include judgements concerning the charge for equity settled remuneration and the valuation of derivative financial instruments.

The Committee also reviewed revenue recognition policies across the Group, considering the use of judgement and estimates in preparing financial information. The Committee concluded that the Group's revenue recognition policies are generally straightforward, and there were no transactions involving a high degree of judgement or estimation.

• Accounting for the refinancing of 8.5% First Mortgage Debenture Stock due 2024 (the "Stock")

The Committee reviewed the accounting for the refinancing of the Group's Debenture Stock.

In September 2016, the terms of the Debenture Stock were amended to grant the Company an early redemption option to redeem the Stock in full at an agreed amount, including a redemption premium. The exercise of the early redemption option was conditional upon the issue of newly created longer-dated Guaranteed First Mortgage Bonds, to be issued by 31 December 2016.

The amendments to the redemption terms materially changed the discounted present value of the cash flows of the Stock. In order to reflect this change, the Company revised the carrying value of the Stock. It was previously held in the Balance Sheet at amortised cost, and is now held at fair value, being the total consideration to be paid to stockholders. This resulted in an increase in the recognised liability of £29.2 million, comprising the redemption premium noted above, less the remaining unamortised issue premium in respect of the Stock. This has been charged to the Statement of Total Comprehensive Income in the year ended 30 September 2016.

The carrying value of the Stock has been included in the Balance Sheet within current liabilities, reflecting the expectation that it would be satisfied within three months of the year end.

In arriving at the accounting treatment noted above, the Board has made a judgement that the issue of new First Mortgage Bonds was extremely likely. To support this judgement, the Committee noted that the Group had issued a prospectus in relation to the Bonds, the order book had been substantially over-subscribed and had closed on 29 September 2016, at which point the new Bonds had been priced. The new Bonds were issued on 7 October 2016.

Management confirmed to the Committee that they were not aware of any material misstatements in the Annual Report and the auditors confirmed that they had found no material misstatements in the course of their work.

After reviewing the reports from management and, following its discussions with the auditors and valuers, the Committee is satisfied that the financial statements appropriately address the critical judgements and key estimates, both in respect of the amounts reported and the disclosures. The Committee is satisfied that the processes used for determining the value of the assets and liabilities have been appropriately reviewed, challenged and are sufficiently robust.

GOING CONCERN

The Committee reviewed whether it was appropriate to adopt the going concern basis in the preparation of the results. In considering this, it reviewed the Group's five-year profit, cash flow and investment forecasts, availability of committed bank and debt facilities and expected headroom under the financial covenants in those facilities. Following the review, it recommended to the Board that it was appropriate to adopt the going concern basis.

VIABILITY STATEMENT

At the request of the Board, the Committee reviewed the Viability Statement and the period for which the Board should assess the prospects of the Group. Last year, the Group considered a five year period appropriate. This assumption remains appropriate. The Committee reviewed a report from management which set out the basis for the conclusions in the Viability Statement, including scenario analyses. The Board's viability statement is set out on page 71.

RISK REVIEW PROCESS

As part of standing matters, the Committee reviewed the business risks and internal controls' framework during the year. This review included testing by the external auditors and assurance from the Finance Director over certain key controls. The Group's internal control and risk management procedures, and its principal risks and uncertainties, are reported in the Strategic Report. The Committee undertook a review of the Group's cyber security risks and was satisfied that the Group had met the Government's cyber essentials requirements.

EXTERNAL AUDITORS

The Committee is satisfied with the effectiveness of the external audit. The Committee put the Group audit out to tender during 2015 and the Board appointed Ernst & Young LLP. The process was described in last year's report.

The Company has complied during the year with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

This is the first year that the current lead audit partner, Eamonn McGrath, has been in position. There are no contractual obligations restricting the Group's choice of external auditor. In accordance with the current regulations, the Group will re-tender the audit every ten years.

AWARD OF NON-AUDIT ASSIGNMENTS TO THE EXTERNAL AUDIT FIRM

The policy of the Committee is that non-audit assignments are not awarded to the external audit firm if there is a risk that their audit independence and objectivity could be compromised. Other than in exceptional circumstances, non-audit fees should not exceed audit and assurance fees in any year. The award of any non-audit assignment to the Group's auditors in excess of £25,000 is subject to the prior approval of the Committee. There were two such assignments during the year, relating to the refinancing of the Debenture Stock.

AUDIT COMMITTEE REPORT CONTINUED

AUDIT FEES

Fees payable to the Group’s auditors for audit and non-audit services are set out below:

	2016	2015
Audit of the parent company’s annual accounts	59	58
Audit of the consolidated Group	83	98
Total audit services	142	156
Audit related assurance services – half year review	21	21
Other assurance services	25	-
Total assurance services	46	21
Total audit and assurance services	188	177
Tax compliance services	-	39
Tax advisory services	-	39
Services related to taxation	-	78
Other non-audit services	25	-
Total fees related to taxation and other non-audit services	25	78
Total fees	213	255

Total fees related to non-audit services represented 13% of the total fees for audit and assurance services (2015: 44%). The comparative figures represent fees paid to PricewaterhouseCoopers LLP in its role as independent auditor in the prior year.

The auditors were also paid £27,000 (2015: £26,400) for their audit of Longmartin Properties Limited. Our 50% share of this was £13,500 (2015: £13,200).

ANNUAL AUDITOR ASSESSMENT

Annually, the Committee assesses the qualifications, expertise, resources, and independence of the Group’s external auditors, as well as the effectiveness of the audit process. It does this through discussion with the Finance Director, review of a detailed assessment questionnaire and confirmation from the external auditor. This is the first year that Ernst & Young LLP have been our auditor and following informal assessments, to date, the Committee is satisfied with the effectiveness of the external audit and the interaction between the auditors and the Committee. Following completion of the current year’s audit, the Committee will carry out a formal assessment.

Ernst & Young LLP has confirmed to the Committee that:

- They have internal procedures in place to identify any aspects of non-audit work which could compromise their role as auditors and to ensure the objectivity of their audit report.
- The total fees paid by the Group during the year do not represent a material part of their firm’s fee income.
- They consider that they have maintained their audit independence throughout the year.

The Committee has satisfied itself as to their qualifications, expertise and resources and remains confident that their objectivity and independence are not in any way impaired by reason of the non-audit services which they provide to the Group.

INTERNAL AUDIT

In view of the focused nature of the Group’s business, the close involvement of the executive directors in day-to-day decision making and relatively simple structure, together with the regular independent reviews of the processes and controls of managing agents, the Committee has advised the Board that, at the present time, it considers that there is no need to establish an internal audit function.

The matter will be kept under review.

AUDIT COMMITTEE REPORT CONTINUED

COMMITTEE MEMBERS AND ATTENDANCE

MEMBER	POSITION	NUMBER OF MEETINGS ATTENDED (4 HELD)
Dermot Mathias	Chairman	● ● ● ●
Jill Little	Senior Independent Director and member	● ● ● ●
Oliver Marriott	Member	● ● ● ●
Hilary Riva	Member	● ● ● ●
Sally Walden	Member	● ● ● ●

COMMITTEE ATTENDEES BY INVITATION ONLY

ATTENDEES	POSITION
Penny Thomas	Secretary to the Committee
Chris Ward	Finance Director
Gareth Field Robert Jessett Stefanie Doede	Senior members of the finance team
PricewaterhouseCoopers LLP (2015) Ernst & Young LLP (2016)	Independent auditors

KEY ACTIVITIES DURING THE YEAR

FINANCIAL STATEMENTS	AUDIT	MISCELLANEOUS
Reviewed and monitored the integrity of the published financial information including the year end results, preliminary announcement, Annual Report and half year results Reviewed significant issues and areas of judgement which have the potential to have a material impact on the financial statements, making any consequent recommendations to the Board Reviewed the Group's policies on revenue recognition Met with the Group's valuers to discuss the valuation process and outcome Considered emerging best practice in relation to corporate reporting Advised the Board on the statement by directors that the Annual Report, when read as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy Advised the Board on the Viability Statement Considered the appropriateness of the going concern assumption Reviewed and approved the Committee Report	Planned for year end and reviewed the audit plan Considered the independence and objectivity of the auditors Made a recommendation to the Board for the re-appointment of the Group's auditors by shareholders Discussed Ernst & Young's report on the audit Meetings with external auditors without senior management present	Approved non-audit assignments awarded to the external audit firm, and monitored audit/non-audit fees Reviewed the whistle-blowing policy Considered the need for an internal audit function Reviewed the Committee's performance Carried out a robust assessment of the principal risks faced by the business Reviewed the risk and internal control framework, including monitoring the Group's risk management and internal controls systems and assessed the adequacy and effectiveness of controls and disclosures made in the Annual Report. The review covered all material controls, including financial, operational and compliance controls Reviewed cyber security risk

REMUNERATION REPORT



DEAR SHAREHOLDER

THE REMUNERATION POLICY SETS OUT OUR APPROACH TO THE REWARD OF EXECUTIVE AND NON-EXECUTIVE DIRECTORS. IT REFLECTS OUR AIM THAT WE SHOULD ENSURE MANAGEMENT CONTINUITY IN THIS LONG-TERM BUSINESS WHILST PROVIDING OVERALL FAIR REMUNERATION LEVELS.

THE POLICY WE HAVE OPERATED THROUGHOUT THIS FINANCIAL YEAR WAS APPROVED BY SHAREHOLDERS AT THE 2016 AGM.

We have seen another year of excellent progress, achieving growth in NAV and earnings. We continue our high level of asset management activity and have made good progress on our main projects (see page 50). We have completed an important financial restructuring as described on page 62.

Against the backdrop of this performance, the Committee's main decisions during the year related to:

ANNUAL BONUS TARGETS

The Committee sets annual targets and objectives which align with the Group's long-term strategy.

Where projects extend for periods beyond the financial year, annual targets are set to assess progress towards achievement of the ultimate objectives. In setting the targets, the Committee uses the Group's KPIs which drive value in the form of long-term rental growth.

ANNUAL BONUS OUTCOMES AND EXERCISE OF DISCRETION

Annual bonus awards are measured against our KPIs and other performance objectives which contribute to long-term shareholder value. The outcome of performance against these targets was 82% of the maximum award. The 2016 bonus targets are disclosed in full on page 98. However, the Committee took into account that the achievement of objectives was made against a background of a continuing buoyant West End economy and felt that a cautious approach to remuneration should be adopted. It has decided that an annual bonus award of 60% (of maximum) is more reasonable in the circumstances.

Each executive director has elected to receive his award solely in the form of deferred shares, and will therefore receive a deferred share award of 90% of salary in December 2016, equivalent to 60% of maximum under the scheme.

The Committee exercised discretion in reducing the annual bonus award to avoid a formulaic outturn and reflect a more appropriate payout.

LTIP VESTING

LTIP awards which were made in 2013 will vest in December 2016, based on a three year performance period which ended on 30 September 2016. Annualised TSR of 17% per annum exceeded that of the benchmark (FTSE 350 Real Estate Index) by over 9% per annum over the period. Growth in NAV (above the RPI benchmark) was 16.17% over the period.

As a result of this performance, the Committee confirmed that the TSR target and the NAV target were fully met resulting in 100% vesting of these awards.

LTIP GRANT

As detailed in last year's report, we undertook a comprehensive review of the LTIP as part of the renewal of our plan which had reached its ten-year limit. This was approved at the 2016 AGM. The Committee agreed to introduce a two year post-vesting holding period for new awards. Last year's report indicated that the LTIP awards to be made in the year ending 30 September 2016 would be made under the old LTIP rules in December 2015, without the holding period. Ultimately, the Committee decided it would be more appropriate to delay the grant of executive awards until after the 2016 AGM once shareholders had approved the new rules. This allowed the grants to be made under the new plan with the post-vesting holding period and new malus/clawback provisions.

The Committee made a grant of nil cost options in February 2016 at 125% of basic annual salary with a three year performance period to 30 September 2018. Subject to performance against the targets (TSR performance compared with the FTSE350 REIT Index and NAV growth), the awards will vest in December 2018, and be released in December 2020 following the post-vesting holding period.

ALIGNMENT WITH EMPLOYEES

In reviewing salaries and considering bonus outcomes, the Committee considers the overall pay packages of the executive directors. The Committee is aware of the sensitivity of pay issues and considers all employees when reviewing executive directors' pay. All employees receive the same benefits as directors; they participate in the LTIP and have the opportunity to defer their annual bonus into shares. They also participate in sharesave, and receive health and life insurance.

All employees also receive a pension; executive directors have the equivalent of 25% of salary paid as pension contributions; all other employees have the equivalent of 17.5% of salary paid into a pension.

REMUNERATION REPORT CONTINUED

REVIEW OF SALARIES

Salaries of executive directors were reviewed to take effect from 1 December 2016 with increases of in the range of 1-2%, and below average salary increases for our employees.

CHAIRMAN FEES

The Committee agreed the fees for the incoming Chairman at £150,000 per annum which were set at a market competitive level in line with our policy.

REMUNERATION POLICY

Our Remuneration Policy was approved by shareholders at the 2016 AGM, with almost 95% of shareholders voting in favour of the new arrangements.

We are not proposing any changes this year and therefore the full Remuneration Policy has not been included in this year's report. An extract from the Remuneration Policy table is reproduced on pages 96 and 97 for ease of reference.

The Annual Remuneration Report was approved by 99% of shareholders voting at the 2016 AGM.

We look forward to receiving your continued support at the forthcoming AGM.

Sally Walden

Chairman – Remuneration Committee

CONTEXT FOR THE GROUP'S REMUNERATION APPROACH

The Group has 27 employees, including four executive directors. Of those four, three have an average length of service of 29 years. The combined holdings of these three executive directors stand at just over 2.8 million shares with a market value at 30 September 2016 of circa £27.5 million, which equates to individual holdings of approximately 21 times their annual salary. The executive directors have taken their annual bonus in shares in ten out of the last eleven years since the Deferred Annual Share Bonus scheme was introduced and retained shares from the LTIP. As a result, they have built up substantial shareholdings.

The Group's small team of executive directors and key employees all have a close involvement in the continuing development, and implementation, of the Group's management strategies. Consequently, the Committee considers it appropriate that, in setting objectives and measuring performance, emphasis is placed on team rather than individual performance. Average length of service below the Board is 10 years. The management team has had one resignation during the year. The total number of employees increased this year by two.

AT A GLANCE

2016 GROUP PERFORMANCE

Rents receivable +7.2% ERV growth

£98.4m **5.7%**

EPRA Earnings per share +7.7% Dividend per share +6.9%

14.0p **14.7p**

Portfolio value +4.0% EPRA NAV per share +2.2%

£3.35 bn **£8.88**

TSR FTSE350 Real Estate Index

+8.0% **-12%**

SUMMARY OF REMUNERATION POLICY

AT THE ANNUAL GENERAL MEETING HELD ON 5 FEBRUARY 2016, SHAREHOLDERS APPROVED THE REMUNERATION POLICY, WHICH BECAME EFFECTIVE AS AT THAT DATE.

An extract of key parts of the Remuneration Policy table from the Remuneration Policy is reproduced below for information only. The full Remuneration Policy is on our website and set out on pages 88 to 95 of the 2015 Annual Report which is also available in the investor relations section of the Group’s website.

EXECUTIVE DIRECTORS

ELEMENT	OPERATION / PERFORMANCE MEASURES	MAXIMUM POTENTIAL VALUE
Salary	Salaries are normally reviewed annually with effect from 1 December. Any increases are determined with reference to inflation and the salary increases for other employees, unless there is a change of role or responsibility or a new director is recruited Sector and other relevant market data (eg against constituent companies of the FTSE 350 REIT Index) may be requested from remuneration advisors as required The Committee recognises the importance of setting salaries at levels in the context of market median levels in the real estate sector, but which are not excessive in relation to the Group’s particular strategy and features. The emphasis in the Group’s remuneration policies is to place greater weight on performance-based rewards within the overall remuneration package	The Committee does not specify a maximum salary or maximum salary increase Further details on salary levels and any increases are provided in the Annual Remuneration Report
Annual bonus	Annual performance targets are set by the Committee at the beginning of the year and are linked to the Group’s strategy and key business objectives At the end of the financial year, the Committee evaluates performance against these objectives, whilst also taking into account overall financial performance and future prospects. The Committee also satisfies itself that short-term targets have not been met at the expense of long-term goals Within the limits of the scheme, the Committee has discretion to adjust bonus outcomes (upwards or downwards) as it considers appropriate, to ensure alignment of pay with overall performance and market conditions Minimum performance required for any part of the bonus to be earned is calibrated so as to be appropriately stretching and achievable Where directors take all or part of the bonus as an award of shares (in the form of a conditional award of shares or a nil-cost option), these awards vest after a minimum of three years from grant under the Company’s deferred bonus plan. No further performance conditions apply. Awards may also, at the Committee’s discretion, be settled in cash Malus and clawback provisions apply to all elements of the bonus. Performance is assessed against a set of key financial and non-financial annual measures which may vary each year depending on the annual priorities of the business Performance targets are set by the Committee Measures will be weighted in alignment with the Group’s strategy for each year. A substantial part of the total bonus will be based on quantitative KPIs. Further details of the measures, weightings and targets applicable for a given period are provided in the Annual Remuneration Report for that year	Directors have the choice to take a bonus in shares or cash, in full or part as follows: Up to 150% of salary if taken entirely in shares; or Up to 100% of salary if taken entirely in cash

SUMMARY OF REMUNERATION POLICY CONTINUED

ELEMENT	OPERATION / PERFORMANCE MEASURES	MAXIMUM POTENTIAL VALUE
LTIP	Awards may be granted in the form of nil cost options, conditional share awards or, at the Committee's discretion, be settled in cash At the end of the performance period, performance against the targets is calculated, and the percentage of awards that will vest is determined Unless the Committee determines otherwise, vested awards will then be subject to an additional holding period before participants are entitled to receive their shares. A holding period will normally last for two years, unless the Committee determines otherwise Malus and clawback provisions apply to the LTIP The awards will be subject to performance targets measured over a three-year period. It is intended that these performance measures are aligned to strategic objectives and shareholder value The current performance measures are: • TSR measured relative to a relevant index of peers; and • NAV growth Threshold vesting is 25% of the award. The detailed targets are set out in the Annual Remuneration Report	Maximum value 150% of salary at date of grant in normal circumstances Maximum value 200% of salary in exceptional circumstances such as executive recruitment (this has not been used to date)
All employee plans	Executive directors are eligible to participate in other share plans, which are offered on similar terms to all employees, for example Sharesave and SIP	The limits are as defined by HMRC from time to time
Pension	Contribution paid into a personal pension plan or taken as a cash equivalent, reduced for any resultant tax liability borne by the Group	25% of salary
Other benefits	Each executive director currently receives: • car allowance • private medical cover • life insurance • permanent health insurance Other benefits may be provided if considered reasonable and appropriate by the Committee, including, but not limited to, housing allowance and relocation allowance	There is no maximum value. Benefits are set at a level which the Committee determines is reasonable and appropriate The value may vary depending on service provided, cost and market conditions

ANNUAL REMUNERATION REPORT

SET OUT BELOW IS THE ANNUAL REMUNERATION REPORT ON DIRECTORS’ PAY FOR THE YEAR ENDED 30 SEPTEMBER 2016.

THE REPORT DETAILS HOW WE INTEND TO OPERATE THE REMUNERATION POLICY FOR THE YEAR AHEAD AND HOW WE IMPLEMENTED IT DURING THE YEAR.

STATEMENT OF IMPLEMENTATION OF REMUNERATION FOR THE YEAR ENDING 30 SEPTEMBER 2017

EXECUTIVE DIRECTORS’ SALARIES FROM 1 DECEMBER 2016

The Committee recommended general increases for executive directors and employees with effect from 1 December 2016.

	1.12.2016 £’000	1.12.2015 £’000	INCREASE
B Bickell	490	485	1%
S J Quayle	346	342	1%
T J C Welton	346	342	1%
C P A Ward	342	335	2%

This compares to an average increase across the employee population of 4%. Pension and other benefits are as described in the Remuneration Policy table.

ANNUAL BONUS TARGETS

Executive directors will be eligible for a maximum bonus of up to 150% of salary (if taken in shares) and 100% of salary (if taken in cash), in accordance with the Remuneration Policy. Disclosure of annual bonus targets for the year ending 30 September 2017 is deemed to be commercially sensitive and therefore the actual targets are not set out in this report. The targets will be disclosed retrospectively next year, provided they are no longer commercially sensitive.

MEASURE	WEIGHTING	TARGET OR REASON FOR NON-DISCLOSURE
Achieve growth in ERVs ¹	20%	The Committee considers specific disclosure of targets regarding the achievement of rental levels, the speed of completing letting or delivery of specific projects or transactions would be prejudicial to the interests of shareholders. As a consequence of the geographic concentration of the Group’s portfolio, disclosure of such targets could have a material adverse impact on the Group’s position when negotiating transactions with current or potential tenants or other parties
Let vacant space on a timely basis ¹	10%	
Effectively achieve full lettings	10%	
Manage property expenses	10%	
Corporate responsibility performance	10%	To match baseline year (2013) corporate responsibility scores (GRESB ranked 3 out of 10 in peer group, EPRA silver sustainability reporting)
Deliver projects/transactions successfully	40%	Specific operational objectives to be met during the year critical to progressing long-term property projects and financing

LTIP

LTIP awards of 125% of salary will be granted in December 2016, in respect of the performance period 1 October 2016 to 30 September 2019. The performance measures will be as set out on page 102. A two-year post-vesting holding period will apply to these awards.

NON-EXECUTIVE DIRECTORS’ FEES FROM 1 DECEMBER 2016

Non-executive director fees are reviewed every two years. The previous review was undertaken in 2015 and therefore no changes will apply this year to fees, other than the Chairman’s fee which was set at £150,000. Non-executive fees are £55,000 per annum. There is an additional fee of £10,000 where a non-executive director chairs a committee and for the Senior Independent Director (if not already in receipt of a Committee Chairman fee). The Chairman does not receive an additional fee for chairing the Nomination Committee.

¹ Group KPIs.

ANNUAL REMUNERATION REPORT CONTINUED

REMUNERATION FOR YEAR ENDING 30 SEPTEMBER 2016

SINGLE TOTAL FIGURE OF REMUNERATION FOR EXECUTIVE DIRECTORS (AUDITED)

The table below sets out a single figure for the total remuneration received by each executive director for the year ended 30 September 2016 and the prior year:

	SALARY		BENEFITS ¹		PENSION BENEFIT ²		ANNUAL BONUS ³		LTIP ⁴		OTHER ⁵		TOTAL	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000
B Bickell	483	473	50	59	106	104	437	356	914	530	1	1	1,991	1,523
S J Quayle	341	333	47	53	75	73	308	251	645	375	1	1	1,417	1,086
T J C Welton	341	333	34	40	75	73	308	251	645	377	1	1	1,404	1,075
C P A Ward	333	323	29	34	76	76	302	246	577	329	1	1	1,318	1,009

1. Benefits comprise car allowance, permanent health insurance, life insurance and health insurance.

2. Pension contribution is 25% of salary and may be taken in cash (in part or entirely). The cash equivalent is reduced by any resultant tax liability borne by the Group.

3. Payment for performance in respect of the relevant financial year. For 2016, the executive directors could have received bonuses of 90% of salary in shares or 60% of salary in cash. Each director has elected to take their 2016 bonus entirely in shares, which are deferred for a period of three years. No further performance criteria apply.

4. Reflects the vesting of shares in the LTIP in respect of performance for the relevant financial year. 100% of LTIP awards granted in December 2013 will vest in December 2016. The TSR performance condition for the three-year performance period to 30.9.2016 was met and resulted in full vesting of this 50% element of the award. NAV performance was met and resulted in full vesting of this 50% element of the award. The value of these awards has been calculated by multiplying the number of shares that will vest by the three-month average share price to 30 September 2016 of £9.33. The 2015 estimated figure has been restated to reflect actual share price at the date of vesting. The value of dividends paid, or to be paid, on vested shares is also included.

5. This relates to sharesave options which have been valued based on the monthly savings amount and the discount on the option price of 20%.

SINGLE TOTAL FIGURE OF REMUNERATION FOR NON-EXECUTIVE DIRECTORS (AUDITED)

The table below sets out a single figure for the total remuneration received by each non-executive director for the year ended 30 September 2016 and the prior year:

	FEE		COMMITTEE CHAIR/ SENIOR INDEPENDENT DIRECTOR ¹ FEES		OTHER ²		TOTAL	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000
J C Nicholls ³	12	-	-	-	-	-	12	-
J S Lane	129	125	-	-	-	22	129	147
J C Little	55	53	9	8	-	-	64	61
O J D Marriott	55	53	-	-	-	-	55	53
D C A Mathias	55	53	9	8	-	-	64	61
H S Riva	55	53	-	-	-	-	55	53
S E Walden	55	53	9	8	-	-	64	61

1. Fee is only payable if the Senior Independent Director is not the chair of any other committee.

2. Includes dividend equivalents paid in the year on vested LTIP shares. These relate to Jonathan Lane's previous role as an executive director.

3. Jonathan Nicholls joined the Board on 1 September 2016 and became Chairman on 1 October 2016.

ANNUAL REMUNERATION REPORT CONTINUED

ANNUAL BONUS ACHIEVEMENTS FOR YEAR ENDED 30 SEPTEMBER 2016

Full retrospective disclosure of the targets for the 2016 annual bonus scorecard is provided below.

MEASURE	WEIGHTING	TARGET	ACHIEVEMENT	PERCENTAGE AWARDED
Portfolio performance				
• Achieve growth in ERVs ¹	20%	Extent by which commercial lettings or lease renewals exceed valuer's ERV by 5% in previous year Annual growth in Group total ERV (like-for-like) to exceed 5%	Commercial lettings exceeded previous year ERV on average by 7.7% ² See page 39. Annual growth in total ERV 5.7%	20%
• Let vacant space on a timely basis ¹	10%	Complete lettings within target periods set by use (range 1 – 3 months according to use)	Average void period (measured from date space became available to let). Maximum within target for each use. 1.2 months. See page 39.	10%
• Effectively achieve full lettings	10%	ERV of space available to let not to exceed 3% of Group ERV (measured quarterly)	Average EPRA vacancy during year: 1.9% of Group ERV ²	10%
• Manage property expenses as a percentage of rental income	10%	Ratio of property outgoings to gross rents receivable not to exceed rolling three year average (like-for-like)	Ratio for year ² : 14.0% Rolling three-year average: ² 13.3%	0%
Sustainability performance	10%	Maintain relative rankings in key indices (5% on each of): • EPRA • GRESB	GRESB “green star” rating EPRA silver sustainability reporting award	10%
Deliver projects/transactions successfully	40%	Specific operational objectives to be met during the year critical to: • progressing key long-term property projects • maintaining long-term stability in the Group's financing arrangements	Operational objectives which were targeted for completion during the year were substantially fully met In the case of targets over more than one year, progress against milestones was demonstrated Progress on development of the Group's portfolio plus refinancing activities. The Group's major refurbishment projects include Thomas Neal's Warehouse, Newport Sandringham and 57 Broadwick Street – see Strategic Report for further information.	32%
Maximum performance target	100%			
Actual performance as a % of maximum (see below for the actual amount awarded and explanatory note)				82%

COMMITTEE'S EXERCISE OF DISCRETION

The Group's strategy is long-term. The Committee considers it appropriate to maintain a consistent approach to target setting for both annual and long-term incentives. The Committee is mindful that annual bonus awards should fairly reflect performance in the round. The formulaic outturn of quantitative targets is therefore considered in the context of factors such as the buoyancy of occupier demand in the wider West End market and progression against longer-term strategic goals, to ensure the level of bonus is appropriate.

Whilst the achievement against the targets was 82%, the Committee felt that a more reasonable award in view of general market conditions during the year was 60% of maximum, assuming the bonus was taken in cash. All the executive directors elected to take their bonus in shares which equates to an award of 90% out of a maximum opportunity of 150% of their salary.

¹ Group KPIs

² Wholly-owned portfolio

ANNUAL REMUNERATION REPORT CONTINUED

The Committee has exercised its discretion to reduce the awards in the last two years and the effect of this is set out below:

YEAR	ACTUAL BONUS PERCENTAGE POTENTIAL ACCORDING TO ACHIEVEMENT TABLE	BONUS PERCENTAGE AFTER EXERCISE OF DISCRETION BY REMUNERATION COMMITTEE
2015	70%	Reduced to 60%
2016	82%	Reduced to 60%

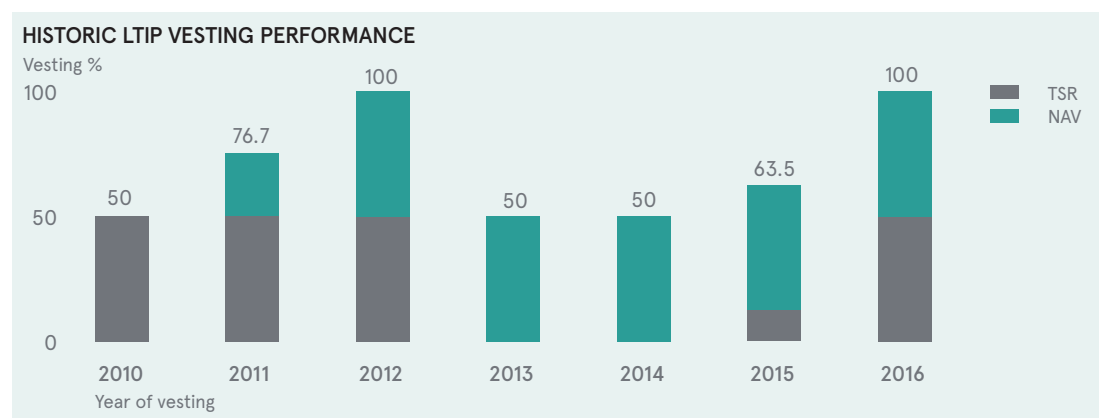
LTIP VESTING FOR THE PERFORMANCE PERIOD TO 30 SEPTEMBER 2016

Vesting of the LTIP awards granted in December 2013 was determined by performance over a three-year period to 30 September 2016. The table below provides details of performance against the performance conditions for the awards vesting in respect of the financial year.

ANNUALISED TSR OF THE COMPANY'S SHARES LESS ANNUALISED TSR OF THE FTSE 350 REAL ESTATE INDEX	RELEVANT AWARDS VESTING
Less than 0% pa	0%
0% pa	20%
Between 0% pa and 5.5% pa	Pro-rata on a straight line basis between 20% and 100%
5.5% pa or more	100%
Performance in three-year period to 30 September 2016: 17.05% pa and outperformed the benchmark by 9.16% pa	Vesting outcome (for this half of the award) 100% of maximum

ANNUALISED NAV GROWTH LESS ANNUALISED RPI GROWTH, OVER THE PERFORMANCE PERIOD	RELEVANT AWARDS VESTING
Less than 3% pa	0%
3% pa	30%
Between 3% pa and 7% pa	Pro-rata on a straight line basis between 30% and 100%
7% pa or more	100%
Performance in three year period to 30 September 2016: 16.17% pa RPI Growth of 1.69%. Outperformance of 14.44%	Vesting outcome (for this half of the award) 100% of maximum

1 Calculated using the three-month average TSR in the periods before grant and vesting



ANNUAL REMUNERATION REPORT CONTINUED

SHARE SCHEME INTERESTS AWARDED DURING THE YEAR (AUDITED)

Awards of nil cost options are made by the Committee based on a multiple of salary divided by the average share price over five days prior to the date of grant.

Awards under the schemes below were made in February 2016, following approval of the Remuneration Policy by shareholders at the 2016 AGM. This was to permit the grant under the new rules including post-vesting holding periods for the LTIP and malus/clawback provisions in both schemes.

	SCHEME	FACE VALUE AT DATE OF AWARD £'000
B Bickell	LTIP ¹	606
	Deferred Annual Share Bonus Scheme ²	356
S J Quayle	LTIP ¹	428
	Deferred Annual Share Bonus Scheme ²	251
T J C Welton	LTIP ¹	428
	Deferred Annual Share Bonus Scheme ²	251
C P A Ward	LTIP ¹	419
	Deferred Annual Share Bonus Scheme ²	246

1. Awards of nil cost options were made at 125% of salary. The face value is calculated using the average share price used to determine the number of shares awarded, being £9.268 (the average share price over the five days prior to 8.12.15). The LTIP performance period is 1 October 2015 to 30 September 2018. Performance measures are set out in the table below.

2. Deferred Annual Share Bonus Scheme relates to the annual bonus in respect of the year ended 30.9.2015 taken in shares. The face value is calculated using the price paid to acquire the shares, being £8.395. No further performance criteria are applied to share awards under this scheme.

In view of the Group's long-term strategy, a consistent approach to target setting is taken for the LTIP. The performance criteria for the 2016 awards, which have been applied consistently since 2006, are set out below. However, two minor changes were made from the calibration of the targets in previous years. First, the TSR benchmark index was changed from the FTSE350 Real Estate Index to the FTSE350 REIT Index which the Committee believes to be a more direct and appropriate comparator. Second, threshold vesting was equalised to 25% on both elements of the award (having previously been 20% for the TSR element and 30% for the NAV element).

ANNUALISED TSR OF THE COMPANY'S SHARES LESS ANNUALISED TSR OF THE FTSE 350 REIT INDEX	RELEVANT AWARDS VESTING
Less than 0% pa	0%
0% pa	25%
Between 0% pa and 5.5% pa	Pro-rata on a straight line basis between 25% and 100%
5.5% pa or more	100%

ANNUALISED NAV GROWTH LESS ANNUALISED RPI GROWTH, OVER THE PERFORMANCE PERIOD	RELEVANT AWARDS VESTING
Less than 3% pa	0%
3% pa	25%
Between 3% pa and 7% pa	Pro-rata on a straight line basis between 25% and 100%
7% pa or more	100%

ANNUAL REMUNERATION REPORT CONTINUED

DIRECTORS' SHAREHOLDINGS AND SHARE SCHEME INTERESTS AT 30 SEPTEMBER 2016 (AUDITED)

	SHARES OWNED OUTRIGHT	DEFERRED SHARES ¹	OPTIONS VESTED BUT NOT EXERCISED	SHARES UNDER OPTION NOT VESTED AND SUBJECT TO PERFORMANCE CRITERIA ¹	SHARES ^{AVE}	SHAREHOLDING REQUIREMENT MET ²
Executive director						
B Bickell	1,070,782	133,978	–	234,533	4,812	Yes
S J Quayle	986,182	94,654	–	165,471	4,812	Yes
T J C Welton	780,300	94,654	–	165,471	4,812	Yes
C P A Ward	57,423	87,720	–	158,190	6,547	Yes
Non-executive director						
J C Nicholls	–					
J S Lane ³	1,075,000					
J C Little	5,367					
O J D Marriott	5,000					
H S Riva	16,479					
D C A Mathias	16,208					
S E Walden	40,000					

1. On exercise or vesting, deferred shares and LTIP nil cost options are subject to income tax and national insurance. The number that will actually be transferred will be reduced if directors sell sufficient shares to meet their income tax and employees' national insurance liability.

2. 100% of salary at date of appointment to the Board, to be accumulated over five years which for Chris Ward, 100% of salary equates to 54,000 shares from the date of his

appointment in January 2012. For the other executive directors their holdings (based on 30.9.2016 share price) are in excess of 21 times annual salary. The requirement was increased to 200% of salary in the Remuneration Policy approved by shareholders in 2016, and this will be applied to future appointments to the Board.

3. Retired 30 September 2016.

There have been no changes in directors' shareholdings between 30 September 2016 and the date of this report.

Additional details on the share awards summarised in this table are provided below, with further explanation on the operation of the plans set out in the Remuneration Policy table.

ANNUAL REMUNERATION REPORT CONTINUED

1. Deferred Annual Share Bonus Scheme

	DATE OF GRANT	MARKET PRICE ON DATE OF GRANT £	ENTITLEMENT TO ORDINARY SHARES			
			AT 1.10.2015	AWARDED IN YEAR ¹	DELIVERED IN YEAR	AT 30.9.2016
B Bickell	10.12.2012	5.56	38,867	–	38,867	–
	17.12.2013	5.98	36,238	–	–	36,238
	22.12.2014	7.80	55,304	–	–	55,304
	8.2.2016	8.30	–	42,436	–	42,436
			130,409	42,436	38,867	133,978
S J Quayle	10.12.2012	5.56	27,569	–	27,569	–
	17.12.2013	5.98	25,651	–	–	25,651
	22.12.2014	7.80	39,075	–	–	39,075
	8.2.2016	8.30	–	29,928	–	29,928
			92,295	29,928	27,569	94,654
T J C Welton	10.12.2012	5.56	27,569	–	27,569	–
	17.12.2013	5.98	25,651	–	–	25,651
	22.12.2014	7.80	39,075	–	–	39,075
	8.2.2016	8.30	–	29,928	–	29,928
			92,295	29,928	27,569	94,654
C P A Ward	10.12.2012	5.56	16,948	–	16,948	–
	17.12.2013	5.98	22,394	–	–	22,394
	22.12.2014	7.80	36,068	–	–	36,068
	8.2.2016	8.30	–	29,258	–	29,258
			75,410	29,258	16,948	87,720

Shares are held in an employee benefit trust which at 30 September 2016 held 491,804 shares.

1. In respect of the annual bonus for the year ended 30 September 2015.

ANNUAL REMUNERATION REPORT CONTINUED

2. LTIP

	DATE OF GRANT	MARKET PRICE OF SHARE ON GRANT £	NUMBER OF ORDINARY SHARES UNDER OPTION					MARKET PRICE OF SHARE ON DATE OF EXERCISE £	PERFORMANCE PERIOD	EXERCISE PERIOD
			AT 1.10.2015	GRANTED DURING YEAR	VESTED AND EXERCISED DURING YEAR	LAPSED DURING YEAR	AT 30.9.2016			
B Bickell	6.12.2012	5.55	100,600	–	63,881	36,719	–	8.295	1.10.2012–30.9.2015	12.2015–6.2016
	20.12.2013 ¹	6.06	94,900	–	–	–	94,900	–	1.10.2013–30.9.2016	12.2016–6.2017
	8.12.2014	7.78	74,220	–	–	–	74,220	–	1.10.2014–30.9.2017	12.2017–6.2018
	8.2.2016 ²	8.30	–	65,413	–	–	65,413	–	1.10.2015–30.9.2018	12.2020–6.2021
			269,720	65,413	63,881	36,719	234,533			
S J Quayle	6.12.2012	5.55	71,200	–	45,212	25,988	–	8.295	1.10.2012–30.9.2015	12.2015–6.2016
	20.12.2013 ¹	6.06	67,000	–	–	–	67,000	–	1.10.2013–30.9.2016	12.2016–6.2017
	8.12.2014	7.78	52,345	–	–	–	52,345	–	1.10.2014–30.9.2017	12.2017–6.2018
	8.2.2016 ²	8.30	–	46,126	–	–	46,126	–	1.10.2015–30.9.2018	12.2020–6.2021
			190,545	46,126	45,212	25,988	165,471			
T J C Welton	6.12.2012	5.55	71,200	–	45,212	25,988	–	8.295	1.10.2012–30.9.2015	12.2015–6.2016
	20.12.2013 ¹	6.06	67,000	–	–	–	67,000	–	1.10.2013–30.9.2016	12.2016–6.2017
	8.12.2014	7.78	52,345	–	–	–	52,345	–	1.10.2014–30.9.2017	12.2017–6.2018
	8.2.2016 ²	8.30	–	46,126	–	–	46,126	–	1.10.2015–30.9.2018	12.2020–6.2021
			190,545	46,126	45,212	25,988	165,471			
C P A Ward	6.12.2012	5.55	62,150	–	39,466	22,684	–	8.295	1.10.2012–30.9.2015	12.2015–6.2016
	20.12.2013 ¹	6.06	61,900	–	–	–	61,900	–	1.10.2013–30.9.2016	12.2016–6.2017
	8.12.2014	7.78	51,175	–	–	–	51,175	–	1.10.2014–30.9.2017	12.2017–6.2018
	8.2.2016 ²	8.30	–	45,115	–	–	45,115	–	1.10.2015–30.9.2018	12.2020–6.2021
			175,225	45,115	39,466	22,684	158,190			

¹ The TSR and NAV performance conditions over the three years ended 30 September 2016 have been met in full and therefore all the nil cost options granted on 20 December 2013 will vest in December 2016.

² Granted on 8 February 2016 following shareholder approval of the Remuneration Policy and the new LTIP rules at the AGM. The number of shares was calculated using the average price to 2 December 2015 and the award will vest in December 2018 (and be released following the two year holding period in December 2020) in line with the Company's normal December grant timetable.

ANNUAL REMUNERATION REPORT CONTINUED

3. Sharesave

Options are granted at a 20% discount to the market price on date of grant up to the maximum monthly savings amount permitted by HMRC over three or five years. All directors have opted for five-year savings contracts.

	DATE OF GRANT	NUMBER OF ORDINARY SHARES UNDER OPTION					OPTION PRICE £	MARKET VALUE OF SHARE ON DATE OF EXERCISE £	EXERCISE PERIOD
		AT 1.10.2015	GRANTED DURING YEAR	LAPSED DURING YEAR	EXERCISED DURING YEAR	AT 30.9.2016			
B Bickell	8.7.2011	3,595	-	-	3,595	-	4.29	9.27	8.2016-1.2017
	2.7.2014	2,788	-	-	-	2,788	5.38	-	8.2019-1.2020
	1.7.2016	-	2,024	-	-	2,024	7.41	-	8.2021-1.2022
		6,383	2,024	-	3,595	4,812	-	-	
S J Quayle	8.7.2011	3,595	-	-	3,595	-	4.29	9.27	8.2016-1.2017
	2.7.2014	2,788	-	-	-	2,788	5.38	-	8.2019-1.2020
	1.7.2016	-	2,024	-	-	2,024	7.41	-	8.2021-1.2022
		6,383	2,024	-	3,595	4,812	-	-	
T J C Welton	8.7.2011	3,595	-	-	3,595	-	4.29	9.27	8.2016-1.2017
	2.7.2014	2,788	-	-	-	2,788	5.38	-	8.2019-1.2020
	1.7.2016	-	2,024	-	-	2,024	7.41	-	8.2021-1.2022
		6,383	2,024	-	3,595	4,812	-	-	
C P A Ward	5.7.2012	3,759	-	-	-	3,759	3.99	-	8.2017-1.2018
	2.7.2014	2,788	-	-	-	2,788	5.38	-	8.2019-1.2020
		6,547	-	-	-	6,547	-	-	

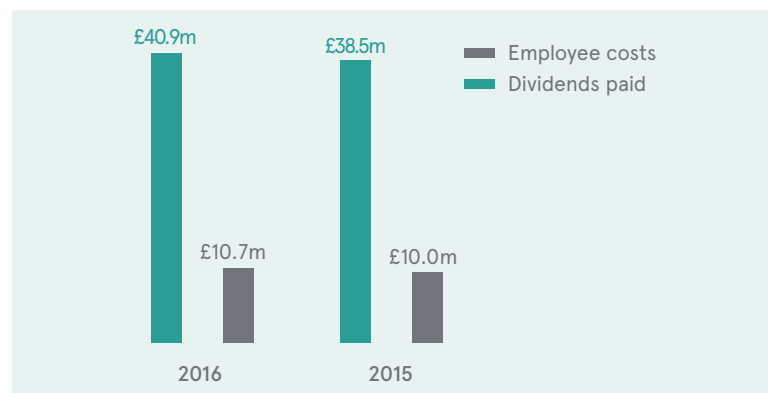
PERCENTAGE CHANGE IN CHIEF EXECUTIVE REMUNERATION

The table below shows the percentage change in Chief Executive remuneration from the prior year compared to the average percentage change in remuneration for all other employees. To provide a meaningful comparison, the analysis for other employees is based on a like-for-like group of employees, ie the same individuals appear in the 2015 and 2016 figures and the 2015 comparatives have been restated on that basis.

	CHIEF EXECUTIVE CHANGE	OTHER EMPLOYEES CHANGE
Base salary	1%	4%
Taxable benefits	(37)%	(39)%
Annual bonus	23%	29%
TOTAL	10%	12%

ANNUAL REMUNERATION REPORT CONTINUED

RELATIVE IMPORTANCE OF SPEND ON PAY



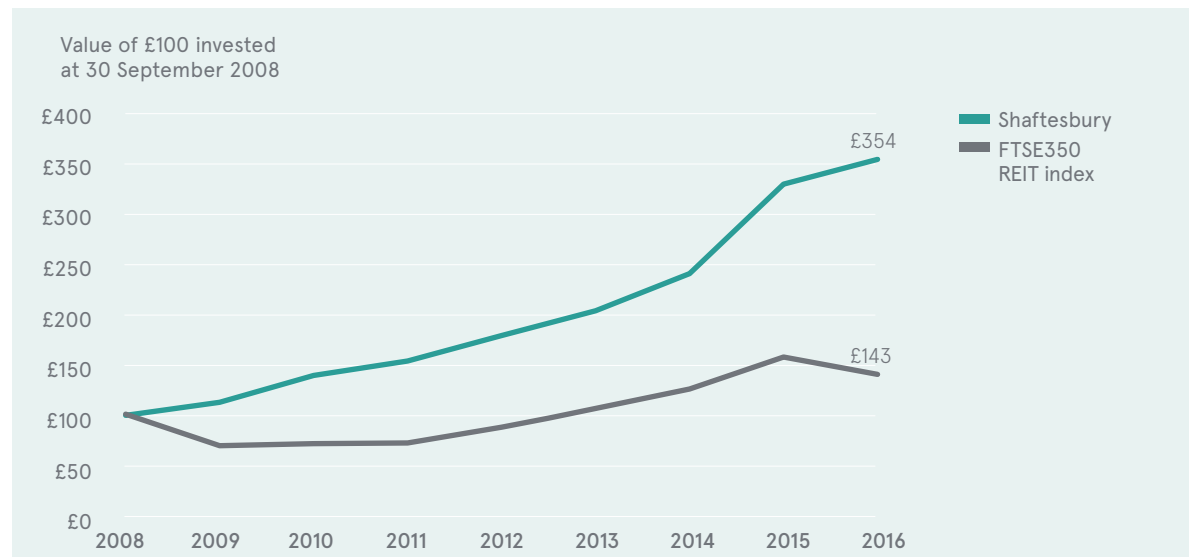
REVIEW OF PAST PERFORMANCE

The chart below shows the TSR for the Company compared with the FTSE350 REIT Index, of which the Company is a constituent, over eight years. The Committee uses this index as one measure of performance for awards of shares under the LTIP, as it considers this is an appropriate measure against

which the relative performance of the Company should be compared for the purposes of considering executive directors' remuneration.

The table below the TSR chart details the Chief Executive's single figure remuneration over the same period.

EIGHT-YEAR TSR CHART TO 30 SEPTEMBER 2016



EIGHT-YEAR CHIEF EXECUTIVE SINGLE FIGURE REMUNERATION ¹

	2009	2010	2011	2012	2013	2014	2015	2016
Chief Executive single figure of remuneration (£'000)	850	1,013	1,650	1,198	1,075	1,455	1,523	1,991
Annual bonus payout (% maximum)	50%	50%	90%	40%	40%	75%	60%	60%
Long-term incentive award vesting (% maximum)	50%	50%	76.7%	100%	50%	50%	63.5%	100%

1. 2009–2011: Jonathan Lane; 2012–2016: Brian Bickell

ANNUAL REMUNERATION REPORT CONTINUED

COMMITTEE MEMBERS AND ATTENDANCE

MEMBER	POSITION	NUMBER OF MEETINGS ATTENDED (6 HELD)
Sally Walden	Chairman	●●●●●●
Jill Little	Member and Senior Independent Director	●●●●●●
Oliver Marriott	Member	●●●●●●
Dermot Mathias	Member	●●●●●●
Hilary Riva	Member	●●●●●●

COMMITTEE ATTENDEES BY INVITATION ONLY

ATTENDEES	POSITION
Jonathan Nicholls	Chairman
Brian Bickell	Chief Executive
Penny Thomas	Secretary to the Committee

ADVISOR TO THE COMMITTEE

Deloitte LLP act as independent advisor to the Committee. Deloitte LLP is a member of the Remuneration Consultants Group and voluntarily operates under the Code of Conduct in relation to executive remuneration consulting in the UK. The Committee is satisfied that the Deloitte LLP engagement partner and team, that provide remuneration advice to the Committee, do not have connections with the Group that may impair their objectivity and independence. The fees charged by Deloitte LLP for the provision of independent advice to the Committee during the financial year were £25,000 (excluding VAT). Deloitte LLP provided no other services to the Group during the year.

ANNUAL REMUNERATION REPORT CONTINUED

KEY COMMITTEE ACTIVITIES DURING THE YEAR

POLICY	OPERATIONAL	ADVISORS AND PRACTICE
Annual review of remuneration policy and proposals for a new remuneration policy (for 2016 AGM)	Determined pay and benefits for the executive directors and company secretary and monitored the relationship between pay and benefits of other employees and executive directors	Monitored remuneration advisor and fees
Consulted with shareholders on the proposed new remuneration policy (for 2016 AGM)	Operation of the annual bonus scheme (including setting of performance objectives) for the executive directors, the company secretary and employees for the year ahead	Monitored emerging best practice in remuneration and reporting
Remuneration review including proposing a new LTIP and changes to the annual bonus scheme (for 2016 AGM)	Determined awards under the annual bonus scheme for executive directors and the company secretary and monitored the relationship between awards for other employees and executive directors	
	Ratified LTIP vesting calculated by reference to the degree of attainment of performance conditions set at the date of award	
	Determined annual LTIP awards and performance conditions for the performance period commencing 1 October 2016	
	Reviewed the Annual Remuneration Report for inclusion in the Annual Report and set fees for new Chairman	

SHAREHOLDER VOTING

At the 2016 AGM, a new Remuneration Policy was proposed to shareholders and there was an advisory vote on the Annual Remuneration Report. Voting by shareholders representing 85% of the issued share capital on these resolutions was as follows:

	FOR	% FOR	AGAINST	% AGAINST	WITHHELD	TOTAL VOTES
Remuneration Policy	223,968,828	94.8	12,339,332	5.2	286,816	236,308,160
Annual Remuneration Report	234,921,007	99.8	394,504	0.2	1,279,465	235,315,511

Sally Walden

Chairman - Remuneration Committee

DIRECTORS' REPORT

THE DIRECTORS PRESENT THEIR REPORT AND THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2016.

STRATEGIC REPORT

See Strategic Report on pages 41 to 76.

RESULTS AND DIVIDENDS

The results for the year ended 30 September 2016 are set out in the Group Statement of Comprehensive Income on page 120.

An interim dividend of 7.15p per ordinary share was paid on 1 July 2016 (2015: 6.825p).

The directors recommend a final dividend in respect of the year ended 30 September 2016 of 7.55p per ordinary share (2015: 6.925p), making a total dividend for the year of 14.7p per ordinary share (2015: 13.75p). If authorised at the 2017 AGM, the dividend will be paid on 17 February 2017 to members on the register at the close of business on 20 January 2017. The dividend will be paid as part PID and part ordinary dividend.

SHARE CAPITAL

During the year, a total of 378,700 ordinary shares were issued at either nil cost or £4.29 on the exercise of the LTIP and sharesave options. At 30 September 2016, the Company's issued share capital comprised 278,555,082 ordinary shares of 25p each.

The Company has one class of ordinary shares. All shares rank equally and are fully paid. No person holds shares carrying special rights with regard to control of the Company. There are neither restrictions on the transfer of shares nor on the size of a holding, which are both governed by the Articles of Association and prevailing legislation. The directors are not aware of any agreements between holders of shares in the Company that may result in restrictions on the transfer of shares or on voting rights.

DIRECTORS

The Company's rules governing the appointment and replacement of directors are contained in its Articles of Association. Changes to the Articles of Association are only permitted in accordance with legislation and must be approved by a special resolution of shareholders.

Details of the directors of the Company who served during the year ended 30 September 2016 and up to the date of the financial statements, their interests in the ordinary share capital of the Company and details of options granted under the Group's share schemes are set out in the Annual Remuneration Report on pages 98 to 109.

No member of the Board had a material interest in any contract of significance with the Company, or any of its subsidiaries, at any time during the year.

PURCHASE OF OWN SHARES

The Company was granted authority at the 2016 AGM to make market purchases of its own ordinary shares. This authority will expire at the conclusion of the 2017 AGM and a resolution will be proposed to seek further authority. No ordinary shares were purchased under this authority during the year or in the period from 1 October 2016 to 29 November 2016.

SUBSTANTIAL SHAREHOLDINGS

At 29 November 2016, the Company had been notified, in accordance with the UK Listing Authority's Disclosure Rules and Transparency Rules, that the following shareholders held, or were beneficially interested in, 3% or more of the Company's issued share capital:

	ISSUED SHARE CAPITAL %
Invesco Limited	13.98
PEL Limited	13.25
Norges Bank	9.02
BlackRock Inc	6.01

- ➡ SEE PAGE 153 FOR FURTHER INFORMATION ON THE EFFECT OF OUR REIT STATUS ON THE PAYMENT OF DIVIDENDS
- ➡ SEE PAGE 59 FOR FURTHER INFORMATION ON WHY THE DIVIDEND IS BEING PAID AS A PID AND AN ORDINARY DIVIDEND

DIRECTORS' REPORT CONTINUED

DIRECTORS' INDEMNITIES AND DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Company's agreement to indemnify each director against any liability incurred in the course of their office to the extent permitted by law remains in force.

The Group maintains Directors' and Officers' Liability Insurance.

FINANCIAL INSTRUMENTS

See pages 141 to 144.

CHANGE OF CONTROL

The Longmartin joint venture and a number of debt financing agreements contain clauses which take effect, alter or terminate these agreements upon a change of control of the Group.

The Group's share schemes contain provisions relating to the vesting and exercising of options in the event of a change of control of the Group.

AUTHORISATION OF DIRECTORS' CONFLICTS OF INTERESTS

Directors are required to notify the Company of any conflict or potential conflict of interest and make an annual declaration. The Board confirms that no conflicts have been identified or notified to the Company during the year and, accordingly, the Board has not authorised any conflicts of interest as permitted by the Company's Articles of Association.

EMPLOYMENT AND ENVIRONMENTAL MATTERS

See Nomination Committee Report on pages 87 to 89 and Sustainability Report on pages 72 to 76 and 158 to 165.

GREENHOUSE GAS REPORTING

The Group's carbon emissions are immaterial. However, in compliance with legislation, they are set out in the Sustainability Report on page 159.

INDEPENDENT AUDITORS

A resolution for the re-appointment of Ernst & Young LLP as auditors to the Company will be proposed at the 2017 AGM. The Board, on the advice of the Audit Committee, recommends their appointment.

2017 ANNUAL GENERAL MEETING

The 2017 AGM will include resolutions dealing with authority to issue shares, disapplication of pre-emption rights, authority to purchase the Company's own shares and authority to call a general meeting on not less than 14 days' notice. The resolutions are set out in the Notice of Meeting, together with explanatory notes which are contained in a separate circular to shareholders which accompanies this Annual Report.

DISCLOSURE OF INFORMATION TO AUDITORS

Each director has confirmed that:

- a) so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware; and
- b) they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given in accordance with section 418 of the Companies Act 2006.

By Order of the Board

Penny Thomas

Company Secretary

29 November 2016

DIRECTORS' RESPONSIBILITIES

THE DIRECTORS ARE RESPONSIBLE FOR PREPARING THE ANNUAL REPORT,
THE REMUNERATION REPORT AND THE FINANCIAL STATEMENTS IN ACCORDANCE
WITH APPLICABLE LAW AND REGULATIONS.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and Parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies in accordance with IAS8 'accounting policies, changes in accounting estimates and errors and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state that the Group and company has complied with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to do so.

Directors' responsibility statement under the Disclosure and Transparency Rules

Each of the directors, whose names and functions are listed on pages 80 to 81 confirm that, to the best of their knowledge:

- the Group and Company financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic Report contained on pages 41 to 76 of the Annual Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

Directors' statement under the UK Corporate Governance Code

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

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

The directors are responsible for the maintenance and integrity of the Company's website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

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

A copy of the financial statements of the Group is placed on the Company's website.

Information published on the internet is accessible in many countries with different legal requirements.

This responsibility statement was approved by the Board and signed on its behalf by:

Brian Bickell
Chief Executive
29 November 2016

Chris Ward
Finance Director
29 November 2016

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHAFTESBURY PLC

REPORT ON THE FINANCIAL STATEMENTS

In our opinion:

- Shaftesbury PLC's Group financial statements and Company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the Company's affairs as at 30 September 2016 and of the Group's profit for the year then ended;
- The Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- The Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- The financial statements 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.

WHAT WE HAVE AUDITED

Shaftesbury PLC's financial statements comprise:

	GROUP	COMPANY
Balance sheet as at 30 September 2016	✓	✓
Statement of comprehensive income for the year then ended	✓	
Cash flow statement for the year then ended	✓	✓
Statement of changes in equity for the year then ended	✓	✓
Related notes to the financial statements	✓	✓

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union. The Company financial statements have been prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

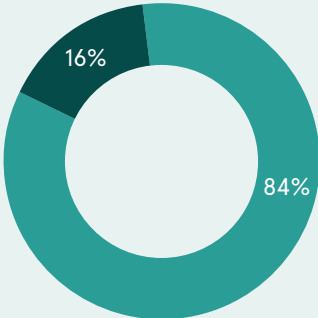
OVERVIEW OF OUR AUDIT APPROACH

Risks of material misstatement	The valuation of investment property (including properties within the Longmartin Joint Venture) Revenue recognition including the timing of revenue recognition, and the treatment of rents and incentives
Audit scope	The Group operates in London's West End and consists of a single reportable segment made up of five villages across ten statutory entities. All of the Group's companies were included in the scope of the audit. The Group audit team performed direct testing of the Longmartin Joint Venture balances which are included in the Group Financial Statements. The Group audit team performed all the work necessary to issue the Group and Company audit opinion, including undertaking all of the audit work on the risks of material misstatement identified above.
Materiality	Overall Group materiality: £33m which represents 1% of total assets. Specific Group materiality: £3.9m which represents 5% of operating profit before investment property valuation movements and net finance costs.

INDEPENDENT AUDITOR’S REPORT CONTINUED

OUR ASSESSMENT OF RISK OF MATERIAL MISSTATEMENT

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

RISK	OUR RESPONSE TO THE RISK	KEY OBSERVATIONS COMMUNICATED TO THE AUDIT COMMITTEE				
The valuation of investment property £3,111.6m (plus £228m being the Group’s share in the Longmartin joint venture) <i>Refer to the Audit Committee Report (page 90); Accounting policies (page 126); and Note 10 of the Consolidated Financial Statements (pages 131-133)</i> The valuation of investment property (including properties held in the joint venture) requires significant judgement and estimates by management and the external valuers. Any input inaccuracies or unreasonable bases used in these judgements (such as in respect of estimated rental value and yield profile applied) could result in a material misstatement of the statement of comprehensive income and balance sheet. There is also a risk that management may unduly influence the significant judgements and estimates in respect of property valuations in order to achieve property valuation and other performance targets to meet market expectations or bonus targets.	Our audit procedures around the valuation of investment property included: We understood and assessed the design and implementation of the Group’s controls over data used in the valuation of the investment property portfolio and management’s review of the valuations. We evaluated the competence of the external valuers which included consideration of their qualifications and expertise, as well as their independence. We performed testing over the inputs to the valuations. For a sample of properties we tested the contracted rent and key lease terms by agreeing this back to lease agreements. <table><tr><td>84%</td><td>Fair value of investment properties tested by audit team Chartered Surveyors</td></tr><tr><td>16%</td><td>Fair value of investment properties subject to analytical procedures</td></tr></table> The Group audit team includes Chartered Surveyors who tested a sample of properties. They challenged the valuation approach and assumptions. The sample size they tested accounted for 84% of the fair value of investment properties (including investment properties held in the Longmartin joint venture). Our Chartered Surveyors compared the equivalent yields applied to each property to an expected range of yields taking into account market data and asset specific considerations. They also considered whether the other assumptions applied by the external valuers, such as the estimated rental values, tenant incentives and development costs to complete were supported by available data such as recent lettings and occupancy levels. Together with our Chartered Surveyors, we met with the external valuers to discuss the findings from our audit work described above and to seek further explanations as required. We also discussed the impact of current market conditions on the property valuations. In respect of the properties not in the sample tested by our Chartered Surveyors (16% of the fair value), we performed detailed analytical procedures on a property-by-property basis. This involved forming an expectation of the fair value of each property in the portfolio by reference to relevant external market data relating to capital growth rates. We investigated further the valuations of those properties which were not in line with our initial expectations which included further discussions with management and the external valuers and, where appropriate, involvement of our Chartered Surveyors.	84%	Fair value of investment properties tested by audit team Chartered Surveyors	16%	Fair value of investment properties subject to analytical procedures	We have audited the inputs, assumptions and methodology used by the external valuers. We conclude that the inputs and methodology applied are reasonable and that the external valuations are an appropriate assessment of the fair value of investment properties at 30 September 2016. Our Chartered Surveyors concluded that the sample of valuations they tested are within a reasonable range. We conclude that management provided an appropriate level of review and challenge over the valuations but we did not identify evidence of undue management influence.
84%	Fair value of investment properties tested by audit team Chartered Surveyors					
16%	Fair value of investment properties subject to analytical procedures					

INDEPENDENT AUDITOR'S REPORT CONTINUED

RISK	OUR RESPONSE TO THE RISK	KEY OBSERVATIONS COMMUNICATED TO THE AUDIT COMMITTEE
	We made enquiries of the external valuers to confirm that they had not been subject to undue influence from management. We utilised our detailed analytical procedures and work of the Chartered Surveyors described above in order to assess for evidence of undue management influence. We performed site visits accompanied by our Chartered Surveyors for a sample of properties (focusing primarily on development properties) which enabled us to assess the stage of completion of, and gain specific insights into, these refurbishments/developments. For development appraisals, we vouched the costs incurred to date, and agreed the cost to complete estimates to approved budgets and contractual arrangements. We met with project managers for the two properties which were material and under significant refurbishment or development during the year and assessed project costs, progress of development and leasing status and considered the reasonableness of forecast costs to complete included in the valuations as well as identified contingencies, exposures and remaining risks. We corroborated the information provided by the project managers through valuation review, site visits and cost analysis. We also obtained the development feasibilities and compared the development spend against budget.	
Revenue recognition, including the timing of revenue recognition, and the treatment of rents and incentives £98.4m of rents receivable <i>Refer to the Audit Committee Report (page 91); Accounting policies (page 125); and Note 2 of the Consolidated Financial Statements (page 127)</i> Market expectations and profit based targets may place pressure on management to distort revenue recognition. This may result in overstatement or deferral of revenues to assist in meeting current or future targets or expectations. In order to distort rental income, management could manipulate the deferred revenue balance or the manually calculated IFRS rent adjustment for lease incentives.	Our audit procedures around revenue recognition included: We tested controls over revenue recognition and the treatment of rents which have been designed by the Group to prevent and detect fraud and errors in revenue recognition. We also performed controls testing on the billings process. We performed detailed testing for a sample of revenue transactions by agreeing them back to lease agreements. For a sample of leases, we tested that the lease income, including the treatment of lease incentives, is on a straight-line basis, and in accordance with SIC-15 Operating Leases – Incentives. We performed substantive analytical procedures and found that the revenue recognised by the Group and each of the operating companies was materially consistent with our expectations developed from rents in the tenancy schedules. We assessed whether the revenue recognition policies adopted complied with IFRSs as adopted by the European Union. We performed audit procedures specifically designed to address the risk of management override of controls including journal entry testing, which included particular focus on journal entries which impact deferred revenue and lease incentives.	We audited the timing of revenue recognition, treatment of rents and incentives, and assessed the risk of management override. Based upon the audit procedures performed, we concluded that revenue has been recognised on an appropriate basis in the year.

INDEPENDENT AUDITOR’S REPORT CONTINUED

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

The table below sets out the materiality, performance materiality and threshold for reporting audit differences applied on our audit:

	BASIS	MATERIALITY	PERFORMANCE MATERIALITY	AUDIT DIFFERENCES
Overall	1% of total assets	£33.0m	£17.0m	£1.7m
Specific	5% of operating profit before investment property valuation movements and net finance costs	£3.9m	£2.0m	£0.2m
Applicable for account balances not related to investment properties, loans & borrowings and derivatives				

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole. We determined that total assets would be the most appropriate basis for determining overall materiality given that key users of the Group’s financial statements are primarily focused on the valuation of the Group’s assets; primarily the investment property portfolio. This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures. For planning purposes this was initially based on the total assets as at 30 September 2015.

We have determined that for account balances not related to investment properties (either wholly owned or within the Joint Venture), loans & borrowings and derivatives, a misstatement of less than materiality for the financial statements as a whole could influence the economic decisions of users. We have determined that materiality for these areas should be based on operating profit before investment property valuation movements and net finance costs. We believe that it is appropriate to use a profit based measure as profit is also a focus of users of the financial statements.

During the course of our audit, we reassessed initial materiality and, as the actual value of total assets increased from that which we had used as the initial basis for determining overall materiality (primarily due to the increase in property valuations from the annual revaluation), we increased our materiality threshold to £33.0m, as noted in the table above, which represents 1.0% of total assets of £3.3bn as at 30 September 2016.

In their prior year audit PwC adopted an overall materiality of £30.8m based on 1% of total assets. They also applied a specific materiality of £3.4m based on 5% of profit before tax before net finance costs and investment property movements.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

As this is an initial audit for us, on the basis of our risk assessments, together with our assessment of the Group’s overall control environment, our judgement is that overall performance materiality and specific performance materiality (i.e. our tolerance for misstatement in an individual account or balance) for the Group should be 50% of the respective materiality. We have set performance materiality at this percentage as this is our first year as auditor. Our objective in adopting this approach is to confirm that total detected and undetected audit differences do not exceed our materiality for the financial statements as a whole.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to the Committee all uncorrected audit differences in excess of £1.7m, as well as uncorrected audit differences in excess of £0.2m that relate to our specific testing of the other account balances not related to investment properties, loans & borrowings and derivatives. These are set at 5% of their respective planning materiality. We also agreed to report differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

INDEPENDENT AUDITOR’S REPORT CONTINUED

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors’ Responsibilities Statement set out on page 112, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

This report is made solely to the company’s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company’s members as a body, for our audit work, for this report, or for the opinions we have formed.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- The part of the Directors’ Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- The information given in the Strategic Report and the Directors’ Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The information given in the Corporate Governance Statement set out on pages 82 to 86 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

ISAs (UK and Ireland) reporting	We are required to report to you if, in our opinion, financial and non-financial information in the annual report is: • Materially inconsistent with the information in the audited financial statements; or • Apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or • Otherwise misleading. In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the directors’ statement that they consider the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity’s performance, business model and strategy; and whether the annual report appropriately addresses those matters that we communicated to the audit committee that we consider should have been disclosed.	We have no exceptions to report.
Companies Act 2006 reporting	We are required to report to you if, in our opinion: • Adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or • The Company financial statements and the part of the Directors’ Remuneration Report to be audited are not in agreement with the accounting records and returns; or • Certain disclosures of directors’ remuneration specified by law are not made; or • We have not received all the information and explanations we require for our audit. • A Corporate Governance Statement has not been prepared by the company	We have no exceptions to report.
Listing Rules review requirements	We are required to review: • The directors’ statement in relation to going concern, set out on page 124, and longer-term viability, set out on page 71; and • The part of the Corporate Governance Statement relating to the company’s compliance with the provisions of the UK Corporate Governance Code specified for our review	We have no exceptions to report.

INDEPENDENT AUDITOR'S REPORT CONTINUED

STATEMENT ON THE DIRECTORS' ASSESSMENT OF THE PRINCIPAL RISKS THAT WOULD THREATEN THE SOLVENCY OR LIQUIDITY OF THE ENTITY

ISAs (UK and Ireland) reporting	We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to: • The directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the entity, 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' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and • The directors' explanation in the annual report as to how they have assessed the prospects of the entity, 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 entity 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 material to add or to draw attention to.
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Eamonn McGrath
(Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
London
28 November 2016





FINANCIAL STATEMENTS

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CASH FLOW STATEMENTS 122

STATEMENTS OF CHANGES IN EQUITY 123

NOTES TO THE FINANCIAL STATEMENTS 124

GROUP STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 SEPTEMBER 2016

	NOTES	2016 £M	2015 £M
Revenue	2	106.2	98.7
Property charges	3	(22.1)	(19.9)
Net property income		84.1	78.8
Administrative expenses		(8.6)	(8.8)
Charge for annual bonuses		(3.0)	(2.2)
Charge in respect of equity-settled remuneration	5	(2.5)	(3.0)
Total administrative expenses		(14.1)	(14.0)
Operating profit before investment property valuation movements		70.0	64.8
Net surplus on revaluation of investment properties	10	108.3	432.0
Operating profit	4	178.3	496.8
Finance income		0.1	0.1
Finance costs	6	(33.7)	(30.8)
Recognition of fair value of Debenture Stock	17	(29.2)	-
Change in fair value of derivative financial instruments	18	(34.9)	(28.5)
Net finance costs		(97.7)	(59.2)
Share of post-tax profit from joint venture	12	18.5	29.7
Profit before tax		99.1	467.3
Tax charge for the year	7	-	-
Profit and total comprehensive income for the year		99.1	467.3
Earnings per share:	8		
Basic		35.6p	168.0p
Diluted		35.5p	167.4p
EPRA		14.0p	13.0p

Please see page 166 for an explanation of the EPRA measures used in these financial statements.

BALANCE SHEETS

AS AT 30 SEPTEMBER 2016

	NOTES	GROUP		COMPANY	
		2016 £M	2015 £M	2016 £M	2015 £M
Non-current assets					
Investment properties	10	3,111.6	2,908.0	-	-
Accrued income	11	9.8	9.5	-	-
Investment in joint venture	12	146.4	129.6	59.0	59.0
Property, plant and equipment		1.4	1.5	1.4	1.5
Other receivables	15	3.7	3.7	-	-
Investment in subsidiaries	13	-	-	754.7	997.9
		3,272.9	3,052.3	815.1	1,058.4
Current assets					
Trade and other receivables	14	19.3	21.7	757.1	118.2
Cash and cash equivalents	15	15.6	7.7	0.5	-
Total assets		3,307.8	3,081.7	1,572.7	1,176.6
Current liabilities					
Trade and other payables	16	45.3	36.8	9.2	6.8
Borrowings	17	92.2	-	92.2	-
Non-current liabilities					
Borrowings	17	669.1	640.3	289.0	267.9
Derivative financial instruments	18	114.1	79.2	114.1	79.2
Total liabilities		920.7	756.3	504.5	353.9
Net assets		2,387.1	2,325.4	1,068.2	822.7
Equity					
Share capital	20	69.7	69.6	69.7	69.6
Share premium	21	124.8	124.7	124.8	124.7
Share-based payments reserve	21	3.6	4.0	3.6	4.0
Retained earnings	21	2,189.0	2,127.1	870.1	624.4
Total equity		2,387.1	2,325.4	1,068.2	822.7
Net asset value per share:	22				
Basic		£8.57	£8.36		
Diluted		£8.54	£8.32		
EPRA		£8.88	£8.69		

On behalf of the Board who approved and authorised for issue the financial statements on pages 120 to 151 on 29 November 2016.

Brian Bickell
Chief Executive

Chris Ward
Finance Director

CASH FLOW STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2016

	NOTES	GROUP		COMPANY	
		2016 £M	AS RESTATED 2015 £M	2016 £M	AS RESTATED 2015 £M
Cash flows from operating activities					
Cash generated from operating activities	23	76.9	67.4	(11.0)	(11.2)
Interest received		0.1	0.1	0.1	0.1
Interest paid		(32.7)	(30.1)	(18.0)	(21.1)
Net cash generated from operating activities		44.3	37.4	(28.9)	(32.2)
Cash flows from investing activities					
Investment property acquisitions		(62.0)	(25.8)	–	–
Capital expenditure on investment properties		(29.2)	(25.1)	–	–
Purchase of property, plant and equipment		(0.3)	(0.3)	(0.3)	(0.3)
Dividends received from joint venture		1.7	1.6	1.7	1.6
Decrease in loans to joint venture		0.5	0.5	0.5	0.5
(Increase)/decrease in loans to subsidiaries		–	–	(16.4)	260.7
Acquisition of subsidiary		–	–	(1.7)	–
Net cash used in investing activities		(89.3)	(49.1)	(16.2)	262.5
Cash flows from financing activities					
Proceeds from exercise of share options		0.1	0.1	0.1	0.1
Proceeds from borrowings		114.5	69.6	107.2	67.7
Repayment of borrowings		(23.5)	(230.5)	(23.5)	(230.5)
Proceeds from secured term loans		–	250.0	–	–
Increase in cash held in restricted accounts and deposits		–	(2.2)	–	–
Facility arrangement costs		–	(3.4)	–	–
Termination of derivative financial instruments		–	(28.1)	–	(28.1)
Equity dividends paid	9	(38.2)	(39.5)	(38.2)	(39.5)
Net cash from financing activities		52.9	16.0	45.6	(230.3)
Net change in cash and cash equivalents		7.9	4.3	0.5	–
Cash and cash equivalents at 1 October	15	7.7	3.4	–	–
Cash and cash equivalents at 30 September	15	15.6	7.7	0.5	–

Movements in loans to the joint venture of £0.5 million (2015: £0.5 million) and movements in loans to subsidiaries of £16.4 million (2015: £260.7 million) have been reclassified from financing to investing activities to better reflect the nature of the transactions. Proceeds and repayment of borrowings have been restated to present these movements on a gross basis. These changes have no impact on the net change in cash and cash equivalents, net assets, or reported results in either of the years presented.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER 2016

	NOTES	SHARE CAPITAL £M	SHARE PREMIUM £M	SHARE-BASED PAYMENTS RESERVE £M	RETAINED EARNINGS £M	TOTAL EQUITY £M
Group						
At 1 October 2014		69.5	124.6	4.0	1,695.1	1,893.2
Profit and total comprehensive income for the year		-	-	-	467.3	467.3
Transactions with owners:						
Dividends paid	9	-	-	-	(37.5)	(37.5)
Exercise of share options	20	0.1	0.1	-	-	0.2
Fair value of share-based payments	5	-	-	2.2	-	2.2
Release on exercise of share options		-	-	(2.2)	2.2	-
At 30 September 2015		69.6	124.7	4.0	2,127.1	2,325.4
Profit and total comprehensive income for the year		-	-	-	99.1	99.1
Transactions with owners:						
Dividends paid	9	-	-	-	(39.4)	(39.4)
Exercise of share options	20	0.1	0.1	-	(0.1)	0.1
Fair value of share-based payments	5	-	-	1.9	-	1.9
Release on exercise of share options		-	-	(2.3)	2.3	-
At 30 September 2016		69.7	124.8	3.6	2,189.0	2,387.1
Company						
At 1 October 2014		69.5	124.6	4.0	555.9	754.0
Profit and total comprehensive income for the year		-	-	-	103.8	103.8
Transactions with owners:						
Dividends paid	9	-	-	-	(37.5)	(37.5)
Exercise of share options	20	0.1	0.1	-	-	0.2
Fair value of share-based payments	5	-	-	2.2	-	2.2
Release on exercise of share options		-	-	(2.2)	2.2	-
At 30 September 2015		69.6	124.7	4.0	624.4	822.7
Profit and total comprehensive income for the year		-	-	-	282.9	282.9
Transactions with owners:						
Dividends paid	9	-	-	-	(39.4)	(39.4)
Exercise of share options	20	0.1	0.1	-	(0.1)	0.1
Fair value of share-based payments	5	-	-	1.9	-	1.9
Release on exercise of share options		-	-	(2.3)	2.3	-
At 30 September 2016		69.7	124.8	3.6	870.1	1,068.2

The Company's distributable reserves are disclosed in note 21 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2016

1 ACCOUNTING POLICIES

BASIS OF PREPARATION

The Company is a public limited company which is listed on the London Stock Exchange and is incorporated and domiciled in the UK. The address of the registered office is given on page 80. The financial statements have been prepared in accordance with IFRS as adopted by the European Union, IFRS Interpretations Committee (IFRIC) and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared in Pounds Sterling and under the historical cost convention as modified by the revaluation of investment properties and derivative financial instruments.

The Company has not presented its own Statement of Comprehensive Income, as permitted by Section 408 of the Companies Act 2006. The Company made a profit of £282.9 million (2015: £103.8 million) in the year.

GOING CONCERN

The Group's business activities, together with the factors affecting performance, financial position and future development are set out in the Strategic Report on pages 8 to 39. The financial position of the Group including cash flow, liquidity, borrowings, undrawn facilities and debt maturity analysis is set out on pages 56 to 62. The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Therefore, they continue to adopt the going concern basis in preparing the financial statements.

CRITICAL JUDGEMENTS, ASSUMPTIONS AND ESTIMATES

The Group's significant accounting policies are stated below. Not all of these significant accounting policies require the directors to make difficult, subjective or complex judgements or estimates. However, the directors consider the valuation of investment properties to be critical because of the level of complexity, judgement or estimation involved and its impact on the financial statements. These judgements involve assumptions or estimates in respect of future events. Actual results may differ from these estimates.

The Group's wholly-owned portfolio is valued by its external valuers, DTZ Debenham Tie Leung Limited. Knight Frank LLP value the investment properties owned by the Longmartin Joint Venture. The valuations are used as the basis for the fair value of the investment properties.

The valuation of the Group's property portfolio is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rental income. As a result, the valuations the Group places on its property portfolio are subject to a degree of uncertainty and are made on the basis of assumptions which may not prove to be accurate, particularly in periods of volatility or low transaction flow in the commercial property market. DTZ Debenham Tie Leung Limited and Knight Frank LLP make a number of assumptions in forming their opinion on the valuation of our investment properties, which are detailed in the Basis of Valuation on pages 154 to 155. These assumptions are in accordance with the RICS Valuation Standards. However, if any assumptions made by the external valuers prove to be incorrect, this may mean that the value of the Group's properties differs from their valuation reported in the financial statements, which could have a material effect on the Group's financial position.

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

a) The following amendments to Standards and Interpretations were mandatory for the first time for the financial year ended 30 September 2016:

STANDARD OR INTERPRETATION	EFFECTIVE FROM
Annual Improvements 2011-2013	1 January 2015
Amendment to IAS 19 Employee benefits on defined benefit plans	1 February 2015
Annual Improvements 2010-2012	1 February 2015

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

b) The following amendments to Standards and Interpretations are relevant to the Group and are not yet effective in the year ended 30 September 2016 and are not expected to have a significant impact on the Group's financial statements:

STANDARD OR INTERPRETATION	EFFECTIVE FROM
Annual Improvements 2012–2014	1 January 2016
Amendment to IFRS 11 Joint arrangements on acquisition of an interest in a joint operation	1 January 2016
Amendments to IAS 16 and IAS 38 on depreciation and amortisation	1 January 2016
Amendments to IAS 27 Separate financial statements on equity accounting	1 January 2016
Amendments to IAS 1 Presentation of financial statements disclosure initiative	1 January 2016
Amendments to IFRS 10, 12 and IAS 28 on consolidation for investment entities	1 January 2016
IFRS 15 Revenue from contracts with customers	1 January 2018

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

BASIS OF CONSOLIDATION

The Group financial statements consolidate the financial statements of the Company and its subsidiaries.

Subsidiaries are those entities controlled by the Company. Control exists when the Company is exposed to variable returns and has the ability to affect those returns through its power over the entity. All intercompany transactions and balances are eliminated on consolidation. The accounting policies of the subsidiaries are consistent with those adopted by the Group.

In the Company's Balance Sheet, investments in subsidiaries are included at cost less any provision in respect of impairment loss.

NET PROPERTY INCOME

Revenue comprises rents receivable from tenants under operating leases, recognised on an accruals basis, and recoverable expenses incurred on behalf of tenants, where the Group acts as principal. Rents are recognised on a straight-line basis over the term of the lease. Value added tax is excluded from all amounts. Income arising as a result of rent reviews is recognised when agreement of new terms is reasonably certain.

Premiums receivable from tenants to surrender their lease obligations are recognised in the Statement of Comprehensive Income.

The cost of any incentives given to lessees to enter into leases is spread on a straight-line basis over the non-cancellable period of the lease, being the earlier of its expiry date or the date of the first break option. Lease incentives are usually in the form of rent-free periods.

Irrecoverable property costs are charged to the Statement of Comprehensive Income when they arise.

EMPLOYEE BENEFITS

Share-based remuneration

The cost of granting share options to employees is recognised in the Statement of Comprehensive Income based on the fair value at the date of grant.

The fair value of the net asset value (non-market based) vesting condition is calculated when the options are granted, using the modified binomial option pricing model. At the end of each reporting period, the directors review their estimates of the number of options that are expected to vest based on actual and forecast net asset values. The impact of any revision to original estimates is recognised in the Statement of Comprehensive Income, with a corresponding adjustment to equity.

The fair value of the total shareholder return (market based) vesting condition is calculated when the options are granted using the Monte Carlo simulation option pricing model, using various assumptions as set out in note 27. The fair value is charged on a straight-line basis over the vesting period. No adjustment is made to the original estimate for market based conditions after the date of grant, regardless of whether the options vest or not.

The amount charged in the Statement of Comprehensive Income is credited to the share-based payments reserve. Following the exercise of share options, the charges previously recognised in respect of those options are released from the share-based payments reserve to retained earnings.

Pension contributions

Payments to defined contribution plans are charged as an expense to the Statement of Comprehensive Income as they fall due.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

INVESTMENT PROPERTIES

Investment properties are initially recognised on acquisition at cost, including related acquisition costs, and are revalued annually to reflect fair value. Fair value is determined either by external professional valuers or by the directors in the case of properties sold shortly after the period end. The fair value, as determined by the valuers, is reduced for any unamortised lease incentive balances.

Gains or losses arising on the revaluation of investment properties are included in the Statement of Comprehensive Income. Depreciation is not provided in respect of investment properties.

Additions to properties include costs of a capital nature only. Expenditure is classified as capital when it results in future economic benefits which are expected to accrue to the Group. All other property expenditure is written-off in the Statement of Comprehensive Income as incurred.

Premiums payable to tenants in connection with the surrender of their lease obligations are capitalised if they arise in connection with a value-enhancing project, otherwise they are recognised immediately in the Statement of Comprehensive Income.

Amounts received by way of compensation for dilapidations from tenants vacating properties are credited against the cost of reinstatement works. Where the Group has no intention of carrying out such works, the amounts received are credited to the Statement of Comprehensive Income.

Purchases and sales of investment properties are recognised in the financial statements when the significant risks and rewards of ownership are transferred.

All of the Group's leases to its tenants are operating leases except where the Group grants long leasehold interests to tenants, in which case, as substantially all the risks and rewards of ownership are transferred to the tenant, the property is not recognised as an investment property.

ACQUISITIONS

Where properties are acquired through corporate acquisitions and there are no significant assets (other than investment property) and liabilities, and without a business being acquired, the acquisition is treated as an asset acquisition. In all other cases, the acquisition is treated as a business combination.

JOINT VENTURES

Joint ventures are those entities over which 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, and dividends from, the joint venture after the date of acquisition. 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 year is also presented separately in the Statement of Comprehensive Income.

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 Statement of Comprehensive Income.

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.

In the Company's Balance Sheet, the investment in joint venture is stated at cost less any provisions for impairment loss.

TRADE RECEIVABLES AND PAYABLES

Trade receivables and trade payables are recognised at fair value and subsequently held at amortised cost, less any provision for impairment in respect of trade receivables.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand and on-demand bank deposits. Where such deposits can be offset against any amounts owing to the same bank in accordance with its loan agreement, and in the event of settlement the Group intends to settle as a net liability, they are deducted from that loan liability.

Cash which is held on deposit that has certain conditions restricting its use and is not available on demand, liquid or readily convertible, is classified as other receivables.

BORROWINGS AND COSTS OF RAISING FINANCE

Borrowings are initially recognised at fair value net of transaction costs incurred and are subsequently held at amortised cost. Issue costs and premiums are written-off to the Statement of Comprehensive Income using an effective interest rate method.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments, comprising interest rate swaps for hedging purposes, are measured at fair value. Movements in fair value are recognised in the Statement of Comprehensive Income.

SEGMENTAL INFORMATION

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

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

2 REVENUE

	2016 £M	2015 £M
Rents receivable	98.4	91.8
Recoverable property expenses	7.8	6.9
	106.2	98.7

Rents receivable includes lease incentives recognised of £0.5 million (2015: £2.4 million).

3 PROPERTY CHARGES

	2016 £M	2015 £M
Property operating costs	6.5	6.1
Fees payable to managing agents	2.3	2.1
Letting, rent review, and lease renewal costs	3.3	3.0
Village promotion costs	2.2	1.8
Property outgoings	14.3	13.0
Recoverable property expenses	7.8	6.9
	22.1	19.9

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4 OPERATING PROFIT

	2016 £M	2015 £M
The following items have been (credited)/charged in arriving at operating profit:		
Administrative fees receivable from joint venture	(0.2)	(0.4)
Depreciation	0.4	0.4

	2016 £000	2015 £000
AUDITOR REMUNERATION		
Audit of the Company	59	58
Audit of the consolidated Group	83	98
Total audit services	142	156
Audit related assurance services, including the half year review	46	21
Total audit and assurance services	188	177
Tax compliance services	-	39
Tax advisory services	-	39
Services related to taxation	-	78
Other non-audit services	25	-
Total fees related to taxation and other non-audit services	25	78
Total fees	213	255

Total fees related to taxation and other non-audit services represented 13% (2015: 44%) of the total fees for audit and assurance services. The audit fees for the Company and the Group are relatively low due primarily to the simple Group corporate structure.

	2016 £M	2015 £M
EMPLOYEE COSTS		
Wages and salaries	4.3	3.9
Annual bonuses (including social security costs)	3.0	2.2
Social security costs	0.5	0.5
Other pension costs	0.4	0.4
Equity-settled remuneration (note 5)	2.5	3.0
	10.7	10.0

	2016 NUMBER	2015 NUMBER
AVERAGE MONTHLY NUMBER OF EMPLOYEES		
Executive directors	4	4
Head office and property management	20	18
Estate management	1	1
	25	23

A summary of directors' emoluments, including the disclosures required by the Companies Act 2006, is set out in the Remuneration Report on pages 98 to 107.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5 CHARGE IN RESPECT OF EQUITY-SETTLED REMUNERATION

	2016 £M	2015 £M
Charge for share-based remuneration	1.9	2.3
Employer's national insurance in respect of share awards	0.6	0.7
	2.5	3.0

A summary of the principal assumptions made at the grant dates during the year is set out in note 27.

6 FINANCE COSTS

	2016 £M	2015 £M
Debenture stock interest and amortisation	5.0	5.0
Bank and other interest	20.0	15.6
Facility arrangement cost amortisation	1.0	0.8
Facility arrangement costs written-off on refinancing	–	0.2
Amounts payable under derivative financial instruments	7.7	9.2
	33.7	30.8

7 TAX CHARGE FOR THE YEAR

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8 EARNINGS PER SHARE

BASIC AND DILUTED EARNINGS PER SHARE

	2016			2015		
	PROFIT AFTER TAX £M	NUMBER OF SHARES MILLION	EARNINGS PER SHARE PENCE	PROFIT AFTER TAX £M	NUMBER OF SHARES MILLION	EARNINGS PER SHARE PENCE
Basic	99.1	278.4	35.6	467.3	278.1	168.0
Dilutive effect of share options	–	1.0	(0.1)	–	1.1	(0.6)
Diluted	99.1	279.4	35.5	467.3	279.2	167.4

EPRA EARNINGS PER SHARE

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

	2016			2015		
	PROFIT AFTER TAX £M	NUMBER OF SHARES MILLION	EARNINGS PER SHARE PENCE	PROFIT AFTER TAX £M	NUMBER OF SHARES MILLION	EARNINGS PER SHARE PENCE
Basic	99.1	278.4	35.6	467.3	278.1	168.0
EPRA adjustments:						
Investment property valuation surplus (note 10)	(108.3)		(38.9)	(432.0)		(155.3)
Movement in fair value of derivatives (note 18)	34.9		12.5	28.5		10.2
Recognition of fair value of Debenture Stock (note 17)	29.2		10.5	–		–
Adjustments in respect of the joint venture:						
Investment property valuation surplus	(11.3)		(4.1)	(34.6)		(12.4)
Deferred tax	(4.6)		(1.6)	6.9		2.5
EPRA earnings	39.0	278.4	14.0	36.1	278.1	13.0

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

9 DIVIDENDS PAID

	2016 £M	2015 £M
Final dividend for:		
Year ended 30 September 2015 at 6.925p per share	19.5	–
Year ended 30 September 2014 at 6.60p per share	–	18.5
Interim dividend for:		
Year ended 30 September 2016 at 7.15p per share	19.9	–
Year ended 30 September 2015 at 6.825p per share	–	19.0
Dividends for the year	39.4	37.5
Timing difference on payment of withholding tax	(1.2)	2.0
Dividends cash paid	38.2	39.5

A final dividend of 7.55p per share was recommended by the Board on 29 November 2016. Subject to approval by shareholders at the 2017 AGM, the final dividend will be paid on 17 February 2017 to shareholders on the register at 20 January 2017. 5.2p of the dividend will be paid as a PID under the UK REIT regime and 2.35p will be paid as an ordinary dividend. The dividend totalling £21.0 million will be accounted for as an appropriation of revenue reserves in the year ending 30 September 2017. See page 59 of the Strategic Report for commentary on dividends.

The trustee of the Company's Employee Benefit Trust waived dividends in respect of 491,804 (2015: 439,250) ordinary shares during the year.

10 INVESTMENT PROPERTIES

	2016 £M	2015 £M
At 1 October	2,908.0	2,425.5
Acquisitions	62.7	25.8
Refurbishment and other capital expenditure	32.6	24.7
Net surplus on revaluation of investment properties	108.3	432.0
Book value at 30 September	3,111.6	2,908.0
Fair value at 30 September:		
Properties valued by DTZ Debenham Tie Leung Limited	3,123.6	2,919.5
Less: unamortised lease incentives (note 11)	(12.0)	(11.5)
Book value at 30 September	3,111.6	2,908.0

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

10 INVESTMENT PROPERTIES CONTINUED

The investment properties valuation comprises:

	2016 £M	2015 £M
Freehold properties	2,864.8	2,691.4
Leasehold properties	258.8	228.1
	3,123.6	2,919.5

Investment properties were subject to external valuation as at 30 September 2016 by qualified professional valuers, being members of the Royal Institution of Chartered Surveyors, working for DTZ Debenham Tie Leung Limited, Chartered Surveyors, acting in the capacity of external valuers.

All properties were valued on the basis of fair value and highest and best use in accordance with the RICS Valuation Standards – Professional Standards 2014 and IFRS 13. When considering the highest and best use a valuer considers its actual and potential uses which are physically, legally and financially viable. Where the highest and best use differs from the existing use, the valuer considers the use a market participant would have in mind when formulating the price it would bid and reflects the cost and likelihood of achieving that use.

The external valuers use information provided by the Group, such as tenancy information and capital expenditure expectations. The valuers, in forming their opinion make a series of assumptions. The assumptions are typically market related, such as yields and rental values, and are based on the valuers’ professional judgement and market observations. The major inputs to the external valuation are reviewed by the senior management team. In addition, the valuers meet with external auditors and members of the Audit Committee. Further details of the Audit Committee’s responsibilities in relation to valuations can be found in the Audit Committee Report on pages 90 to 93.

A summary of the DTZ Debenham Tie Leung Limited report can be found on pages 156 to 157.

Fees were agreed at fixed amounts in advance of the valuations being carried out. DTZ Debenham Tie Leung Limited was not engaged by the Group in any capacity other than as valuers during the year. It is noted that Cushman and Wakefield (of whom DTZ Debenham Tie Leung Limited form part) are the letting agents for Shaftesbury Carnaby PLC and Shaftesbury Soho Limited. The fees payable by the Group to Cushman and Wakefield (including DTZ Debenham Tie Leung Limited) do not constitute a significant part of their fee income.

The fair value of the Group’s investment properties has primarily been determined using a Market Approach, which provides an indication of value by comparing the subject asset with identical or similar assets for which price information is available. There are a number of assumptions that are made in deriving the fair value, including equivalent yields and ERVs. Equivalent yields are based on current market prices, depending on, inter alia, the location and use of the property. ERVs are calculated using a number of factors which include current rental income, market comparatives and occupancy. Whilst there is market evidence for these inputs, and recent transaction prices for similar properties, there is still a significant element of estimation and judgement. As a result of adjustments made to market observable data, these significant inputs are deemed unobservable.

The Group considers all of its investment properties to fall within Level 3 of the hierarchy in IFRS 13, as set out below. The Group’s policy is to recognise transfers between fair value hierarchy levels as at the date of the event or change in circumstances that caused the transfer. There have been no transfers during the year.

HIERARCHY	DESCRIPTION
Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2	Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
Level 3	Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs). Discounted cash flows are used to determine fair values of these instruments.

The key assumptions made by the valuers are set out in the Basis of Valuation on pages 154 to 155. The Group’s acquisition and capital expenditure activity is discussed on pages 50 to 52.

SENSITIVITY ANALYSIS

As noted in the critical judgements, assumptions and estimates section on page 124, the valuation of the Group’s property portfolio is inherently subjective. As a result, the valuations the Group places on its property portfolio are subject to a degree of uncertainty and are made on the basis of assumptions which may not prove to be accurate, particularly in periods of volatility or low transaction flow in the commercial property market.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

10 INVESTMENT PROPERTIES CONTINUED

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

	CHANGE IN ERV		CHANGE IN EQUIVALENT YIELDS	
	+5.0% £M	-5.0% £M	+0.25% £M	-0.25% £M
Increase/(decrease) in the fair value of investment properties	135.7	(136.2)	(210.3)	238.3

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

At 30 September 2016, the Group had capital commitments of £31.3 million (2015: £16.4 million).

11 ACCRUED INCOME

	2016 £M	2015 £M
Accrued income in respect of lease incentives	12.0	11.5
Less: included in trade and other receivables (note 14)	(2.2)	(2.0)
	9.8	9.5

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

12 INVESTMENT IN JOINT VENTURE

	2016 £M	2015 £M
Group		
At 1 October	129.6	101.5
Share of profits	18.5	29.7
Dividends received	(1.7)	(1.6)
Book value 30 September	146.4	129.6
	2016 £M	2015 £M
Company		
Shares at cost		
1 October and 30 September	59.0	59.0

The Company owns 7,782,100 B ordinary £1 shares in Longmartin Properties Limited, representing 50% of that company's issued share capital. The company is incorporated in Great Britain and registered in England and Wales and is engaged in property investment in London.

Longmartin Properties Limited's principal place of business is the same as the Group, as set out on page 80.

Control of Longmartin Properties Limited is shared equally with The Mercers' Company, which owns 50% of its issued share capital.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

12 INVESTMENT IN JOINT VENTURE CONTINUED

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

	2016 £M	2015 £M
Statement of Comprehensive Income		
Rents receivable	15.1	13.4
Recoverable property expenses	1.4	1.6
Revenue from properties	16.5	15.0
Property outgoings	(1.6)	(1.6)
Recoverable property expenses	(1.4)	(1.6)
Property charges	(3.0)	(3.2)
Net property income	13.5	11.8
Administrative expenses	(0.4)	(0.6)
Operating profit before investment property valuation movements	13.1	11.2
Net surplus on revaluation of investment properties	22.5	69.2
Operating profit	35.6	80.4
Net finance costs	(6.6)	(6.6)
Profit before tax	29.0	73.8
Current tax	(1.2)	(0.6)
Deferred tax	9.1	(13.8)
Tax credit/(charge) for the year	7.9	(14.4)
Profit and total comprehensive income for the year	36.9	59.4
Profit attributable to the Group	18.5	29.7

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

12 INVESTMENT IN JOINT VENTURE CONTINUED

	2016 £M	AS RESTATED 2015 £M
Balance Sheet		
Non-current assets		
Investment properties at book value	455.0	430.0
Accrued income	4.0	4.4
Other receivables	1.3	1.3
	460.3	435.7
Cash and cash equivalents	4.1	4.6
Current assets	4.0	3.5
Total assets	468.4	443.8
Current liabilities	9.4	9.8
Non-current liabilities		
Secured term loan	120.0	120.0
Other non-current liabilities	46.3	54.8
Total liabilities	175.7	184.6
Net assets	292.7	259.2
Net assets attributable to the Group	146.4	129.6

Amounts totalling £1.3 million, in respect of cash held on deposit, which have certain conditions restricting their use, have been reclassified from cash and cash equivalents to other receivables at 30 September 2015. This presentational change does not impact earnings or net assets.

13 INVESTMENT IN SUBSIDIARIES

	2016 £M	2015 £M
Shares in Group undertakings		
At 1 October	997.9	786.0
Acquisition of subsidiary	1.7	-
Impairment of subsidiary	(244.9)	-
Additional share capital issued by subsidiary	-	211.9
At 30 September	754.7	997.9

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13 INVESTMENT IN SUBSIDIARIES CONTINUED

During the year the Company acquired 100% of the share capital of Helcon Limited. Shaftesbury Carnaby PLC distributed £244.9 million to the Company, following a capital reduction during the year. Following this, the Company impaired its investment.

The full list of the Company's subsidiary undertakings is presented below. Except where indicated otherwise, the Company owns, directly, all of the ordinary issued share capital:

Active subsidiaries:	
Shaftesbury Carnaby PLC (formerly Shaftesbury Carnaby Limited)	Shaftesbury AV Limited*
Shaftesbury Covent Garden Limited	Shaftesbury CL Investment Limited
Shaftesbury Chinatown Limited	Shaftesbury CL Limited*
Shaftesbury Soho Limited	Helcon Limited
Shaftesbury AV Investment Limited	
Dormant subsidiaries:	
Carnaby Estate Holdings Limited	Shaftesbury Investments 1 Limited
Carnaby Investments Limited	Shaftesbury Investments 2 Limited
Carnaby Property Investments Limited*	Shaftesbury Investments 4 Limited
Chinatown Estate Holdings Limited	Shaftesbury Investments 5 Limited
Chinatown Property Investments Limited*	Shaftesbury Investments 6 Limited
Covent Garden Estate Holdings Limited	Shaftesbury Investments 7 Limited
Covent Garden Property Investments Limited*	Shaftesbury Investments 8 Limited
Shaftesbury Charlotte Street Limited	Shaftesbury Investments 9 Limited
Charlotte Street Estate Holdings Limited	Shaftesbury Investments 10 Limited
Chinatown London Limited	

* The share capital of these subsidiaries are held by other Group companies.

All of the companies are either engaged in property investment or dormant. They are incorporated in Great Britain and are registered in England and Wales.

14 TRADE AND OTHER RECEIVABLES

	GROUP		COMPANY	
	2016 £M	2015 £M	2016 £M	2015 £M
Amounts due from tenants	10.5	11.3	–	–
Provision for doubtful debts	(0.5)	(0.6)	–	–
	10.0	10.7	–	–
Accrued income in respect of lease incentives (note 11)	2.2	2.0	–	–
Amounts due from subsidiaries	–	–	755.6	116.1
Amounts due from joint venture	0.9	1.4	0.9	1.4
Prepayments	4.4	7.2	0.6	0.6
Other receivables	1.8	0.4	–	0.1
	19.3	21.7	757.1	118.2

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

14 TRADE AND OTHER RECEIVABLES CONTINUED

Amounts due from tenants at each year end included amounts contractually due and invoiced on 29 September in respect of rents and service charge contributions in advance for the period 29 September to 24 December. As at 30 September 2016, amounts due from tenants which were more than 90 days overdue, relating to accommodation and services provided up to 28 September 2016, totalled £1.5 million (2015: £1.9 million) and are considered to be past due. Provisions against these overdue amounts totalled £0.4 million (2015: £0.5 million). The remaining balance is not considered to be impaired.

At 30 September 2016, cash deposits totalling £18.0 million (2015: £17.4 million) were held against tenants' rent payment obligations. The deposits are held in bank accounts administered by the Group's managing agents.

15 CASH AND CASH EQUIVALENTS

Cash and cash equivalents at 30 September 2016 were £15.6 million (2015: £7.7 million) for the Group and £0.5 million (2015: £Nil) for the Company.

Other receivables include £3.7 million at 30 September 2016 (2015: £3.7 million) which relate to cash held on deposit as security for certain secured term loans, and where there are certain conditions restricting their use. Holding cash in restricted accounts does not prevent the Group from earning returns by placing these monies in interest-bearing accounts or on deposit.

16 TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
	2016 £M	2015 £M	2016 £M	2015 £M
Rents and service charges invoiced in advance	21.3	20.7	–	–
Amounts due in respect of property acquisitions	0.7	–	–	–
Trade payables and accruals in respect of capital expenditure	5.2	1.9	–	–
Other taxation and social security	6.1	4.9	3.4	1.7
Other payables and accruals	12.0	9.3	5.8	5.1
	45.3	36.8	9.2	6.8

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

17 BORROWINGS

	2016			2015		
	NOMINAL VALUE £M	UNAMORTISED PREMIUM AND ISSUE COSTS £M	BOOK VALUE £M	NOMINAL VALUE £M	UNAMORTISED PREMIUM AND ISSUE COSTS £M	BOOK VALUE £M
Group – Current borrowings						
Debenture Stock	92.2	–	92.2	–	–	–
Group – Non-current borrowings						
Debenture Stock	–	–	–	61.0	2.2	63.2
Secured bank loans	290.7	(1.7)	289.0	199.7	(2.3)	197.4
Secured term loans	384.8	(4.7)	380.1	384.8	(5.1)	379.7
Total non-current borrowings	675.5	(6.4)	669.1	645.5	(5.2)	640.3
Total Group borrowings	767.7	(6.4)	761.3	645.5	(5.2)	640.3
Company – Current borrowings						
Debenture Stock	92.2	–	92.2	–	–	–
Company – Non-current borrowings						
Debenture Stock	–	–	–	61.0	2.2	63.2
Secured bank loans	290.7	(1.7)	289.0	207.0	(2.3)	204.7
Total non-current borrowings	290.7	(1.7)	289.0	268.0	(0.1)	267.9
Total Company borrowings	382.9	(1.7)	381.2	268.0	(0.1)	267.9

NET DEBT

	GROUP		COMPANY	
	2016 £M	2015 £M	2016 £M	2015 £M
Nominal borrowings – gross	767.7	652.8	382.9	268.3
Cash balances set-off against certain borrowings	–	(7.3)	–	(0.3)
	767.7	645.5	382.9	268.0
Cash and cash equivalents (note 15)	(15.6)	(7.7)	(0.5)	–
	752.1	637.8	382.4	268.0

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

17 BORROWINGS CONTINUED

The 8.5% First Mortgage Debenture Stock due 2024 (the Stock) and bank loans are secured by fixed charges over certain investment properties held by subsidiaries, with a carrying value of £1,320.4 million (2015: £1,412.7 million), and by floating charges over the assets of the Company and certain subsidiaries. Two of the Company's subsidiaries each have secured term loans. Both entities have granted fixed charges over certain of their investment properties, with a carrying value of £1,116.5 million (2015: £1,060.7 million), and cash balances, and floating charges over their assets as security for their respective loans. Additionally, the two shareholders of these subsidiaries have granted a charge over the shares in these companies.

Following an EGM of holders of the £61.0 million Debenture Stock in September 2016, the terms and conditions of the Stock were amended to grant Shaftesbury an option to redeem the Stock in full at an agreed amount, conditional upon an issue of newly created longer-dated Guaranteed First Mortgage Bonds or an equivalent cash alternative.

As a result of the substantial modification to the expected future cash flows of the Debenture Stock, the Company de-recognised the book value of the Stock, which was previously held in the Balance Sheet at amortised cost. It then recognised the fair value of the Stock, being the total consideration to be paid to the holders of the Stock. This resulted in an increase in the recognised liability of £29.2 million, compared with the previous book value. This increase comprised the redemption premium of £31.1 million, less the unamortised premium in respect of the original Stock of £1.9 million. This was charged to the Statement of Comprehensive Income in the year ended 30 September 2016. The fair value of the Stock, which represents the new basis for amortised cost, is included in the Balance Sheet within current liabilities, as the directors considered the condition of the issue of newly created Guaranteed First Mortgage Bonds was highly likely to be met within one year of the Balance Sheet date.

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

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

AVAILABILITY AND MATURITY OF BORROWINGS (GROUP)

	2016 FACILITIES			2015 FACILITIES		
	COMMITTED £M	DRAWN £M	UNDRAWN £M	COMMITTED £M	DRAWN £M	UNDRAWN £M
Repayable within 1 year	92.2	92.2	–	–	–	–
Repayable between 2 and 5 years	350.0	290.7	59.3	275.0	124.7	150.3
Repayable between 5 and 10 years	–	–	–	136.0	136.0	–
Repayable between 10 and 15 years	384.8	384.8	–	384.8	384.8	–
	827.0	767.7	59.3	795.8	645.5	150.3

AVAILABILITY AND MATURITY OF BORROWINGS (COMPANY)

	2016 FACILITIES			2015 FACILITIES		
	COMMITTED £M	DRAWN £M	UNDRAWN £M	COMMITTED £M	DRAWN £M	UNDRAWN £M
Repayable within 1 year	92.2	92.2	–	–	–	–
Repayable between 2 and 5 years	350.0	290.7	59.3	275.0	132.0	143.0
Repayable between 5 and 10 years	–	–	–	136.0	136.0	–
	442.2	382.9	59.3	411.0	268.0	143.0

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

17 BORROWINGS CONTINUED

INTEREST RATE PROFILE OF INTEREST BEARING BORROWINGS (GROUP)

	2016		2015	
	DEBT £M	INTEREST RATE	DEBT £M	INTEREST RATE
Floating rate borrowings				
LIBOR-linked loans (including margin)	110.7	1.75%	19.7	1.75%
Hedged borrowings				
Interest rate swaps (including margin)	180.0	6.17%	180.0	6.01%
Total bank borrowings	290.7	4.49%	199.7	5.59%
Fixed rate borrowings				
Secured term loans	384.8	3.85%	384.8	3.85%
8.5% First Mortgage Debenture Stock – book value	92.2	7.93%	63.2	7.93%
Weighted average cost of drawn borrowings		4.45%		4.78%

INTEREST RATE PROFILE OF INTEREST BEARING BORROWINGS (COMPANY)

	2016		2015	
	DEBT £M	INTEREST RATE	DEBT £M	INTEREST RATE
Floating rate borrowings				
LIBOR-linked loans (including margin)	110.7	1.75%	27.0	1.75%
Hedged borrowings				
Interest rate swaps (including margin)	180.0	6.17%	180.0	6.01%
Total bank borrowings	290.7	4.49%	207.0	5.45%
Fixed rate borrowings				
8.5% First Mortgage Debenture Stock – book value	92.2	7.93%	63.2	7.93%
Weighted average cost of drawn borrowings		5.10%		6.03%

The interest rate for the 8.5% First Mortgage Debenture Stock in 2016 represents the effective interest rate on the book value of the Debenture Stock prior to the modification of its terms in September 2016.

The Group and Company also incur non-utilisation fees on undrawn facilities. At 30 September 2016, the weighted average charge on the undrawn facilities of £59.3 million (2015: £150.3 million) for the Group was 0.70% (2015: 0.70%), and 0.70% (2015: 0.70%) on the undrawn facilities of £59.3 million (2015: £143.0 million) for the Company.

At 30 September 2016, the weighted average credit margin on the Group and Company's current bank facilities was:

	2016	2015
Drawn facilities	1.33%	1.16%
If facilities were fully drawn	1.37%	1.35%

The Group and Company have in place interest rate swaps to hedge £180.0 million of floating rate bank debt, at fixed rates in the range 4.64% to 5.16%, with a weighted average rate at 30 September 2016 of 4.85%. The swaps, which are settled against three month LIBOR, expire between August 2028 and November 2038. If mutual break or counterparty early termination options are exercised the weighted average term is 3.1 years (2015: 4.1 years).

In October 2016, the Group and Company terminated interest rate swap contracts with a notional principal of £55.0 million. These swaps, with an average rate of 4.76%, had expiry dates between August 2028 and November 2038, and included counterparty early termination options in November 2018. The cost of terminating these swaps was £34.1 million. They were included in the Balance Sheet at 30 September 2016 at a fair value of £38.0 million.

Details of the Group's current financial position are discussed on pages 60 to 62.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

18 FINANCIAL INSTRUMENTS

	2016	AS RESTATED 2015
	BOOK VALUE £M	BOOK VALUE £M
CATEGORIES OF FINANCIAL INSTRUMENTS		
Group		
Interest rate swaps	(114.1)	(79.2)
Financial assets: receivables and cash and cash equivalents		
Trade and other receivables (note 14)	10.0	10.7
Loan receivable from joint venture (note 14)	0.9	1.4
Other receivables (note 15)	3.7	3.7
Cash and cash equivalents (note 15)	15.6	7.7
	30.2	23.5
Financial liabilities at amortised cost		
Trade and other payables – due within one year (note 16)	(17.9)	(11.2)
Interest bearing borrowings (note 17)	(761.3)	(640.3)
	(779.2)	(651.5)
Net financial instruments	(863.1)	(707.2)
Company		
Interest rate swaps	(114.1)	(79.2)
Financial assets: loans and receivables		
Loans receivable from subsidiaries (note 14)	755.6	116.1
Loan receivable from joint venture (note 14)	0.9	1.4
	756.5	117.5
Financial liabilities at amortised cost		
Trade and other payables – due within one year (note 16)	(5.8)	(5.1)
Interest bearing borrowings (note 17)	(381.2)	(267.9)
	(387.0)	(273.0)
Net financial instruments	255.4	(234.7)

Other receivables relate to cash held on deposit, which have certain conditions restricting their use which are due between 2 May 2029 and 31 July 2035. The Group's trade and other payables are all due within one year (2015: all due within one year).

The prior year figures for trade and other payables have been restated by £4.9 million (Group) and £1.7 million (Company) in the table above to exclude certain items which had previously been included, but which are not financial instruments under IAS 39.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

18 FINANCIAL INSTRUMENTS CONTINUED

FAIR VALUE OF FINANCIAL INSTRUMENTS (GROUP AND COMPANY)

	2016 £M	2015 £M
Interest rate swaps		
At 1 October – deficit	(79.2)	(78.8)
Swap contracts terminated	–	28.1
Fair value deficit charged to the Statement of Comprehensive Income	(34.9)	(28.5)
At 30 September – deficit	(114.1)	(79.2)

Changes in the fair value of the Group's and Company's interest rate swaps, which are not held for speculative purposes, are reflected in the Statement of Comprehensive Income as the Group has chosen not to adopt hedge accounting under the provisions of IAS 39 'Financial Instruments: Recognition and Measurement'.

The extent to which the fair value deficit will crystallise will depend on the course of interest rates over the life of the swaps. The weighted average maturity of the swaps at the Balance Sheet date is set out in note 17.

The fair value of the interest rate swaps has been estimated using the mid-point of the relevant yield curve prevailing at the reporting date, and represents the net present value of the differences between the contractual rate and the valuation rate through to the contracted expiry date of the swap contract. The valuation technique falls within Level 2 of the fair value hierarchy (see note 10 for definition). The swaps are valued by J.C Rathbone Associates Limited.

Interest rate swaps are the only financial instruments which are held at fair value. There have been no transfers between hierarchy levels during the year (2015: none).

The 8.5% Mortgage Debenture Stock is held at amortised cost. This was remeasured in September 2016, following modifications to the terms of the Stock (see note 17).

The Group's secured term loans are held at amortised cost in the Balance Sheet. The fair value of liability in excess of book value which is not recognised in the reported results for the year is £52.5 million (2015: £39.1 million). The fair values have been calculated based on a discounted cash flow model using the relevant reference gilt and appropriate market spread. The valuation technique falls within Level 2 of the fair value hierarchy (see note 10 for definition).

The Group has no obligation to repay its secured term loans in advance of their maturities on 2 May 2029, 19 March 2030, and 31 July 2035.

OTHER FINANCIAL INSTRUMENTS

The fair values of the Group's and Company's cash and cash equivalents, and those financial instruments included within trade and other receivables, interest bearing borrowings, (including the 8.5% Mortgage Debenture Stock but excluding the secured term loans), and trade and other payables are not materially different from the values at which they are carried in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

18 FINANCIAL INSTRUMENTS CONTINUED

The tables below summarise the undiscounted contractual cash flows arising on financial liabilities based on conditions existing at the Balance Sheet date.

	BOOK VALUE £M	CONTRACTUAL CASH FLOWS £M	<1 YEAR £M	1-2 YEARS £M	2-5 YEARS £M	5-10 YEARS £M	>10 YEARS £M
30 SEPTEMBER 2016							
Group							
Financial instruments							
Interest rate swaps	114.1	123.8	6.9	8.3	24.0	35.0	49.6
Financial liabilities							
Interest bearing borrowings:							
Principal (note 17)	761.3	767.7	92.2	–	290.7	–	384.8
Interest	5.1	235.6	20.0	19.9	50.7	74.1	70.9
Total	880.5	1,127.1	119.1	28.2	365.4	109.1	505.3

	AS RESTATED						
	BOOK VALUE £M	CONTRACTUAL CASH FLOWS £M	<1 YEAR £M	1-2 YEARS £M	2-5 YEARS £M	5-10 YEARS £M	>10 YEARS £M
30 SEPTEMBER 2015							
Group							
Financial instruments							
Interest rate swaps	79.2	95.1	6.4	7.1	17.7	24.7	39.2
Financial liabilities							
Interest bearing borrowings:							
Principal (note 17)	640.3	645.5	–	–	124.7	136.0	384.8
Interest	4.8	294.3	23.5	23.5	69.0	92.7	85.6
Total	724.3	1,034.9	29.9	30.6	211.4	253.4	509.6

The prior year figure for the book value of interest has been restated by £4.8 million to include the book value of interest in the table above, which had previously been excluded.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

18 FINANCIAL INSTRUMENTS CONTINUED

	BOOK VALUE £M	CONTRACTUAL CASH FLOWS £M	<1 YEAR £M	1-2 YEARS £M	2-5 YEARS £M	5-10 YEARS £M	>10 YEARS £M
30 SEPTEMBER 2016							
Company							
Financial instruments							
Interest rate swaps	114.1	123.8	6.9	8.3	24.0	35.0	49.6
Financial liabilities							
Interest bearing borrowings:							
Principal (note 17)	381.2	382.9	92.2	–	290.7	–	–
Interest	2.2	16.6	5.2	5.1	6.3	–	–
Total	497.5	523.3	104.3	13.4	321.0	35.0	49.6

	BOOK VALUE £M	CONTRACTUAL CASH FLOWS £M	<1 YEAR £M	1-2 YEARS £M	2-5 YEARS £M	5-10 YEARS £M	>10 YEARS £M
30 SEPTEMBER 2015							
Company							
Financial instruments							
Interest rate swaps	79.2	95.1	6.4	7.1	17.7	24.7	39.2
Financial liabilities							
Interest bearing borrowings:							
Principal (note 17)	267.9	268.0	–	–	132.0	136.0	–
Interest	2.1	60.6	8.7	8.7	24.6	18.6	–
Total	349.2	423.7	15.1	15.8	174.3	179.3	39.2

19 MANAGEMENT OF FINANCIAL RISKS (GROUP AND COMPANY)

CREDIT RISK

Credit risk refers to the risk that a counterparty will default on their contractual obligations resulting in financial loss to the Group.

The Group reviews the creditworthiness of potential tenants prior to entering into contractual arrangements. Where appropriate, tenants are required to provide cash deposits to mitigate the potential loss in the event of default. Deposits held are referred to in note 14. The Group has a large and diverse tenant base so that tenant credit risk is widely spread.

Provision is made in full where recovery of financial assets is, in the opinion of the directors, uncertain. The carrying amount of financial assets, net of provisions for impairment, represents the Group's maximum exposure to credit risk. Financial assets that are neither past due nor impaired are expected to be fully recoverable.

The Group tends to hold minimal cash balances, utilising overdraft and loan facilities for its day-to-day cash requirements. Where cash deposits are held, they are placed with one of the Group's existing facility providers.

LIQUIDITY RISK

The Board keeps under review the Group's funding requirements, available facilities and covenant compliance to ensure it has sufficient funds available to meet its existing commitments and to extend its portfolio through investment and acquisition of additional properties. The Group's policies regarding finance and its current financial position are set out in the Strategic Report on pages 35 and 60 to 62.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

19 MANAGEMENT OF FINANCIAL RISKS (GROUP AND COMPANY) CONTINUED

MARKET RISK

Market risk arises from the Group's use of interest bearing financial instruments, and is the risk that future cash flows from financial instruments will fluctuate due to changes in interest rates and credit costs. The Group's policy is to minimise market risk through long-term fixed rate debt, long-term committed bank facilities and the use of long-term interest rate swaps on a large portion of its floating rate bank debt. The Board keeps under review the Group's market risk, particularly in light of expectations of future interest rate movements.

Details of the Group's interest and hedging arrangements are set out in note 18.

INTEREST RATE SENSITIVITY

The sensitivity analysis below has been determined based on the exposure to interest rates on its unhedged LIBOR-linked borrowings and a change in the long-term interest rates against which the fair value of swaps is calculated at the Balance Sheet date. It represents the directors' assessment of possible changes in interest rates and the potential impact on the Group's results and equity.

	MOVEMENT IN MARKET RATES		
	+1.0% £M	+0.5% £M	-0.5% £M
(Increase)/decrease in finance costs before fair valuation of interest rate swaps	(1.2)	(0.6)	0.6
Decrease/(increase) in fair value deficit of interest rate swaps	40.4	20.2	(20.2)
Increase/(decrease) in profit and shareholders' equity	39.2	19.6	(19.6)

This sensitivity analysis does not take into account valuation movements on the Group's investment properties as a result of movements in long-term interest rates, which would be reflected in the Statement of Comprehensive Income.

CAPITAL RISK MANAGEMENT

The capital structure of the Group consists of equity and net borrowings, including cash held on deposit. The type and maturity of the Group's borrowings is set out in note 17 and the Group's equity structure is set out in the Statement of Changes in Equity. The Group regularly reviews its loan covenant compliance.

The Group's capital management objectives are to continue as a going concern and to provide enhanced shareholder returns whilst maintaining an appropriate risk reward balance to accommodate changing financial and operating market cycles. The Group's capital structure such as levels of gearing and loan-to-value ratios are discussed in the Strategic Report on pages 35 and 62.

20 SHARE CAPITAL

	2016 NUMBER MILLION	2015 NUMBER MILLION	2016 £M	2015 £M
Allotted and fully paid (ordinary 25p shares)				
At 1 October	278.2	277.9	69.6	69.5
Exercise of share options	0.4	0.3	0.1	0.1
At 30 September	278.6	278.2	69.7	69.6

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

20 SHARE CAPITAL CONTINUED

The Company's Articles of Association contain provisions which set out the circumstances in which shareholders can exercise control over the issue of shares. The following options to subscribe for ordinary shares granted to executive directors and employees under the Company's share option schemes were outstanding at 30 September 2016:

DATE OF GRANT	AT 1.10.2015	AWARDED	EXERCISED	LAPSED	AT 30.9.2016	EXERCISABLE 30.9.2016	OPTION EXERCISE PRICE	EXERCISE PERIOD
Sharesave Scheme								
8.7.2011	16,537	-	(16,537)	-	-	-	£4.29	2016
5.7.2012	11,277	-	-	-	11,277	-	£3.99	2017
2.7.2014	39,305	-	-	(1,672)	37,633	-	£5.38	2017-2019
3.7.2015	19,270	-	-	-	19,270	-	£6.94	2018-2020
1.7.2016	-	21,368	-	-	21,368	-	£7.41	2019-2021
LTIP								
6.12.2012	570,325	-	(362,163)	(208,162)	-	-	Nil	2015-2016
20.12.2013*	462,500	-	-	(11,500)	451,000	-	Nil	2016-2017
8.12.2014	416,450	-	-	(12,500)	403,950	-	Nil	2017-2018
2.12.2015	-	153,050	-	(11,100)	141,950	-	Nil	2018-2019
8.2.2016	-	224,225	-	-	224,225	-	Nil	2020-2021
	1,535,664	398,643	(378,700)	(244,934)	1,310,673	-		

* 451,000 options over ordinary shares will vest in December 2016, following satisfaction of performance targets in respect of the three years ended 30 September 2016.

DATE OF GRANT	AT 1.10.2015	AWARDED	EXERCISED	LAPSED	AT 30.9.2016
Weighted average exercise price	£0.30	£0.40	£0.19	£0.04	£0.41
Weighted average remaining contractual life	1.1 years				1.2 years

For share options exercised during the year the weighted average share price at the date of exercise was:

SCHEME	DATE OF GRANT	DATE OF EXERCISE	NUMBER OF SHARES	WEIGHTED AVERAGE PRICE AT EXERCISE
LTIP	6.12.2012	7.12.2015	146,658	£9.30
	6.12.2012	8.2.2016	213,298	£8.40
	6.12.2012	25.4.2016	2,207	£9.00
Sharesave	8.7.2011	4.8.2016	16,537	£8.99

A summary of the rules of the schemes referred to above is set out in the Remuneration Report on page 97. The remuneration policy, which includes more detail, is available on the Group's website.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 RESERVES

The Statement of Changes in Equity is set out on page 123.

The following describes the nature and purpose of each of the reserves within equity.

RESERVE	DESCRIPTION AND PURPOSE
Share premium	Share premium is the amount by which the fair value of the consideration received for ordinary shares exceeds the nominal value of shares issued, net of expenses.
Share-based payments reserve	The equity-settled remuneration expense charged to the Statement of Comprehensive Income is credited to the share-based payments reserve. Upon exercise of options, the expense previously recognised is transferred to retained earnings.
Retained earnings	Cumulative gains and losses recognised in the Statement of Comprehensive Income. Transfers from the share-based payments reserve are also credited to this account.

The Company's retained earnings at 30 September 2016 include amounts distributable of £373.7 million (2015: £400.0 million).

22 NET ASSET VALUE PER SHARE

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

	2016			AS RESTATED 2015		
	NET ASSETS £M	NUMBER OF ORDINARY SHARES MILLION	NET ASSET VALUE PER SHARE £	NET ASSETS £M	NUMBER OF ORDINARY SHARES MILLION	NET ASSET VALUE PER SHARE £
Basic	2,387.1	278.6	8.57	2,325.4	278.2	8.36
Dilutive effect of share options	0.5	1.0		0.4	1.2	
Diluted	2,387.6	279.6	8.54	2,325.8	279.4	8.32
Fair value of derivatives	76.1		0.27	79.2		0.29
Deferred tax*	18.0		0.07	22.6		0.08
EPRA NAV	2,481.7	279.6	8.88	2,427.6	279.4	8.69
Fair value of derivatives	(76.1)		(0.27)	(79.2)		(0.29)
Deferred tax*	(18.0)		(0.07)	(22.6)		(0.08)
Fair value of secured term loans*	(64.9)		(0.23)	(47.3)		(0.17)
EPRA NNAV	2,322.7	279.6	8.31	2,278.5	279.4	8.15

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

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

In accordance with EPRA recommendations, the adjustment for the fair value of derivatives excludes those interest rate swaps which were cancelled in October 2016 (see note 17).

The comparative figure for the fair value of secured term loans has been restated by £8.2 million to include the fair value in excess of book value for the debt in the joint venture. This has decreased EPRA NNAV net assets by £8.2 million and EPRA NNAV net asset value per share by £0.03.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

23 CASH FLOWS FROM OPERATING ACTIVITIES

	GROUP		COMPANY	
	2016 £M	2015 £M	2016 £M	2015 £M
OPERATING ACTIVITIES				
Profit before tax	99.1	467.3	282.9	103.8
Adjusted for:				
Lease incentives recognised (note 2)	(0.5)	(2.4)	-	-
Charge for share-based remuneration (note 5)	1.9	2.3	1.9	2.3
Depreciation (note 4)	0.4	0.4	0.4	0.4
Investment property valuation movements (note 10)	(108.3)	(432.0)	-	-
Net finance costs	97.7	59.2	82.6	50.0
Administrative charges, finance charges, and dividends received from subsidiaries settled through inter-company indebtedness	-	-	(623.1)	(165.6)
Impairment of subsidiary (note 13)	-	-	244.9	-
Dividends received from joint venture	-	-	(1.7)	(1.6)
Share of profit from joint venture (note 12)	(18.5)	(29.7)	-	-
Cash flows from operations before changes in working capital	71.8	65.1	(12.1)	(10.7)
Changes in working capital:				
Change in trade and other receivables	2.1	(0.5)	0.1	(0.2)
Change in trade and other payables	3.0	2.8	1.0	(0.3)
Cash generated from operating activities	76.9	67.4	(11.0)	(11.2)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

24 MOVEMENT IN BORROWINGS

	1.10.2015 £M	CASH FLOWS £M	NON-CASH ITEMS £M	30.9.2016 £M
Group				
8.5% First Mortgage Debenture Stock 2024	(63.2)	–	(29.0)	(92.2)
Secured bank loans	(199.7)	(91.0)	–	(290.7)
Secured term loans	(384.8)	–	–	(384.8)
Facility arrangement costs	7.4	–	(1.0)	6.4
	(640.3)	(91.0)	(30.0)	(761.3)
Year ended 30 September 2015	(553.7)	(85.7)	(0.9)	(640.3)
Company				
8.5% First Mortgage Debenture Stock 2024	(63.2)	–	(29.0)	(92.2)
Secured bank loans	(207.0)	(83.7)	–	(290.7)
Facility arrangement costs	2.3	–	(0.6)	1.7
	(267.9)	(83.7)	(29.6)	(381.2)
Year ended 30 September 2015	(429.9)	162.8	(0.8)	(267.9)

25 OPERATING LEASES

THE GROUP AS LESSOR

Future aggregate minimum rentals receivable under non-cancellable operating leases based on contracted rental income at the year end:

	2016 £M	2015 £M
Not later than one year	84.2	80.3
Later than one year but not later than five years	234.2	221.4
Later than five years but not later than ten years	143.8	143.8
Later than ten years	98.7	108.6
	560.9	554.1

The Group has over 1,500 leases granted to its tenants. These vary depending on the individual tenant and the respective property and demise. Typical lease terms are set out in the Strategic Report on pages 23 to 29.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

25 OPERATING LEASES CONTINUED

THE COMPANY AS A LESSEE

Future aggregate minimum payments in respect of a non-cancellable operating lease based on annual amounts payable at the year end:

	2016 £M	2015 £M
Not later than one year	0.4	0.4
Later than one year but not later than five years	1.6	1.6
Later than five years but not later than ten years	2.0	2.0
Later than ten years	1.0	1.4
	5.0	5.4

The Company leases its head office accommodation from a wholly-owned subsidiary.

26 RELATED PARTY TRANSACTIONS

During the year, the Company received administrative fees, dividends and interest from its wholly-owned subsidiaries. The Company also received interest on a loan and administrative fees from the Longmartin joint venture. The Company leases its office accommodation from a wholly-owned subsidiary. These transactions are summarised below:

	2016 £M	2015 £M
Transactions with subsidiaries:		
Administrative fees receivable	11.7	11.1
Dividends receivable	592.5	134.7
Interest receivable	18.9	20.4
Rents payable	0.4	0.4
Net amounts receivable from subsidiaries	755.6	116.1
Transactions with joint venture:		
Administrative fees receivable	0.2	0.4
Dividends receivable	1.7	1.6
Interest receivable	0.1	0.1
Amount due from joint venture	0.9	1.4

All amounts are unsecured and are repayable on demand.

Directors are considered the only key management personnel. Apart from the directors' remuneration set out in the Annual Remuneration Report on pages 98 to 107, there were no other transactions with directors.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27 SHARE-BASED REMUNERATION

The fair value of option grants is measured by Lane Clark & Peacock LLP, Actuaries & Consultants, using a combination of Monte Carlo simulation and modified binomial models, and taking into account the terms and conditions upon which awards were granted. The fair value is recognised over the expected vesting period. For the grants made during the year, the main inputs and assumptions of the models, and the resulting fair values, are as follows:

	2006 LTIP	2016 LTIP
Grant date	2.12.15	8.2.16
Share price at date of grant	£9.36	£8.295
Exercise price	£Nil	£Nil
Expected life – years	3	3
Performance condition	NAV and TSR	NAV and TSR
Assumed return volatility per annum – TSR performance condition	20%	20%
Risk free discount rate per annum – TSR performance condition	0.78%	0.40%
Assumed index return volatility* – TSR performance condition	19%	20%
Assumed correlation between the Company's shares and those in the index* – TSR performance condition	0.84	0.87
Basis of option pricing:		
NAV performance condition	Modified binomial	Modified binomial
TSR performance condition	Monte Carlo	Monte Carlo
Fair values:		
NAV	£9.40	£7.94
TSR	£4.24	£3.88

* The index is the FTSE 350 Real Estate Index for the 2006 LTIP scheme and the FTSE 350 REIT Index for the 2016 LTIP scheme.

The assumed volatility was determined taking into account factors including the historical volatility of the Shaftesbury PLC share price. Actual future volatility may differ, potentially significantly, from historic volatility.

The vesting conditions relating to options granted under the 2006 LTIP are described in the Annual Remuneration Report on page 101.

28 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

In October 2016 the Group issued £285 million of 2.487% Guaranteed First Mortgage Bonds due 2031. At the same time, it redeemed its £61.0 million 8.5% First Mortgage Debenture Stock due 2024. It also cancelled interest rate swaps with a notional principal of £55.0 million, at a cost of £34.1 million. Further details are set out in note 17.



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SHAREHOLDER INFORMATION

CORPORATE TIMETABLE

Annual General Meeting	10 February 2017
AGM statement	10 February 2017
2017 half year results to be announced*	May 2017

See the website for dates of all future company announcements.

DIVIDENDS AND BOND INTEREST

Proposed 2016 final dividend:	
Ex-dividend	19 January 2017
Record date	20 January 2017
Payment date	17 February 2017
2017 interim dividend to be paid	July 2017
Mortgage bond interest to be paid	31 March 2017 and 30 September 2017

EFFECT OF REIT STATUS ON PAYMENT OF DIVIDENDS

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

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

Further information and the forms for completion to apply for PIDs to be paid gross are available on the Group's website or from the registrar. The deadline for completed forms to be with the registrar for payment of the 2016 final dividend is 20 January 2017.

Where the Group pays an ordinary dividend, in addition to the PID, this will be treated in the same way as dividends from non-REIT companies.

REGISTRAR

Equiniti Limited maintains the Group's Register of Members. They may be contacted at:

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

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

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

CORPORATE WEBSITE

www.shaftebury.co.uk

VILLAGE WEBSITES

carnaby.co.uk
chinatown.co.uk
sevendials.co.uk
stmartinscourtyard.co.uk
berwickstreetlondon.co.uk

➡ SEE PAGE 59 FOR DETAILS OF CURRENT YEAR DIVIDENDS

* We no longer issue a hard copy of our half year statement to shareholders. The statement is issued electronically and is available on our website.

PORTFOLIO ANALYSIS

AT 30 SEPTEMBER 2016		NOTE	CARNABY	COVENT GARDEN	CHINATOWN	SOHO
Portfolio	Fair value	1	£1,161.0m	£875.0m	£725.9m	£244.0m
	% of total fair value		35%	26%	22%	7%
	Current income	2	£39.6m	£27.5m	£22.3m	£8.0m
	ERV	3	£48.8m	£35.9m	£29.2m	£10.0m
Shops	Number		101	94	66	39
	Area – sq. ft.		181,000	138,000	95,000	43,000
	% of current income	4	50%	30%	22%	27%
	% of ERV	4	47%	32%	28%	27%
	Average unexpired lease length – years	5	4	4	5	4
Restaurants, cafés and leisure	Number		53	92	77	30
	Area – sq. ft.		103,000	176,000	206,000	58,000
	% of current income	4	16%	37%	61%	37%
	% of ERV	4	15%	33%	56%	38%
	Average unexpired lease length – years	5	11	10	12	10
Offices	Area – sq. ft.		247,000	84,000	29,000	36,000
	% of current income	4	28%	11%	4%	15%
	% of ERV	4	32%	15%	4%	17%
	Average unexpired lease length – years	5	4	4	3	3
Residential	Number		94	221	124	69
	Area – sq. ft.		56,000	137,000	78,000	38,000
	% of current passing rent	4	6%	22%	13%	21%
	% of ERV	4	6%	20%	12%	18%

1 Shaftesbury Group's 50% share

BASIS OF VALUATION

AT 30 SEPTEMBER 2016		NOTE	CARNABY	COVENT GARDEN	CHINATOWN	SOHO
Overall initial yield		7	3.18%	2.81%	3.04%	2.91%
Initial yield ignoring contractual rent-free periods		8	3.22%	2.89%	3.09%	3.30%
Overall equivalent yield		9	3.65%	3.57%	3.40%	3.63%
Tone of retail equivalent yields		10	3.35 – 4.25%	3.60 – 4.50%	3.50 – 4.50%	3.75 – 4.50%
Tone of retail ERVs – ITZA £ per sq. ft.		10	£125 – £515	£75 – £490	£140 – £350	£140 – £275
Tone of restaurant equivalent yields		10	3.65 – 5.00%	3.50 – 4.25%	3.50 – 3.75%	3.75 – 4.10%
Tone of restaurant ERVs – £ per sq. ft.		10	£105 – £135	£90 – £179	£260 – £400 ITZA	£85 – £124 (£275 ITZA)
Tone of office equivalent yields		10	4.00% – 4.50%	4.00 – 4.25%	4.25 – 4.50%	4.40 – 4.60%
Tone of office ERVs – £ per sq. ft.		10	£58 – £80	£50 – £75	£43 – £53	£50 – £65
Average residential ERVs – £ per sq. ft. per annum		10	£51	£51	£44	£48

PORTFOLIO ANALYSIS CONTINUED

CHARLOTTE STREET	WHOLLY OWNED PORTFOLIO	LONGMARTIN	TOTAL PORTFOLIO
£117.7m	£3,123.6m	£224.4m ¹	£3,348.0m
3%	93%	7%	100%
£3.6m	£101.0m	£8.6m ¹	£109.6m
£4.8m	£128.7m	£10.0m ¹	£138.7m
9	309	21	
14,000	471,000	67,000	
18%	35%	37%	
14%	36%	39%	
5	4	4	
23	275	10	
47,000	590,000	45,000	
58%	35%	16%	
51%	33%	14%	
9	11	13	
10,000	406,000	102,000	
8%	16%	32%	
9%	19%	34%	
4	4	5	
51	559	75	
23,000	332,000	55,000	
16%	14%	15%	
26%	12%	13%	

CHARLOTTE STREET	WHOLLY OWNED PORTFOLIO	LONGMARTIN
2.65%	3.00%	3.26%
2.79%	3.08%	3.38%
3.52%	3.57%	3.79%
3.50 – 4.75%		3.4% – 4.15%
£93 – £215		£78 – £700
3.60 – 4.15%		3.75 – 4.00%
£77.50 – £100		£90 – £137.50
4.50 – 4.75%		4.25% – 4.50%
£45 – £55		£50 – £77.50
£56		£49

NOTES

- The fair values at 30 September 2016 (the "valuation date") shown in respect of the individual villages are, in each case, the aggregate of the fair values of several different property interests located within close proximity which, for the purpose of this analysis, are combined to create each village. The different interests within each village were not valued as a single lot.
- Current income includes total annualised actual and 'estimated income' reserved by leases. No rent is attributed to leases which were subject to rent-free periods at the valuation date. Current income does not reflect any ground rents, head rents nor rent charges and estimated irrecoverable outgoings at the valuation date. 'Estimated income' refers to gross estimated rental values in respect of rent reviews outstanding at the valuation date and, where appropriate, ERV in respect of lease renewals outstanding at the valuation date where the fair value reflects terms for a renewed lease.
- ERV is the respective valuers' opinion of the rental value of the properties, or parts thereof, reflecting the terms of the relevant leases or, if appropriate, reflecting the fact that certain of the properties, or parts thereof, have been valued on the basis of vacant possession and the assumed grant of a new lease. Where appropriate, ERV assumes completion of developments which are reflected in the valuations. ERV does not reflect any ground rents, head rents nor rent charges and estimated irrecoverable outgoings.
- The percentage of current income and the percentage of ERV in each of the use sectors are expressed as a percentage of total income and total ERV for each village.
- Average unexpired lease length has been calculated by weighting the leases in terms of current rent reserved under the relevant leases and, where relevant, by reference to tenants' options to determine leases in advance of expiry through effluxion of time.
- Where mixed uses occur within single leases, for the purpose of this analysis, the majority use by rental value has been adopted.
- The initial yield is the net initial income at the valuation date expressed as a percentage of the gross valuation. Yields reflect net income after deduction of any ground rents, head rents and rent charges and estimated irrecoverable outgoings at the valuation date.
- The initial yield ignoring contractual rent free periods has been calculated as if the contracted rent is payable from the valuation date and as if any future stepped rental uplifts under leases had occurred.
- Equivalent yield is the internal rate of return, being the discount rate which needs to be applied to the expected flow of income so that the total amount of income so discounted at this rate equals the capital outlay at values current at the valuation date. The equivalent yield shown for each village has been calculated by merging together the cash flows and fair values of each of the different interests within each village and represents the average equivalent yield attributable to each village from this approach.
- The tone of rental values and yields is the range of rental values or yields attributed to the majority of the properties.
- All commercial floor areas are net lettable. All residential floor areas are gross internal.
- For presentation purposes some percentages have been rounded to the nearest integer.
- The analysis includes accommodation which is awaiting or undergoing refurbishment or development and is not available for occupation at the date of valuation.

SUMMARY REPORT BY THE VALUERS TO THE DIRECTORS OF SHAFTESBURY PLC

In accordance with your instructions, we have undertaken a valuation of the various commercial and residential freehold and long leasehold property interests as at 30th September 2016 (the "Valuation Date") held by Shaftesbury Carnaby Limited, Shaftesbury Covent Garden Limited, Shaftesbury Chinatown Limited, Shaftesbury Soho Limited, Shaftesbury AV Limited, Shaftesbury CL Limited and Helcon Limited, which are subsidiary companies (collectively referred to as the "Subsidiary Companies") of Shaftesbury PLC (the "Company"), as referred to in our Valuation Reports dated 22 November 2016 ("our Reports"). Our Reports were prepared for accounts purposes.

All properties have been subject to external inspections between February and October 2016 and a number were subject to internal inspections.

We confirm that the valuations have been prepared in accordance with the appropriate sections of the RICS Professional Standards ("PS"), RICS Global Valuation Practice Statements ("VPS"), RICS Global Valuation Practice Guidance – Applications ("VPGAs") and United Kingdom Valuation Standards ("UKVS") contained within the RICS Valuation – Professional Standards 2014, (the "Red Book"). It follows that the valuations are compliant with International Valuation Standards. We confirm that we have sufficient current knowledge of the relevant markets, and the skills and understanding to undertake these valuations competently. We also confirm that, where more than one valuer has contributed to the valuations, the requirements of PS 2.3.7 of the Red Book have been satisfied. Finally, we confirm that we have undertaken the valuations acting as External Valuers, qualified for the purpose of the valuations.

In accordance with PS 2.8 and UKVS 4, we are required to make certain disclosures in connection with this valuation instruction and our relationship with the Company and the Subsidiary Companies. Charles Smith is the signatory of our Reports and has been the signatory of valuation reports addressed to the Company and the Subsidiary Companies since 2013. DTZ Debenham Tie Leung ("DTZ") has been carrying out this valuation instruction for the Company, and now the Subsidiary Companies, for a continuous period since 1996. As well as preparing our Reports, we also undertake valuations of certain of the properties referred to in our Reports for other purposes, such as secured lending and for inclusion in shareholders' circulars.

On 1 September 2015, DTZ and Cushman & Wakefield ("C&W") combined under a common brand. Notwithstanding our new branding, our legal entities have not changed, including their names. Prior to 1 September 2015, there had been no fee-earning instructions between DTZ and the Company or the Subsidiary Companies, other than valuation instructions, for in excess of three years. Prior to 1 September 2015, C&W were appointed as retail agents by Shaftesbury Soho Limited and Shaftesbury Carnaby Limited and these instructions have continued since then.

The DTZ group became a stand-alone, private global property services company on 5 November 2014, following its sale to a consortium of investors led by TPG Capital Management. On 1 September 2015, DTZ acquired Cushman & Wakefield and the combined group now trades under the Cushman & Wakefield brand. Cushman & Wakefield's financial year end is 31 December. The proportion of fees payable by the Company to the Cushman & Wakefield group in the financial year to 31 December 2015 was less than 5%.

In accordance with the provisions of VPGA 8 of the Red Book, in undertaking our valuations, we have lotted together certain individual properties to form a separate property (a "Property" or "Properties") in the manner we consider to be most likely to be adopted in the case of an actual sale. We consider that lotting the properties together on the basis reflected in our valuations would allow a purchaser to capitalise on the estate management advantages and opportunities available from such comprehensive ownership.

A high proportion of the total value of the Subsidiary Companies' properties and Properties is accounted for by properties and Properties situated in adjacent and/or adjoining locations in four specific areas of the West End of London: Carnaby Street and its environs, Chinatown and the adjoining area immediately west of Wardour Street (south of its junction with Shaftesbury Avenue), and the areas around Seven Dials in the western part of Covent Garden and a block of properties to the east of the Central Covent Garden Piazza with its main frontage to Wellington Street. These areas are all dominated by retail and restaurant uses. In our opinion, at the Valuation Date, this particular unusual confluence of ownership and use characteristics may cause some prospective purchasers to regard parts of the portfolio when combined as having a greater value than the aggregate of the individual values of the combined properties and Properties which make up those parts.

As required by the provisions of the Red Book, in undertaking our valuations, we have valued each property or Property separately, rather than valuing the portfolio as a whole or in combinations of parts. The "total" valuation figure below is the aggregated value of the separate properties or Properties within the various categories of tenure referred to below.

All valuations were on the basis of Fair Value. We have assessed Fair Value in accordance with VPS 4.1.5. of the Red Book. Our opinion of the Fair Value of each of the properties or Properties has been primarily derived using comparable recent market transactions on arm's length terms.

We have not made any allowance for vendor's sale costs nor for any tax liabilities which may arise upon the disposal of any of the properties or Properties. We have made deductions to reflect purchasers' normal acquisition costs.

A full explanation of the Assumptions made in our valuations and details of the sources of information are contained within our Reports.

We have measured certain of the properties, or parts of properties, either on site or by scaling from floor plans. The Company, its managing agents or professional advisers have provided us with the floor areas of the remaining properties or parts of properties.

We have read some of the leases and related documents provided to us in respect of the commercial properties. Where we have not read leases, we have relied on tenancy information provided by the Company, its managing agents or professional advisers.

SUMMARY REPORT BY THE VALUERS CONTINUED

Certain properties were subject to works of repair or refurbishment at 30th September 2016, or were subject to outstanding retentions and fees in respect of projects already completed at that date. In these instances, the Company advised us of the amount of the outstanding costs. The costs will be borne by the Company as they are not recoverable from tenants. We have reflected these costs in our valuations. The total amount of such costs is £30,002,100 and details of the individual sums are included in our Reports.

As referred to above, we have lotted together certain individual properties to form a number of separate Properties. In the case of five Properties which comprise a number of individual properties, the majority of such properties are held freehold but certain of them are held on long leases. In order to divide our valuation of these Properties between the categories of freehold and long leasehold, we have undertaken notional apportionments of value between the freehold elements and the long leasehold elements which together comprise the relevant Properties. The amounts arising from these notional apportionments of value have been included in the figures representing the freehold and long leasehold categories below. The amounts arising from the notional apportionments do not themselves represent the Fair Value of the two elements.

The Subsidiary Companies own a number of properties on a freehold basis where they also hold long leasehold interests within the freehold and have not merged the interests. For the purposes of the freehold/long leasehold split below, we have included such properties within the freehold category.

Having regard to the foregoing, we are of the opinion that the aggregates of the Fair Values, as at 30th September 2016, of the freehold and long leasehold property interests owned by the Company and the Subsidiary Companies, subject to the Assumptions and comments in our Reports dated 22 November 2016, were as follows:

Freehold Properties	£2,864,815,000 (Two billion, eight hundred and sixty-four million, eight hundred and fifteen thousand pounds)
Long leasehold Properties	£258,795,000 (Two hundred and fifty-eight million, seven hundred and ninety-five thousand pounds)
Total	£3,123,610,000 (Three billion, one hundred and twenty-three million, six hundred and ten thousand pounds)

A long lease is one with an unexpired term in excess of 50 years.

The contents of our Reports are confidential to Shaftesbury PLC, Shaftesbury Covent Garden Limited, Shaftesbury Carnaby Limited, Shaftesbury Chinatown Limited, Shaftesbury Soho Limited, Shaftesbury AV Limited, Shaftesbury CL Limited and Helcon Limited, for the specific purpose to which they refer and are for their use only. Consequently, and in accordance with current practice, no responsibility is accepted to any other party in respect of the whole or any part of the contents of our Reports or this summary report. Before our Reports or this summary report, or any part thereof, are reproduced or referred to, in any document, circular or statement, and before their contents, or any part thereof, are disclosed orally or otherwise to a third party, the valuer's written approval as to the form and context of such publication or disclosure must first be obtained. For the avoidance of doubt, such approval is required whether or not DTZ Debenham Tie Leung is referred to by name and whether or not the contents of our Reports or this summary report are combined with others.

Charles Smith MRICS
International Partner
RICS Registered Valuer

For and on behalf of
DTZ Debenham Tie Leung Limited
125 Old Broad Street
London EC2N 1AR

As of 1 September 2015, DTZ Debenham Tie Leung and Cushman & Wakefield have combined under a new common brand. Notwithstanding our new branding, our underlying legal entities have not changed, including their names.

SUSTAINABILITY CONTINUED

ENVIRONMENTAL

WE PROMOTE SUSTAINABILITY THROUGH OUR RE-USE AND CAREFUL MANAGEMENT OF EXISTING BUILDING STRUCTURES, FABRIC AND SPACE BY IMPROVING THEIR OPERATIONAL EFFICIENCIES. WE REDUCE RUNNING COSTS TO THE BENEFIT OF BOTH OURSELVES AND OUR TENANTS.

ENERGY PERFORMANCE

Overall, energy consumption decreased by 7% primarily attributed to the refurbishment of Newport Sandringham and other larger buildings, which in previous years, had high energy consumption.

Absolute energy consumption

USAGE (kwh)	COVERAGE OF APPLICABLE PROPERTIES		2014	2015	2016	2015-2016 % CHANGE
	Total	209 out of 209	3,753,344	4,645,047	4,322,090	-7%

A comparison of like-for-like performance between 2015 and 2016 shows a 21% decrease which reflects the rolling programme of small scale refurbishment as well as variations in occupancy levels.

Like-for-like energy consumption

USAGE (kwh)	NUMBER OF PROPERTIES REPORTED ON		2015	2016	DIFFERENCE	2015-2016 % CHANGE
	2015	ON 2016				
Total	180	180	3,524,797	2,788,230	-736,567	-21%

We continue to purchase green tariff 100% renewable electricity for 75% of the portfolio.

ENERGY SAVINGS OPPORTUNITY SCHEME (ESOS)

In compliance with legislation, we undertook an ESOS audit during 2015. We used an external consultant to conduct the audit which was prepared in accordance with Environment Agency requirements. The audit focused on the landlord controlled areas and a small number of buildings where we are responsible for the purchase of electricity and gas for the whole building. The energy savings identified equate to 558,030 kWh and a carbon reduction of 191.1 tCO₂. We have an ongoing programme to identify and implement energy savings improvements, such as progressive replacement of existing lights with LED spotlights. Improvements identified, such as boiler upgrades, will be considered when the buildings are due for refurbishment. The total

budget implementation costs for the recommendations across the portfolio are approximately £129,510 which should provide total estimated annual energy savings of £49,300 with a simple average payback period of 2.6 years.

This section comprises the remainder of the condensed Sustainability Report. The full report is available on our website together with case studies. Three years' data is included in this section. For five years' data, please refer to the Sustainability Data Report 2016 on our website.

SUSTAINABILITY CONTINUED

ENVIRONMENTAL CONTINUED

GREENHOUSE GAS EMISSIONS

We report these numbers in accordance with UK legislation. The figures relate to landlord controlled common parts such as staircases. The numbers are therefore minimal.

For the reporting year we have again followed the UK Government environmental reporting guidance and used the 2016 UK Government's Conversion Factors for Company Reporting. Greenhouse gas emissions are reported using the following parameters to determine what is included within the reporting boundaries in terms of landlord and tenant consumption:

SCOPE 1 – direct emissions includes whole building gas data. Fugitive emissions from air conditioning are included where it is the landlord's responsibility within the common parts. There are no company vehicles to report within Scope 1.

SCOPE 2 – indirect energy emissions includes purchased electricity for the head office and landlord controlled common parts areas and a small number of buildings where the occupied areas and common parts are on the same meter. Electricity used in refurbishment projects has also been recorded.

SCOPE 3 – other indirect emissions, which includes emissions associated with electricity losses and generation. It also includes business air travel and rail, but no other business travel as given the central London location this is considered negligible.

Greenhouse gas emissions for the portfolio, head office and refurbishment sites (tCO₂e) are set out opposite and show a significant year-on-year variation. Overall, energy consumption is, in absolute terms, small, covering mainly landlord – controlled areas. The increase in Scope 1 emissions is attributed to increased reporting of gas consumption in Carnaby and Seven Dials and the decrease in Scope 2 emissions is due to the refurbishment of Newport Sandringham.

Data for 2014-2015 is restated for gas consumed as it had previously been reported using the incorrect units. This equates to an increase of 216 tonnes for 2015.

ABSOLUTE SCOPE 1 AND 2 GHG EMISSIONS

SCOPE 1	2014	2015	2016	2015-2016 CHANGE
Total tCO ₂ e	164	312	376	20.2%

SCOPE 2	2014	2015	2016	2015-2016 CHANGE
Total tCO ₂ e	1,559	1,405	964	-31.4%

LIKE-FOR-LIKE SCOPE 1 GHG EMISSIONS

SCOPE 1	2015	2016	DIFFERENCE	% DIFFERENCE
Total tCO ₂ e	291	185	-106	-36.4%

LIKE-FOR-LIKE SCOPE 2 GHG EMISSIONS

SCOPE 2	2015	2016	DIFFERENCE	% DIFFERENCE
Total tCO ₂ e	1,042	878	-164	-15.7%

ABSOLUTE SCOPE 3 EMISSIONS

SCOPE 3	2014	2015	2016	2015-2016 CHANGE
Total tCO ₂ e	199	176	167	-4.85%

The chosen emissions intensity is common parts floor areas, which has been measured in 59 of the 122 reported properties with common parts only and the emissions intensity figure has been obtained of 37.3 kgCO₂e/m² (0.037 tonnes CO₂e/m²), a decrease over last year's 50 kgCO₂e/m² (0.05 tonnes CO₂e/m²).

GHG INTENSITY BY FLOOR AREA

	NUMBER OF PROPERTIES	COMMON PARTS FLOOR AREA FT²	FLOOR AREA M SQ FT	KWH CONSUMPTION (ELECTRICITY)	INTENSITY	KG CO₂E/M²
Total	59	34,447	3,200	289,569	90.5	37.3

ASSURANCE STATEMENT

Our greenhouse gas emissions data has been subject to an independent assurance process provided by Planet & Prosperity Ltd. A full copy of the verification opinion statement, including the scope and basis of the work, can be found on our website. The final opinion of the assurance provider is summarised below, but readers should be aware of the context within which this statement is made by reading the full statement and opinion.

We have conducted a verification of the greenhouse gas data reported by the above entity in its Annual Report for the period 1 October 2015 to 30 September 2016. On the basis of the verification work undertaken (which is reported in Annex 2 of the full statement and excludes the managing agents' accounting processes) nothing has come to our attention to suggest that these data are not fairly stated with the exception of a small number of non-material issues. We have not checked prior year data that is reported nor the details of the restatement of data for 2012-2015 which resulted from material errors in the primary source data.

SUSTAINABILITY CONTINUED

ENVIRONMENTAL CONTINUED

WASTE

We exceeded our target recycling rate with 51% recycled at Carnaby and Seven Dials and 48% at Longmartin. We encourage composting by our restaurant tenants, and active engagement with tenants has increased the

proportion to over 7%. The remaining waste is diverted from landfill to energy from waste.

Absolute waste within operational control

TONNES OF WASTE	TOTAL RECYCLED			ENERGY FROM WASTE			COMPOSTED		
	2014	2015	2016	2014	2015	2016	2014	2015	2016
Totals	776	1,000	1,407	1,081	1,286	1,353	63	73	223

PERCENTAGE OF WASTE	TOTAL RECYCLED			ENERGY FROM WASTE			COMPOSTED		
	2014	2015	2016	2014	2015	2016	2014	2015	2016
Totals	40.4%	42.4%	47.2%	56.3%	54.5%	45.4%	3.3%	3.1%	7.5%

Our refurbishment projects diverted, on average, over 99% of waste from landfill.

WATER

The extent of water consumption reporting is improving with increased clarity of which properties are within landlord control. Overall consumption across the portfolio has shown a significant decrease primarily attributable to Newport Sandringham undergoing refurbishment. Like-for-like, there has also been a decrease reflecting the reduced occupancy levels in the properties concerned.

In Chinatown, the small volume of water usage for steam cleaning in South Service Yard remained consistent.

Absolute water consumption with operational control

TOTAL USAGE (M³)	2014	2015	2016	2015 - 2016 CHANGE
Totals	43,134	42,993	18,789	-56.3%

Like-for-like water consumption within operational control

	PROPERTIES REPORTED ON 2015	PROPERTIES REPORTED ON 2016	TOTAL USAGE (M³) 2015	TOTAL USAGE (M³) 2016	2015 - 2016 DIFFERENCE	2015 - 2016 DIFFERENCE
Total	9	9	11,700	10,815	-885	-7.6%

SUSTAINABILITY CONTINUED

ENVIRONMENTAL CONTINUED

BUILDING CERTIFICATIONS

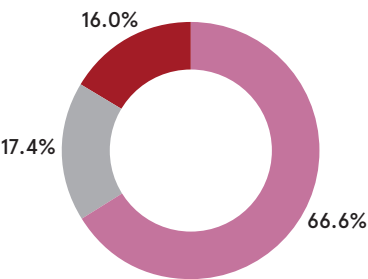
We have had in place for a number of years an objective to achieve BREEAM Very Good for all new commercial developments of which there have been five over the past six years. Progress has been made over the year to extend the coverage to include refurbishment projects, both domestic and non domestic; four are in progress and are on course to achieve a minimum of our target of Very Good:

- 57 Broadwick Street is on track to achieve BREEAM Excellent against BREEAM for Offices 2008 requirements.
- 39 William IV Street has been registered to BREEAM Domestic refurbishment and has achieved Very Good at the design stage. (see case study).
- 65-75 Monmouth Street is also a domestic refurbishment on track to achieve a BREEAM Very Good.
- 9 Kingly Street is at early design stage and is likely to aim for BREEAM Non Domestic Very Good.

The Energy Act 2011 requires that by 2018 properties at the time of letting should be have an Energy Performance Certificate (EPC) of Grade E or above. There are still a proportion of our properties that are under the threshold or have not yet been assessed. The majority of those that have not been assessed are let under long term leases which have not undergone a lease transaction since 2008 and do not therefore require an EPC at the current time.

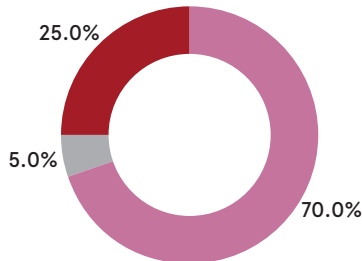
Wholly-owned (Total count of EPC assessments)

A-E	949
F-G	250
Not done	233



Longmartin (Total count of EPC assessments)

A-E	93
F-G	7
Not done	33



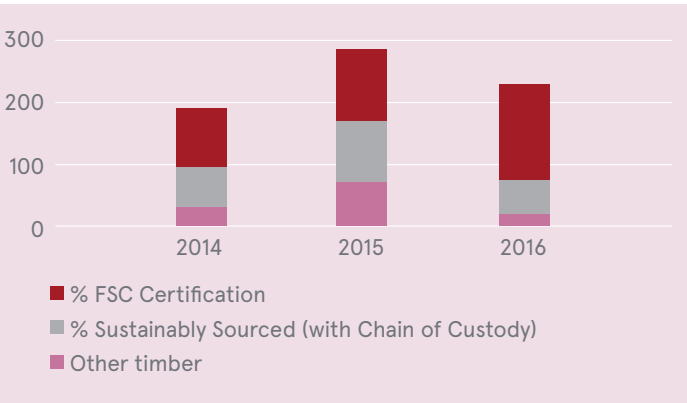
A proportion of the lower grade properties (just over 40%) are listed and we are consequently limited as to what are considered feasible improvements. Of the remaining properties, the rolling programme of refurbishment is proving effective with over 80% achieving a C rating or above.

USE OF MATERIALS

We maximise the re-use of materials on site in all our refurbishment projects above a capital value of £150,000, with a significant proportion of the primary structure and external façade retained. Similarly, our approach is to re-use timber where possible. Timber features such as windows, joists, floorboards, staircases and paneling were retained where possible.

For the small volume of timber purchased, 67% was Forest Stewardship Council (FSC) certified and overall 90% was sustainably sourced with full chain of custody which is an improvement in performance. In addition in Carnaby, the principal contractor that works on minor refurbishment work has achieved full FSC Chain of Custody Certification for the sourcing and use of timber products on all projects.

Volume timber purchased (m³)



SUSTAINABILITY CONTINUED

ENVIRONMENTAL CONTINUED

BIODIVERSITY

We recognise the importance of promoting biodiversity. The West End is an intensively used urban area, which needs thriving and connected green spaces. This is important for both wildlife and health and wellbeing of occupiers and visitors.

We have continued our membership of Wild West End (www.wildwestend.london). The West End's largest property owners are working together to encourage birds, bees and bats back, and create greater connections with nature for residents, visitors and workers to enjoy. This year we have undertaken a baseline ecology survey of the portfolio and defined objectives. We promoted the initiative to the public through the Carnaby Street Eat event, a one day food festival, informing visitors at the food festival of the importance of enhancing habitats for pollinators.

This year we installed six green walls as part of ongoing refurbishment projects. We undertook another project to improve the biodiversity of vacant and inaccessible roof tops, by installing sedum pods and planters in such areas in Carnaby and Seven Dials.

We were shortlisted for the Pollinator Award at the CIRIA sponsored BIG Biodiversity Challenge and were awarded a DEFRA Bees Needs Champions for our work in improving the biodiversity of the West End.

We will continue in the year ahead to select similar roofs throughout the portfolio and install larger areas of sedum pods where space allows.



BIRD BOX	GREEN WALL	GREEN ROOF	SEDUM PODS	HANGING BASKETS	INSECT HOME	PLANTERS	TREES	WINDOW BOXES	BEE HIVES	
21	12	7	27	46	2	125	10	880	3	2016
21	6	7	0	46	2	96	13	823	3	2015
0	6	0	27	0	0	29	-3	57	0	Difference

Three trees were irreparably damaged by a vehicle.

SUSTAINABILITY CONTINUED

PERFORMANCE AGAINST TARGET SUMMARY

WE SET OUT BELOW OUR ACHIEVEMENTS AGAINST THIS YEAR'S TARGETS AND OUR TARGETS FOR THE CURRENT YEAR

OBJECTIVE	ACHIEVED IN 2016	TARGETS FOR 2017
Stakeholders and community		
Maintain membership of various benchmarking indices	Membership of Carbon Disclosure Project and FTSE4Good. Participated in GRESB and achieved a four Green Star rating. EPRA Sustainability reporting Silver award against EPRA reporting requirements Signatory to UNGC	Continue participation in UNGC, GRESB, FTSE4Good, Carbon Disclosure Project and others
Continue to support local community groups and be proactive in identifying and working with charitable and other organisations	Membership of the London Benchmarking Group and use of their methodology for reporting community involvement has continued. Contribution to community and stakeholders (including Section 106 payments) equates to 2.2% of EPRA pre-tax earnings	Continue membership of London Benchmarking and further develop benchmarking measurements for reporting
Continue to maintain regular liaison with tenants	Undertook tenant satisfaction surveys in Seven Dials and Carnaby with a 74% overall satisfaction. Ongoing subsidised offer of membership to the Sustainable Restaurant Association which is included within the Heads of Terms of the leases as a requirement for all new tenants	Repeat tenant satisfaction surveys for Seven Dials and Carnaby and extend to other parts of the portfolio. Promote the 'Close the Door' initiative with retail tenants in the portfolio
Work with other local occupiers, local authorities and the Mayor's office to investigate and promote solutions to reducing air pollution in central London	Associate member of New West End Company lobbying to improve air quality in central London. Commissioned pilot consolidation delivery study for Seven Dials	Review findings of consolidation study and extend to other villages
Principal suppliers to ensure that an appropriate system for remuneration and in compliance with the London living wage is in place within the supply chain	The requirement for the payment of London living wage has been included in new contracts in one village	Increase number of supply chain contracts that include London living wage
Ensure all refurbishment schemes above a specified value are registered with the Considerate Constructors' Scheme and continue to achieve 30 out of 50 (above a 'satisfactory' score)	100% of eligible schemes were registered 87% of schemes achieved the target score on the first visit. The overall average for the sites visited was 33 out of 50	Continue to achieve 30 out of 50 (above a 'satisfactory' score)

SUSTAINABILITY CONTINUED

PERFORMANCE AGAINST TARGET SUMMARY

OBJECTIVE	ACHIEVED IN 2016	TARGETS FOR 2017
Employees		
Ensure there are procedures to minimise risk of reportable health and safety accidents/incidents throughout the portfolio	No reportable health and safety accidents recorded in a refurbishment project Two reportable incidents in the portfolio	Review health and safety policies across the portfolio Aim for no reportable accidents and incidents throughout the Group's activities
Ensure compliance with anti-bribery and corruption policy	Undertook internal training of all staff. No non-compliances or fines	Maintain compliance
Comply in all respects with employment legislation	60% of staff are female of which 50% are in senior positions and 30% of the board are female One person left this year Corporate sponsor of Real Estate Balance in order to promote gender equality in the sector and signatory to the RICS Inclusive Employer Quality Mark	Continue to measure and improve relevant employment metrics and implement an action plan for the RICS Inclusive Employer Quality Mark Continue active involvement with Real Estate Balance including membership of one of task groups
Environment		
Full legal environmental compliance	No breaches of legal requirements have been reported	Full legal compliance
Invest in brownfield sites only	100% regeneration of central London sites	Continue to achieve 100% use of brownfield sites
Operate in an environmentally sustainable manner throughout our activities	Of the EPCs assessed, 80% were a grade C or above post refurbishment Four schemes both commercial and residential on course to achieve a minimum of BREEAM Very Good	Extend the useful life of buildings and improve their sustainability by raising the EPC rating of properties being refurbished according to predetermined targets Aim for BREEAM Very Good for all new commercial developments and larger refurbishment schemes both commercial and domestic
Timber to be sourced where possible from well-managed sources, certified by third party certification schemes	Reuse of timber maximized throughout all schemes. Over 90% of timber has been confirmed as sustainably sourced with full Chain of Custody and 67% using FSC timber	Continue to maximize the proportion of timber that is reused. Source a minimum of 70% of all timber from certified sources and ensure all timber is purchased from legal sources
Monitor and, where possible, reduce energy consumption in common parts. Investigate opportunities for the use of renewable energy	A decrease of 7% principally attributed to the refurbishment of Newport Sandringham. Like-for-like performance has shown a 21% decrease 75% of portfolio sourced 100% renewable energy	Achieve a year on year 3% energy reduction throughout the portfolio Purchase green electricity where costs are within 5% of brown electricity Reduce Greenhouse Gas emissions by a rolling target of 5% from the baseline of 2015 by 2020

SUSTAINABILITY CONTINUED

PERFORMANCE AGAINST TARGET SUMMARY

OBJECTIVE	ACHIEVED IN 2016	TARGETS FOR 2017
Manage construction waste to ensure legal compliance and maximise re-use and recycling of non-hazardous waste	All the schemes that reported, achieved an average of 99% diversion from landfill, by weight of non hazardous demolition and construction waste	Aim to reuse or recycle a minimum of 90% non hazardous demolition and construction waste
Recycle a minimum of 40% of tenants’ waste at Carnaby and Seven Dials and divert 90% from landfill	In Carnaby and Seven Dials, 51% of tenants’ waste was recycled and 5% was sent for composting. The remainder was diverted from landfill to energy from waste	Recycle and compost a minimum of 50% of tenants’ waste and divert a minimum of 90% of waste from landfill
Improve biodiversity appropriate to the Group’s urban location	Continued membership of Wild West End. Baseline study of biodiversity initiatives. Continuing to maximise the benefits of using planters, sedum pods and window boxes and other features through appropriate species selection	Continue membership of Wild West End and increase number of biodiversity features throughout the portfolio in particular on service roofs

GLOSSARY OF TERMS

Capital value return

The valuation movement and realised surpluses or deficits arising from the Group's investment portfolio expressed as a percentage return on the valuation at the beginning of the period adjusted for acquisitions and capital expenditure.

Compound Annual Growth Rate (CAGR)

The year-on-year growth rate of an investment over a specified period of time.

Conservation area

A conservation area is an area of special architectural interest, the character or appearance of which it is desirable to preserve or enhance. In dealing with development in conservation areas, the general aim of authorities is to ensure that the quality of townscape is preserved or enhanced, though legislation gives protection to individual buildings considered to be of particular heritage, significance and value to an area.

EPRA adjustments

Standard adjustments to calculate EPS and NAV as set out by EPRA in its Best Practice and Policy Recommendations.

EPRA EPS

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

EPRA NAV

EPRA NAV aims to provide a consistent long-term performance measure, by adjusting reported net assets for items that are not expected to crystallise in normal circumstances, such as the fair value of derivative financial instruments and deferred tax on property valuation surpluses. EPRA NAV includes the potentially dilutive effect of outstanding options granted over ordinary shares.

EPRA net assets

Net assets used in the EPRA NAV calculation, including additional equity if all vested share options were exercised.

EPRA NNNAV

EPRA NAV incorporating the fair value of debt which is not included in the reported net assets.

EPRA vacancy

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

Equivalent yield

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

European Public Real Estate Association (EPRA)

EPRA develops policies for standards of reporting disclosure, ethics and industry practices.

Estimated rental value (ERV)

ERV is the market rental value of properties owned by the Group, estimated by the Group's valuers.

Fair value

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

Gearing

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

Initial yield

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

Interest cover

The interest cover is a measure of the number of times the Group can make interest payments with its operating profit before investment property disposals and valuation movements.

Like-for-like portfolio

The like-for-like portfolio includes all properties that have been held throughout the accounting period.

Loan-to-value

Nominal value of borrowings expressed as a percentage of the fair value of property assets.

Long Term Incentive Plan (LTIP)

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

Net asset value (NAV)

Equity shareholders' funds divided by the number of ordinary shares at the balance sheet date.

Net asset value return

The change in EPRA NAV per ordinary share plus dividends paid per ordinary share expressed as a percentage of the EPRA NAV per share at the beginning of the period.

Property Income Distribution (PID)

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

Real Estate Investment Trust (REIT)

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

The Office of National Statistics (ONS)

The ONS is the executive office of the UK Statistics Authority, a non-ministerial department which reports directly to the UK Parliament. It is charged with the collection and publication of statistics related to the economy, population and society of the UK.

Topped up initial yield

An adjusted initial yield which assumes rent free periods or other unexpired lease incentives, such as discounted rent periods and step ups, have expired.

Total property return

Net property income and the valuation movement and realised surpluses or deficits arising from the portfolio for the year expressed as percentage return on the valuation at the beginning of the period adjusted for acquisitions and capital expenditure.

Total Shareholder Return (TSR)

The change in the market price of an ordinary share plus dividends reinvested expressed as a percentage of the share price at the beginning of the period.



SEVEN DIALS



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