

Shaftesbury

annual report

2018

Strategic report Overview

Shaftesbury is a real estate investment trust which invests exclusively in the liveliest parts of London's West End. Our objective is to deliver long-term growth in rental income, capital values and shareholder returns.

Focused on restaurants, leisure and retail, our 15-acre portfolio is clustered mainly in Carnaby, Seven Dials and Chinatown, but also includes substantial ownerships in east and west Covent Garden, Soho and Fitzrovia.

1

Strategic report Overview

- 1 Shaftesbury in numbers
- 2 Chairman's statement
- 3 Q&A with the Chief Executive
- 10 Business model and strategy at a glance
- 12 Exceptional portfolio in the heart of London's West End
- 17 Focus on restaurants, leisure and retail
- 20 Curating distinctive and lively destinations
- 21 Promoting our destinations
- 22 Restaurants, cafés and leisure
- 24 Retail
- 26 Offices
- 28 Residential
- 32 Measuring success
- 34 Sustainability and stakeholders

2

Strategic report Annual review

- 42 Portfolio report
- 50 Acquisitions
- 51 Financial results
- 55 Financial management
- 57 Risk management
- 61 Viability statement

3

Governance

- 64 Our people
- 70 Governance at a glance
- 74 Corporate governance
- 80 Nomination committee report
- 82 Audit committee report
- 86 Directors' remuneration report
- 89 Remuneration at a glance
- 90 Remuneration policy
- 97 Annual remuneration report
- 108 Directors' report
- 110 Directors' responsibilities
- 111 Independent auditor's report

4

Financial statements

- 118 Group statement of comprehensive income
- 119 Balance sheets
- 120 Cash flow statements
- 121 Statements of changes in equity
- 122 Notes to the financial statements

5

Other information

- 140 Alternative Performance Measures (APMs)
- 142 Portfolio analysis
- 142 Basis of valuation
- 144 Summary report by the valuers
- 146 Non-financial information statement
- 147 Shareholder information
- 148 Glossary of terms

Shaftesbury in numbers

Our portfolio in the heart of the West End

15 acres

and 1.9 acres owned in joint venture

1.9m sq.ft.

commercial and residential space⁴ and 0.3m sq.ft. in joint venture

595

restaurants, cafés, pubs and shops⁴

>200m

annual visits to the West End

c.700,000

City of Westminster's working population

100%

of portfolio within short walk of an Underground station

£3.95bn

portfolio valuation^{1,3}

£154.0m

estimated rental value^{2,3}

£32.5m

reversionary potential^{2,3}

£31.4m

lettings, renewals and rent reviews⁴

4.6%

EPRA vacancy^{2,4,5}

7.6%

scheme vacancy^{4,5}

Financials

£175.5m

profit after tax

58.1p

earnings per share

16.8p

dividends per share

£51.7m

EPRA earnings^{1,2}

17.1p

EPRA earnings per share^{1,2}

5.8%

net asset value return^{1,2}

£9.91

EPRA NAV^{1,2}

22.8%

loan to value^{1,2,3,6}

2.6x

interest cover^{1,2,3}

People

30

employees

60%

Gender balance
(% female employees)

11 years

average length of service

1 An alternative performance measure. See page 140

2 See Glossary on page 148 for definition

3 Including our 50% share of the Longmartin joint venture

4 Wholly-owned portfolio

5 % of total ERV

6 Based on net debt

Chairman's statement

Our results this year once again demonstrate the resilient qualities of our portfolio, our strategy and our experienced management.



Over 32 years, we have assembled an impossible-to-replicate portfolio in the heart of London's West End. Our focus on delivering long-term growth in rental income, achieved with modest capital expenditure, underpins our record of sustained, sector-leading returns to investors. Our approach was honed in the severe property-sector recession of the early 1990s, and the resilience it brings to our business was tested and proven in the global financial downturn of 2007 to 2010.

Reflecting the growth in our EPRA earnings¹ this year, the Board is pleased to recommend a final dividend of 8.5p, bringing the total dividends for the year to 16.8p, an increase in rate per share of 5.0%. The total distribution for the year will be £51.6 million. Over the past ten years the compound annual growth rate in EPRA earnings¹ and dividends per share has been 7.2% and 7.0% respectively.

A long-term investment strategy, such as ours, needs to be supported by stable, long-term finances. In December 2017 we raised £260.4 million, net of expenses, through a placing of new equity. This well-supported share issue has ensured we have committed resources to continue to invest in, and take advantage of, opportunities to grow the business, whilst avoiding the risks inherent in excessive debt leverage. The proceeds are now fully deployed or earmarked for investment.

A key ingredient of our success is our transparent and socially-responsible culture, which pervades every aspect of our governance arrangements and how we behave. Reflecting our long investment horizon, decisions are made based on long-term benefits and rewards, rather than being focused on short-term gains. We take a holistic approach both to our business and the areas in which we choose to invest, which benefits all who visit the West End as well as the important local community. We are committed to sustainability in the management of our portfolio of mainly older buildings, extending their economic useful lives through use change and sympathetic refurbishment, as well as minimising the environmental impact of both our activities and those of our occupiers.

Our team's experience and forensic knowledge of our West End locations, and the local investment and occupier market, are invaluable to both the delivery of our strategy and its evolution. Our staff development and succession plans are ensuring we maintain a broad and growing range of skills to address the future needs of the business. On behalf of the Board, I would like to thank the team for their outstanding commitment and contribution to our progress this year.

After serving nearly nine years as a non-executive director, Hilary Riva will retire from the Board at the AGM in February 2019. We all thank Hilary for her excellent contribution, counsel and guidance over the past nine years. We expect to appoint a new non-executive director shortly.

With the exceptional qualities of our portfolio, the expertise of our team and a strong balance sheet, I am confident we are well placed to navigate the challenges which may lie ahead and take advantage of the opportunities which inevitably will arise.

Jonathan Nicholls
Chairman

26 November 2018

Q&A with the Chief Executive

Brian Bickell answers questions on our performance and activities during the year, the evolution of our business and longer-term challenges and priorities.



+5.6%
EPRA EPS¹

£3.95bn
Portfolio valuation¹

How has Shaftesbury performed this year?

It has been another year of good progress with growth in income, earnings and the value of our portfolio. Our results continue to demonstrate the appeal and qualities of our carefully-curated and iconic destinations, underwritten by the global attraction and exceptional features of London and the West End. Footfall, spending and the demand for space in our locations continues to be largely unaffected by the widely-reported headwinds affecting the national economy and consumer confidence.

Profit after tax for the year was £175.5 million. EPRA earnings¹ this year have risen by £6.5 million to £51.7 million, which equates to an increase in EPRA earnings per share¹ of 5.6% to 17.1 pence.

Net property income increased by 6.2% to £93.8 million (2017: £88.3 million) as a result of an increase in rents receivable, reflecting income from acquisitions and like-for-like growth of 6.4%, partly offset by an increase in property costs. We have benefited from the first full year of interest savings following debt restructuring in 2016 and 2017, which significantly reduced our blended finance cost.

The valuation of our portfolio^{1,2} now stands at £3.95 billion, reflecting a like-for-like increase of 3.8%, of which 3.0% arose in the first half of the year. In assessing our portfolio, the valuers take into account growing contracted income, prospects for long-term growth in rental values and continuing high levels of occupancy.

The portfolio revaluation surplus, together with disposal profits, have added 39 pence to EPRA net asset value per share¹, which now stands at £9.91, an increase of 4.1%. Net asset value return¹ for the year was 5.8%.

What underpins London's economic resilience and prospects?

London is one of the leading global cities. It has the largest economy of any Western European city and contributes almost one quarter of UK GDP. The breadth of its economy encompasses:

- a world-leading financial and commercial centre;
- a major hub for creative industries, from technology to media;
- a globally-recognised location for education and research;
- home to world-class visual and performing arts facilities; and
- a valuable visitor economy, attracting more international tourists than any city in the western hemisphere as well as huge numbers of local and domestic visitors.

¹ An alternative performance measure. See page 140

² Including our 50% share of the Longmartin joint venture

This unique combination of features means London is not solely reliant on the fortunes of the wider UK economy. Although the uncertainty surrounding the implications of Brexit for the UK economy are having an adverse impact on business and consumer confidence, London is much less affected. It continues to attract domestic and international businesses and investment, with medium-term growth projections for London out-performing national forecasts.

Why do you focus on the West End?

At the heart of the city, the West End draws over 200 million visits annually. Its huge working population provides a regular, daily customer base for its retail, restaurant and leisure businesses. Importantly, throughout the week and particularly around weekends, local, domestic and international visitors arrive in their millions to enjoy its tourist and cultural attractions as well as unrivalled shopping, dining and leisure choices. Together with its residential population, the West End offers a busy, seven-days-a-week trading environment, and a more-affluent customer base, which underpins its prosperity and appeal to businesses.

London's extensive transport infrastructure makes the West End accessible not only to Londoners, but also to the large population in the south east who commute or visit for a day out. The five main Underground stations in the West End currently handle some 225 million passengers annually. The opening of the Elizabeth Line, now expected late next year, will add 10% to London's transport capacity and will improve the West End's transport connectivity materially. All our ownerships are within a short walk of the new Tottenham Court Road and Bond Street interchanges, which are forecast to be handling 200 million passengers annually by the mid-2020s.

Has leasing activity across the portfolio been affected by UK-wide economic uncertainties?

With robust footfall and trading in our locations, occupier demand has been stable throughout the year. We completed leasing transactions with a rental value of £31.4 million and, excluding our larger schemes, EPRA vacancy^{1,2} over the year has remained in line with our ten-year average.



The average period taken to let space, measured from the date it becomes available to the completion of a contractual commitment, has increased over the year by 4 weeks to around 2½ months. Potential occupiers have become more cautious, especially where they are contemplating substantial fit-out and rental commitments. This is particularly so where they are exposed to UK-wide consumer spending trends.

At our three completed larger schemes, 84.4% of the income is now contracted or under offer. Our mixed use scheme at 57 Broadwick Street, Carnaby, was fully let during the year and we completed the letting of Thomas Neal's Warehouse, in Seven Dials, in November 2018. At our retail and restaurant scheme at Central Cross, Chinatown, 47% of the income is now contracted and a further 23% is under offer. The ERV of space available or under offer is £1.9 million, representing just 1.3% of total portfolio ERV. Whilst the pace of these lettings has impacted on revenue growth in the year ended 30 September 2018, they will now be making a useful contribution to earnings in the current financial year.



Are you continuing to invest in improving the portfolio?

During the year, schemes to improve our buildings extended to 177,200 sq. ft. Capital expenditure totalled £25.3 million. Having completed the development of the three larger schemes we commenced in 2015, and in response to sustained demand for the space we typically have to offer, over recent months we have taken opportunities to accelerate a number of schemes. Whilst these will temper revenue growth until they become income-producing, they will bring long-term benefits to our portfolio.

At year end, the ERV of space held for, or under refurbishment totalled £10.9 million (7.6% of ERV²) and extended to 174,700 sq. ft.

In September 2018, we secured vacant possession of 65,300 sq. ft. of space at 72 Broadwick Street, Carnaby. Shortly we will submit a planning application to introduce new uses and reconfigure the building, and currently expect to start our works in summer 2019.

How do you ensure the appeal of your iconic West End locations evolves?

Creating prosperous environments for our tenants is fundamental to sustained growth in rental income and, in turn, the value of our portfolio. Our long-term strategy focuses on curating distinctive, lively destinations in the West End, attracting footfall and spending to support our retail, restaurant and leisure occupiers. We deliberately focus on an innovative mid-market offer, to appeal to the broadest customer base. Promoting our areas to the widest audience of potential visitors and customers is an essential aspect of our strategy. The environments we create are also important in attracting office occupiers and residents for our apartments.

In recent years, we have seen considerable growth in interest and spending on innovative, casual dining and leisure concepts. It is now widely-acknowledged that a varied and interesting food and beverage offer, particularly where there is very high visitor footfall, is a significant attraction in its own right and draws potential customers for retailers. We are the largest single owner of restaurants, cafés and licensed premises in the West End, and their importance as a source of rental income has grown from 28% to 35% of ERV² over the last 10 years.

Our largest cluster of restaurants is in Chinatown, where we have a rolling programme to introduce new food concepts from mainland China and across the Far East. Carnaby's casual dining and leisure offer, which now accounts for 21% of its income, continues to draw increasing footfall from lunchtime to late evening, throughout the week.

How are you adapting to the changing retail environment?

With consumer spending patterns, tastes and expectations changing at an ever-faster rate, often heavily influenced by social media, we recognise the importance of ensuring our locations respond to these trends through our choice of occupiers and, where appropriate, changing uses. We seek out, trial and support new concepts, both domestic and international, and have always adopted a leasing strategy which provides flexibility for tenants as well as ourselves. Importantly, rental levels in our busy locations are very competitive compared with nearby streets.

Whilst our shops usually have an online presence, we are starting to see internet-based retailers taking physical space in our locations to promote their brand identities.

Have you been able to add to the portfolio this year?

We seek to buy buildings which have a predominance of valuable restaurant or retail uses on lower floors already, or where we see potential to achieve this. We focus on high-footfall West End locations, close to our existing holdings, where we can see prospects for long-term rental growth. Our asset management strategy often brings compound benefits to our existing holdings. Ownerships in our locations are fragmented and buildings we seek are likely to be privately, rather than institutionally, owned.

Growing macroeconomic uncertainties have not had any discernible impact on the West End investment market during the year or on the availability of assets to buy. Existing owners tend to have a long-term outlook, valuing the security these investments provide, and, in the absence of financial or personal pressures, they remain reluctant to sell. For the same reasons, other investors – domestic and international – are keen and competitive buyers of the limited number of buildings which come to the market.

Despite this supply/demand imbalance, we have secured additions to the portfolio totalling £167.8 million. Our largest acquisition was 72 Broadwick Street, in December 2017, for £92.1 million, which has given us control of a 0.5-acre site in the centre of Carnaby.



The forward-purchase of a long-leasehold interest in 90-104 Berwick Street, Soho, which we contracted in August 2017 for £41 million, including costs, has been delayed. The vendor has advised that their redevelopment scheme, which we will acquire once complete, is behind schedule and will not be handed over to us until mid-2019. This strategic acquisition will increase our ownership to around 50% of Berwick Street's frontages.

1 Wholly-owned portfolio
2 % of total ERV

How do you see the investment market and potential for acquisitions changing in the medium term?

We do not expect to see an increase in the availability of properties to acquire in the foreseeable future. However, we have a forensic knowledge of the local market and a focus on purchases which meet our strict criteria, based on their potential and benefits they may bring to our extensive holdings over the long term. Together with readily-available finance, this gives us an advantage in a highly-competitive environment.

We are always keen to add to our ownerships. However, our main focus is to crystallise the income potential of the buildings we already own, whilst creating opportunities to grow their income-generating potential further.

Following last year's equity placing, how are the Group's finances positioned?

Our financing strategy has always been based on maintaining a mix of equity and external finance, with debt arrangements which we believe are prudent and support our long-term investment and asset management horizons.

We monitor gearing levels, taking into account current financial commitments, as well as the need for funding to grow and invest in our portfolio, which often requires us to act quickly when opportunities arise. In light of recent and prospective investment commitments, in December 2017, the Board resolved that it was the appropriate time to raise additional equity to ensure gearing did not increase to a level which would constrain future portfolio activity or increase financing risk. A well-supported equity placing was carried out, issuing new shares on a non pre-emptive basis equivalent to 9.98% of share capital at £9.52, raising £260.4 million, net of expenses.

In 2016 and 2017, we took important steps to restructure our debt finance, taking advantage of low long-term interest rates to retire expensive legacy finance and hedging. This initiative was completed in early 2018 with the restructure and extension of our two remaining revolving bank facilities. Our earliest debt maturities are now in 2022 and 2023, with a spread of expiries out to 2035.

We are now very well placed to continue our long-term investment strategy, with the capacity to raise additional long-term debt finance when appropriate, without the risk of being hampered by adverse equity market conditions. At the year end, gearing^{2,3,4} stood at 29.5% and our loan-to-value ratio^{1,2,3} was 22.8%. Cash and available debt resources stood at £343.5 million, of which £92.7 million is already earmarked for investment.

As a result of voting at the 2018 AGM, we currently do not have authority from shareholders to carry out non pre-emptive share issues. Should the need arise, this does not preclude issuing equity on a pre-emptive basis through, for example, a rights issue or open offer.

How do you engage with your community?

We operate in the heart of the West End. By value, some 84% of our portfolio falls within the jurisdiction of the City of Westminster, with the remainder in the London Borough of Camden. We work with both local authorities across a range of activities. Day-to-day, we augment their management services such as street cleaning and security. Also, we work with neighbouring long-term owners and Business Improvement Districts to help address wider West End issues such as air quality, biodiversity and freight and waste consolidation.

We identify and collaborate with the local authorities on projects to improve the public realm around our areas. Schemes this year included a major new public square at Newport Place, Chinatown and the repaving of Earlham Street West in Seven Dials, both of which have improved the streetscapes materially and are already bringing increasing footfall.



1 An alternative performance measure. See page 140
2 Including our 50% share of the Longmartin joint venture
3 Based on net debt
4 Based on EPRA net assets

We are based in the community in which we operate and strive to be a responsible, accessible corporate citizen. Our extensive engagement with the local community provides financial support and advice for a wide range of local community groups and charities as well as arts organisations. We hosted 30 organisations at our community partner's networking breakfast this year, which was addressed by the Leader of Westminster City Council.

We have evaluated our community investment, comprising the value of time we devote to community activities and contributions, both in kind and in cash, at £0.9 million this year.

Who are the people who work for Shaftesbury?

The successful delivery of our strategy is supported by an experienced team, who are committed to ensuring its implementation continues to evolve to meet the challenges and opportunities of change across not only our business, but the local and wider environment in which we operate.

We operate our business with a staff of just 30 employees but we are supported by over 200 out-sourced advisors across a wide-range of professional disciplines, as well as contractors and on-site personnel. We have a comprehensive code of standards to which these organisations are required to adhere to, including matters such as sustainability and sourcing of materials, health and safety, London Living Wage commitments, Modern Slavery Act obligations and diversity. Importantly, we benefit not only from the knowledge and experience our external advisors bring, but also their enthusiasm and support for our business and values.

What is your outlook for the year ahead and longer term?

Uncertainty surrounding our departure from the EU and future trading and other arrangements with the EU27, together with structural changes in traditional national retailing patterns, continue to affect nationwide business confidence and investment, economic growth and consumer spending. However, the global attractions of London and the West End to businesses and huge numbers of local, domestic and international visitors, together with their broad-based economies, create an operating environment which is insulated from the impact of national headwinds and has good long-term growth prospects.

Although we are seeing longer letting periods for the largest space we have to offer, general demand continues to be firm, buoyed by the trading conditions our tenants are reporting. Importantly, our ownership clusters enable us to curate distinctive locations and we continue to focus on growing their appeal by offering an ever-evolving experience with a variety of affordable, contemporary retail, restaurant and leisure choices. This approach supports the prosperity of our tenants and sustains demand for the competitively-priced commercial and residential accommodation we offer.

Our experienced, enthusiastic team, which brings flair and innovation to the management of our portfolio, coupled with secure finances and underpinned by the dynamism of, and prospects for, London and the West End, have always been, and will continue to be, the foundations of the long-term success of this exceptional business.

Brian Bickell

Chief Executive

26 November 2018



Gareth Field

Passed away June 2018

Aged 54

Our dear colleague Gareth died suddenly on 20 June 2018. Our Financial Controller and IT manager, he joined the Group in October 1987, and was close to completing 31 years' service.

He is greatly missed by all his Shaftesbury colleagues as well as all those who were fortunate to meet him. He will be fondly remembered by all for his love of life, personality, warmth and humour, gregarious nature, loyalty and support, openness and his commitment to Shaftesbury. Gareth was the cornerstone of the Shaftesbury team and a great ambassador for the business and our culture: he embodied the best of us.

His love of sport and Wales was second only to that of his family; our thoughts are with his wife Nicki, his children Chris and Annabel, and his mother Carole. We share the pain of their loss.



We are committed to supporting our diversity agenda

At Shaftesbury, we appreciate the importance of diversity in terms of new ideas, fresh perspectives and a variety of skills it brings to our business. It enhances our reputation as an employer and motivates both staff and the people with whom we work.

Diversity is not limited to gender but includes a wide spectrum of attributes and backgrounds.

Outside of our workplace, we promote the diversity agenda in a variety of ways.

Right: We are sponsors of Pride in London. Across Soho, Carnaby and Seven Dials, many of our occupiers actively supported the festival with one-off events and a range of special deals and products.

With this year's #PrideMatters campaign focused on what Pride means to the community, from celebration to diversity and beyond, we were pleased to welcome back the Pride in London pop-up shop to the heart of Soho, which raised £63,000 for the organisation.

Shaftesbury and diversity

Freehold

A networking group for real estate professionals who identify as LGBT. Founded in 2011, it now has over 1,000 members. Brian Bickell has been a member of its board since 2011.

Real Estate Balance

We are members of Real Estate Balance, whose mission is to improve gender diversity across the industry, particularly at senior levels.

30% Club

We have signed up to this global initiative to encourage improved gender balance on boards to not only encourage better leadership and governance, but also contribute to better all-round performance.

International Women's Day

Seven Dials celebrated International Women's Day in March with a host of activities and special events, including a free live panel discussion.

Pathways to Property

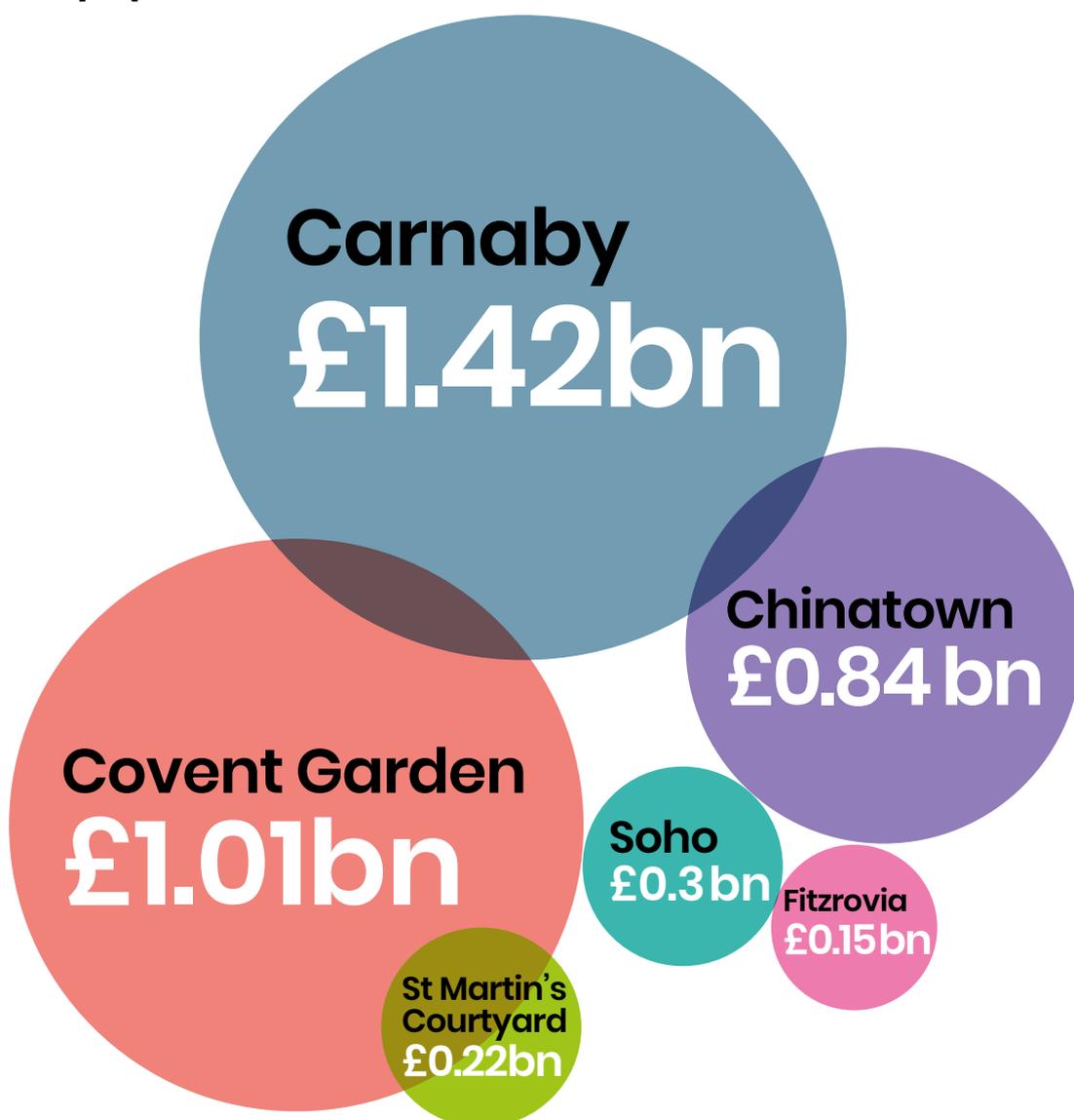
We support this programme to introduce young people from varying social backgrounds to the real estate sector and its career opportunities.



Business model and strategy

At a glance

We own an exceptional portfolio in the heart of London's West End clustered in popular destinations



Portfolio valuation including our 50% share of the Longmartin joint venture

See page 14

with a focus on restaurants, leisure and shops



% of wholly-owned portfolio ERV

See page 17

Curating distinctive and lively destinations



See page 20

Attracting occupiers



Delivering long-term returns



See pages 32 and 33

Supported by

Experienced management team

See pages 39 and 64 to 67

Prudent financial management

See page 55

Effective governance

See page 70

Exceptional portfolio in the heart of London's West End

Since the early 1990s, we have invested exclusively in the heart of London's West End, concentrating on iconic, high-footfall locations.

This investment strategy was born out of our experience in the property recession of 1990 – 1993, when our then modest holdings in Chinatown saw sustained tenant demand, rental growth and rising cash flow. Capital values declined much less, and recovered more quickly, than the wider London or UK market in that challenging period. We saw similar economic performance in the global financial crisis of 2007 – 2010.

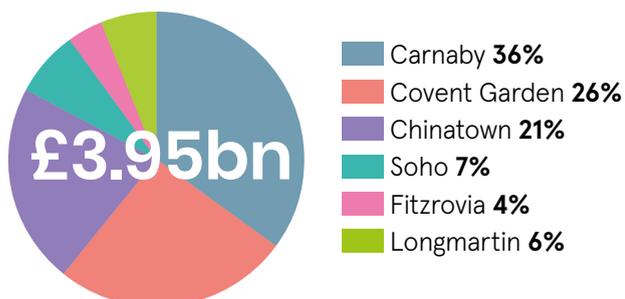
Since we adopted this strategy, our portfolio, which now comprises nearly 600 buildings, mostly of domestic size, close to the West End's world-class visitor attractions, has delivered sustained rental growth and long-term out-performance in capital values and total shareholder returns.

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.

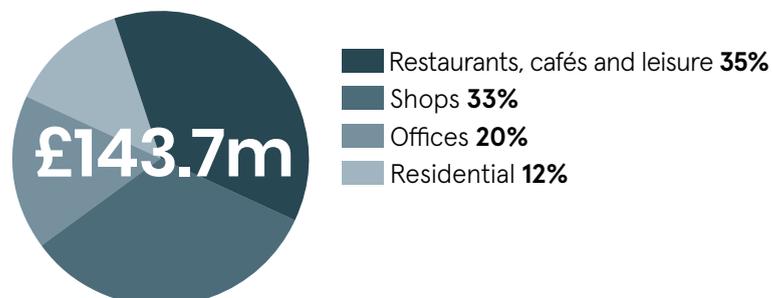
Over the years we have identified well-located areas where footfall potential is good but rents are initially low, often because they have suffered from fragmented ownership, lack of investment and the absence of a coherent strategy for uses and tenant mix.

We take a long-term view in our investment and management strategies. Establishing ownership clusters enables 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.

Portfolio valuation¹



ERV²



¹ Including our 50% share of the Longmartin joint venture
² Wholly-owned portfolio

Over 32 years
 to accumulate and virtually impossible to replicate

15 acres
 and 1.9 acres owned in joint venture

Fitzrovia
0.8 acres

Seven Dials
3.2 acres

Carnaby
4.7 acres

Soho
1.5 acres

**St Martin's
Courtyard**
1.9 acres

**Opera
Quarter**
0.6 acres

Chinatown
3.2 acres

Coliseum
1.0 acre

**c. 600
buildings**

clustered in iconic,
high footfall
locations

**1.9 million
sq. ft.**

of commercial and
residential space
and 0.3 m sq. ft. held
in joint venture

100%
of our portfolio is
close to an
Underground/
Elizabeth Line station

Exceptional portfolio in the heart of London's West End

Our destinations

Carnaby

Carnaby is a unique, iconic shopping and dining destination, a few minutes away from both Oxford Circus and Piccadilly Circus.

Attracting an estimated 40 million people each year, it is a popular and internationally-renowned destination for fashion retail, focused on flagship stores, new concepts and independent brands. It now has a growing reputation for lively, casual dining, cafés, pubs, bars and clubs, centred on Kingly Court and Kingly Street. Our ownership, across 14 streets, covers 4.7 acres.

65% of the Group's office space is in Carnaby. It includes our largest floor plates and more modern office buildings.

carnaby.co.uk

Covent Garden

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 flourishing residential community.

Our wholly-owned holdings, extending to 4.8 acres, are principally centred on Seven Dials in north Covent Garden, close to Leicester Square and the Tottenham Court Road transport hub. They also include the Coliseum and Opera Quarter restaurant districts, in east and west Covent Garden. Annual footfall in Seven Dials alone is estimated at over 30 million people. This location also includes 1.9 acres, close to Leicester Square, held by the Longmartin joint venture, in which we own 50%.

sevendials.co.uk

stmartinscourtyard.co.uk

Carnaby

36%
of our portfolio¹

£44.8m
current income²

£57.2m
ERV

Covent Garden

26%
of our portfolio¹

£30.2m
current income²

£37.6m
ERV

Longmartin

6%
of our portfolio³

£8.1m
current income³

£10.3m
ERV³

Exceptional portfolio in the heart of London's West End
Our destinations continued

% of village annualised current income

	Carnaby	Covent Garden	Chinatown	Soho	Fitzrovia	Longmartin
Restaurants, cafés and leisure	21%	39%	62%	42%	51%	14%
Retail	46%	28%	20%	22%	16%	34%
Offices	27%	12%	4%	17%	7%	36%
Residential	6%	21%	14%	19%	26%	16%

Chinatown

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 a wide range of Chinese and East Asian 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.

chinatown.co.uk

Soho

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 sectors. 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 the West End's large working population. It has a large residential community.

thisissoho.co.uk

Fitzrovia

Fitzrovia is a bustling neighbourhood and renowned dining district, just north of Oxford Street and close to Tottenham Court Road.

Our ownerships extend to 0.8 acres on, or close to, Charlotte Street and Goodge Street.

Fitzrovia's 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.

Chinatown

21%
of our portfolio¹

£24.1m
current income²

£31.6m
ERV

Soho
7%
of our portfolio¹

£9.4m
current income²

£11.6m
ERV

Fitzrovia
4%
of our portfolio¹

£4.9m
current income²

£5.7m
ERV

¹ By value
² Annualised, as at 30 September 2018
³ Our 50% share of the Longmartin joint venture

Exceptional portfolio in the heart of London's West End

Why London's West End?

London

London is one of the world's principal global cities. It is the largest city in Western Europe and is a world-leading financial and commercial centre. Its unrivalled variety of heritage and cultural attractions draw huge numbers of domestic and international visitors. 2017 saw an increase in international visitors for the eighth consecutive year, rising to a record 19.8 million visits with an estimated spend of £13.5 billion. Forecasts point to growth in overseas and domestic overnight visits of around 25% by 2025.

The city's population is currently around 8.9 million and is expected to grow to 10 million by 2030. Additionally, there is a similar population in southern England, within easy commuting or visiting distance.

Its global appeal brings prosperity to the city, giving it a broad and resilient economic base, which is not reliant solely on the fortunes of the wider UK economy.

8.9 million
London's
population

19.8 million
overseas visits to
London in 2017

The West End

The West End is a popular destination with estimated visits in excess of 200 million annually. Visitors are attracted by its variety of shops, wide choice of innovative and accessible dining and leisure concepts, together with its unrivalled concentration of entertainment and cultural attractions, historic buildings and public spaces.

Generating over 3% of the UK's economic output, the City of Westminster is an economic powerhouse. With an estimated 700,000 jobs across the borough, it is the largest employment centre in the UK. Together with its visitor base and important residential community, this brings seven-days-a-week footfall and spending.

The West End is at the heart of the capital's transport network. The six underground stations closest to our villages handle over 225 million passengers annually. This network is critical to the success of the West End and infrastructure investment continues to improve capacity and reliability.

Our portfolio is uniquely well-placed to benefit from the Elizabeth Line, currently expected to open late next year. 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-2020s, materially changing footfall patterns in the West End.

>200 million
annual visits to
the West End

c.700,000
working
population in
the City of
Westminster

>3%
of UK GVA
produced within
the City of
Westminster

>225 million
passengers use the six
Underground stations
closest to our villages

Focus on restaurants, leisure and retail

Diversified mix of income streams, focused on restaurants, leisure and retail over lower floors with offices and residential on upper floors.

68%
of ERV¹

Restaurants, leisure and retail

Our 1.1 million sq. ft. of restaurant, leisure and retail space provides 69% of our annualised current income¹ and 68% of ERV¹. It comprises 297 restaurants, cafés and pubs and 298 shops, mainly of medium or small size.

Tenant selection

Careful tenant selection is critical to ensure our areas remain popular and attract growing footfall. We favour new concepts, independent operators and international retailers making their UK debut and prefer mid-market, innovative formats, rather than predictable chains.

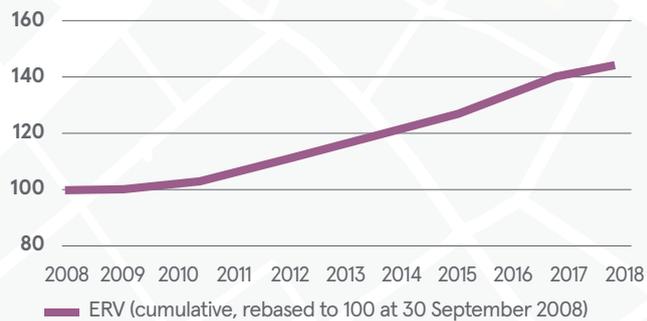
Long history of demand exceeding availability

In our areas, listed building and conservation legislation largely restricts wholesale development. Also, local planning and licensing policies for restaurants and leisure constrain the availability of space.

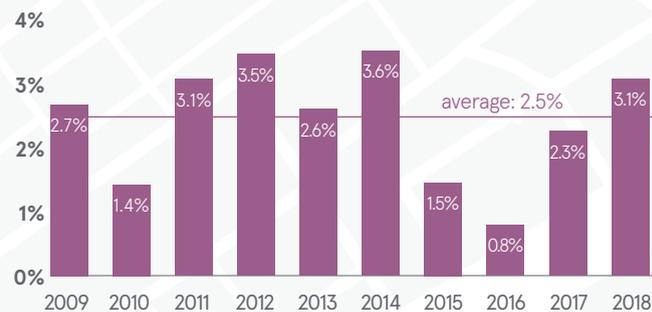
With a long history of resilient occupier demand, there is a structural imbalance between supply and demand, which is fundamental to our portfolio's rental prospects and capital value. They have both shown significantly greater long-term growth and stability through economic cycles than the real estate market outside this location, even in times of adverse economic conditions.

Over the past ten years, the ERV of these uses has demonstrated like-for-like annualised growth of 3.6%, despite rental levels remaining broadly flat during the global financial crisis. Over the same period, vacancy levels for these uses have averaged 2.5% of ERV^{1,2,3}.

Like-for-like ERV growth¹ restaurants, leisure and retail



Restaurants, leisure and retail vacancy^{1,2,3}



Evolution of uses over time (% of ERV¹)



Limited obsolescence

An important aspect of restaurant, leisure and retail accommodation is that we provide it in shell form only. Tenants are responsible for their fit-out, normally with no capital contribution from us. When tenants vacate, we re-let the shell of space usually without incurring significant refurbishment costs, limiting portfolio obsolescence.

Upper floors – a mix of offices and residential

Typically, our upper floors comprise small offices, residential, or a mix of both. A local working population and a residential community are important 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.

1 Wholly-owned portfolio
2 EPRA vacancy
3 Excluding larger schemes at 30 Sept 2017 and 2018

Charitable engagement

Charitable engagement

The Connection

Through sponsoring two outreach workers we help homeless people in our areas. The organisation provides immediate relief from homelessness and long-term support leading to housing, work and independence.

House of St Barnabas

We support this charity which aims to create a fairer future where lasting work is a reality for people affected by homelessness. The charity supports people back in to work through a City & Guilds accredited 12 week employability programme.

LandAid

We are a corporate sponsor of this property-sector charity, focused on providing accommodation for young homeless people. We held an advisors' treasure hunt in the West End, which raised £17,600.

The Samaritans

As well as sponsoring a charity comedy night and providing funding so they could open at Christmas and on New Year's Day, we helped them hold Brew Monday in Kingly Court, where many Carnaby restaurants and cafés came together to donate hot drinks and snacks, raising invaluable funds and the organisation's profile.

Choose Love

A pop-up store selling presents for people in need. They sell real gifts – practical items – which are donated to refugees. All the donations support front-line services and the shop is raising awareness of Help Refugees.

We have a long record of supporting local charities and not-for-profit organisations

Through sponsorship, provision of accommodation, pro-bono advice and time, we assist local organisations to support their valuable work across the West End, and its local community.

We offer retail space which is temporarily vacant to a range of charities and groups to enable them to promote their aims and activities to the many millions who visit our locations.

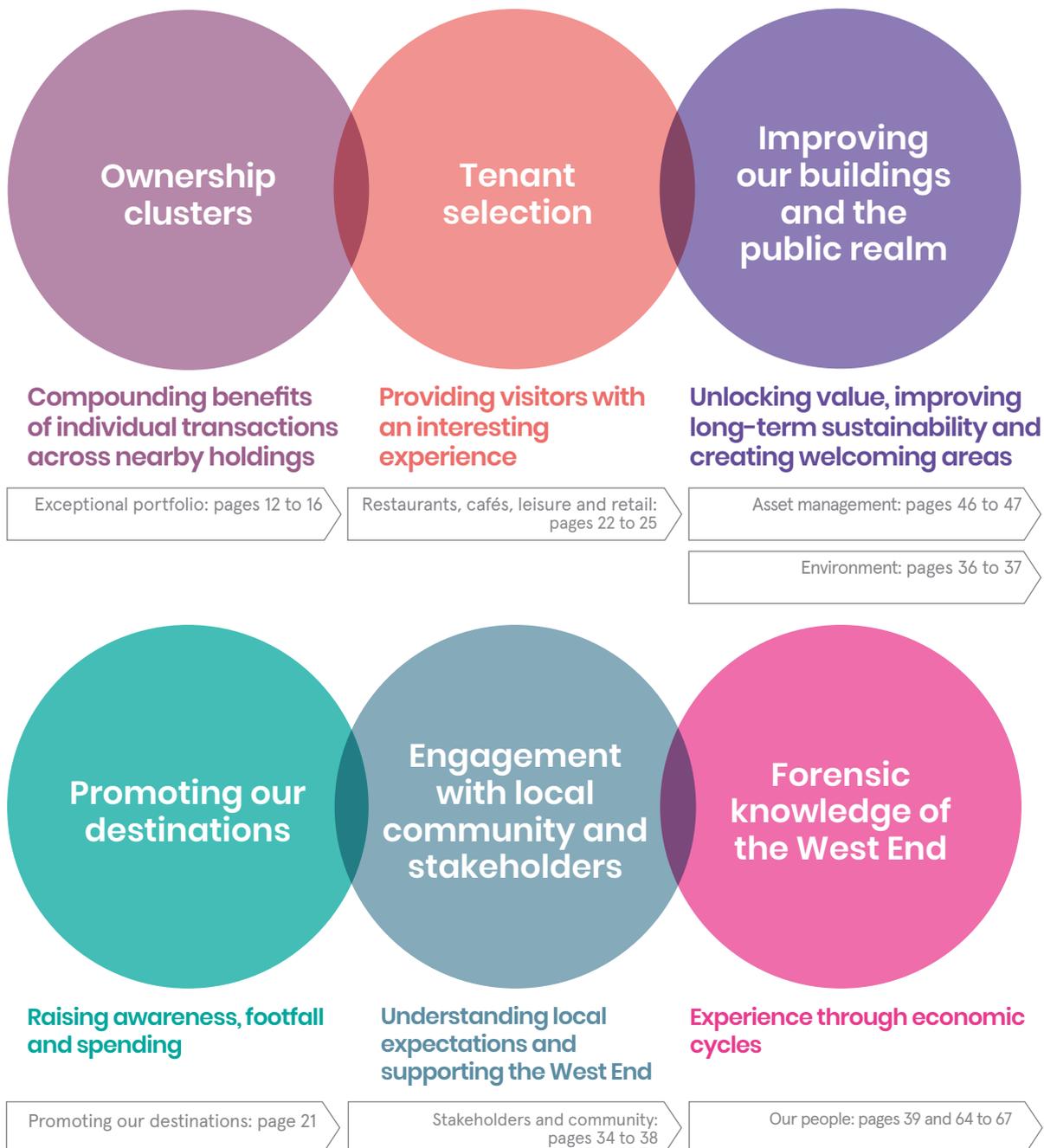
Right: We sponsored a special benefit performance, hosted by Sir Ian McKellen, of The York Realist at the Donmar Warehouse, in aid of their Young & Free scheme and the Albert Kennedy Trust.



Curating distinctive and lively destinations

Our strategy is to encourage footfall to, and spending in, our areas to provide our restaurants, cafés, pubs and shops with an environment within which they can prosper.

This drives sustained occupier demand and high occupancy levels, which, in turn, supports our ability to deliver long-term sustainable income growth. Key aspects to our management strategy are set out below.



Promoting our destinations

Marketing is a key aspect of the holistic curation of our areas, encouraging footfall and spending.



Karen Baines
Head of Group Marketing and Communications
answers questions regarding marketing and promoting our destinations

Why is marketing your destinations important?

Whilst we invest in popular and buzzy areas, we can't assume that visitors to the West End will know of, or come to, our areas. Therefore, we tell the story and the heritage of our iconic shopping and dining destinations to raise their profile and stand out from other London destinations. We support our tenants in raising awareness of their businesses and how they provide unique experiences, generally not available on the high street.

Is the strategy the same for each village?

Inevitably our aim is the same; to raise awareness, drive footfall and increase spend. However, we tailor brand values, messaging and tactics, taking into account each of our areas' history, personality and target audience.

What do you do?

Throughout the year, we hold widely-publicised campaigns and events in our destinations, such as shopping evenings, street food festivals and our innovative Christmas decorations. As well as active engagement with trade and consumer press, our digital strategy includes dedicated websites for our areas and a significantly growing social media presence.

Some of our events this year included:

- Soho Music Month and Seven Dials Soundtrack, which supported the Mayor's wider "Sounds Like London" campaign for London;
- Street Eat, where we hosted a picnic table along the length of Carnaby Street for visitors to celebrate a wide range of street food from our local restaurants;
- National Dumpling Day in Chinatown, where 1,800 dumplings were given away; and
- In Seven Dials, we hosted a week of activities to promote International Women's Day.

Our occupiers help bring our events to life, using their own marketing channels and, often arranging their own, related activities.

Where appropriate, we collaborate with partners to increase our reach and enhance the impact of campaigns and events to attract greater exposure. For example, in partnership with 20th Century Fox, recently we have unveiled a Bohemian Rhapsody-themed light installation in Carnaby.

What feedback have you had from tenants following events?

It's been resoundingly positive; as well as making them feel part of the community, they value Shaftesbury's support in raising the profile of our areas and their brands, with both domestic and international audiences.

"We are delighted to support Carnaby Street Eat. What's better than setting up stall, eating tons of food, having some fun and getting to know as many of our customers and neighbours as possible."

Stevie Parle, Chef-Owner of Pastaio

How do you measure success?

There are a lot of factors we take into consideration, including footfall, tenant and partner feedback, and social media influence and statistics.

How important is social media?

Digital is one of the many strands of our integrated marketing strategy. With consumers becoming ever more digital savvy, our shoppers and diners increasingly are using social media to discover places to visit and to share their experience. We use a wide range of social media platforms, including Weibo and WeChat, which enable us to tailor our messaging to, and engage with, Chinatown's wider western and Asian audience.

For tenants, social media is vital to their brands, so we support them in promoting new launches, initiatives and events across our digital platforms and through our partners.

Digital influencers are an important aspect of our social media strategy, through promoting our story to their large, loyal follower base.

Do your events present security concerns?

Ensuring safety and security is paramount. We work with Westminster and Camden Councils and the emergency services to ensure visitors, residents and workers remain safe and secure whilst enjoying our events.

Restaurants, cafés and leisure

We are the largest single provider of dining and leisure space in the West End, curating high-profile and busy destinations such as Chinatown, Kingly Court, Neal’s Yard and Opera Quarter.

35%

of our portfolio^{1,2}

297

restaurants, cafés and pubs¹

0.6m sq.ft.



Julia Wilkinson Head of Restaurant Strategy

answers questions on restaurants, cafés and leisure

ERV by village¹



- Carnaby **20%**
- Covent Garden **26%**
- Chinatown **39%**
- Soho **9%**
- Fitzrovia **6%**

Why do you invest in restaurants, cafés and leisure?

With its high footfall, the West End has become London’s dining hot-spot. Increasingly, the large working population and visitors are looking for interesting and different dining and leisure experiences. Consequently, these are important drivers of footfall, dwell-time and trading in our locations.

What are you looking for when you select tenants?

The majority of our restaurants provide casual dining, with a focus on atmosphere, quality and experience, often with an all-day offer.

Favouring mid-market formats, we look for distinctive concepts, something we don’t have and which add more depth to the existing offer. We like operators to have had some experience honing their concept, in, for example, pop-ups, markets, supper clubs etc. We think about whether we would like to eat there, as we are customers as well.

Is it a risk taking fledgling operations?

It is part and parcel of our philosophy to be forward-thinking; to support new concepts. The team behind them needs to be good, have a plan for fit-out, service and social media, and be well-financed.

Are you being impacted by the number of casual dining concepts which are in financial difficulty?

We continue to see healthy trading across our areas. Much of the well-publicised financial distress has been in national chain formats, which have expanded across the country and are suffering from a national slowdown in dining and leisure spending, or poor site selection. We are not seeing this in our areas, where the footfall is high and there is a relatively affluent customer base. The incidence of concepts not succeeding in our locations is relatively low, but, with unsatisfied demand, others usually are keen to step in and take the space.

Why is the availability of restaurant and leisure space constrained?

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

How good is occupier demand?

With operators attracted by potential to trade prosperously in this seven-days-a-week economy, occupier demand is good, outstripping availability of space. Competition for available space continues to be strong, and occupancy levels remain high. At 30 September 2018, EPRA vacancy^{1,2} for our restaurant, café and leisure space was 1.4%, of which 0.4% was under offer.

“Shaftesbury have been very encouraging every step of the way. They took a bit of a punt on The Palomar - we hadn’t done anything before and I think a lot of landlords wouldn’t have been so brave.”

Layo Paskin, The Palomar

How is Chinatown changing?

The 86 restaurants, cafés and bars we own in Chinatown, close to the West End’s major entertainment venues, represent 35%, by floor space, of our total ownership of these valuable uses. In this especially busy location, notable for its long hours of trading, our strategy is to improve the variety of the dining offer, whilst maintaining affordability and remaining respectful of its Chinese heritage. Our vision is to showcase different regions of China, whilst adding pan-Asian operators.

¹ Wholly-owned portfolio

² % of ERV

³ At 30 September 2018

⁴ Leasing activity during the year ended 30 September 2018

22 new lettings
12 lease renewals
31 rent reviews

9 years

weighted average
unexpired lease term^{1,3}

Recently, we have invested in improving the overall visitor experience through major public realm improvements. Also, we have improved our branding for the area through events, marketing and a stronger social media presence, including in mainland China.

What are your typical lease terms?

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

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

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

At 30 September 2018, the proportion of our restaurant income under historical leases was 54% (2017: 60%), providing us with opportunities to add further value and flexibility over the coming years.

1.4%

EPRA vacancy^{1,3}

£10.5m

lettings/rent reviews^{1,4}
(21.0% of restaurant, café and leisure ERV)

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)	54%	46%
Incentives	N/A	Short rent-free period to help cover tenant fit-out time. No contribution to fit-out costs

Progress against 2018 priorities

Priority	Status
Letting of restaurant and café space at Central Cross	Eight of the nine restaurant, café and leisure units have been let. The remaining restaurant is under offer
Identify further opportunities to negotiate vacant possession of restaurants let on historical leases	Negotiated vacant possession of four leases in the year, with a rental value of £1.0m
Introduce new restaurant operators to our destinations	22 new openings during the year

2019 priorities

Identify further opportunities to negotiate vacant possession of, or restructure, historical restaurant leases

Introduce new restaurant concepts to our destinations



Promoting our destinations: page 21

See page 45 for more information on Central Cross

Retail

Our shops, mainly clustered in Carnaby, Seven Dials and Soho, make an important contribution to the West End's reputation as a leading global destination.

33%

of our portfolio^{1,2}

298

shops¹

0.5m sq.ft.



Sam Bain-Mollison
Head of Retail

answers questions
on retail

ERV by village¹



- Carnaby **51%**
- Covent Garden **26%**
- Chinatown **14%**
- Soho **7%**
- Fitzrovia **2%**

What is the typical space you lease?

A significant feature of our retail portfolio is that we are able to offer retailers the choice of a wide range of rental levels and shop sizes, from small boutiques to large flagships, in modern or historic buildings, so they can find the right space to suit their brand. It allows us to attract a variety of formats from new start-ups to more established retailers looking to open unique concepts in the West End.

How do you keep your destinations interesting?

It is important that shoppers can find something different from that commonly found in shopping centres and on high streets. Our retail strategy constantly evolves to respond to changing consumer behaviour, but the central principle remains - maintain a fresh retail mix by seeking out both national and international brands which intend to launch new, interesting concepts and global first stores. Many of our retailers are independents, an important factor in making our districts unique destinations.

How do you assess potential retailers?

Each of our destinations has a specific brand identity. In selecting retail concepts, we assess whether they fit this identity, will add value and attract footfall. We favour brands that offer unique experiences and products, want to be part of our community and which offer a reason for shoppers to visit our areas.

Is social media important?

It is important but we look at everything a brand does. If they are using social media in an exciting and fresh way to generate consumer interest and drive sales, then that's a good sign. However, this is only one part of the story. If the brand has an interesting story, is generating interest, and is driving footfall in our streets, then it adds value to the area.

¹ Wholly-owned portfolio
² % of ERV

³ At 30 September 2018

⁴ Leasing activity during the year ended 30 September 2018

⁵ Source: Cushman & Wakefield, published information and company data

⁶ Based on 30 ft. zones

⁷ Letting status at 26 November 2018

How affordable is your space?

Rental levels in our high-footfall and spending locations are competitive compared with nearby streets (see the chart, opposite).

“We chose Seven Dials because the location is so central, and it’s an iconic and beautiful neighbourhood that’s home to so many beloved retailers. We’re excited to be alongside the Seven Dials shops, and to be able to call London home to our first permanent store in Europe.”

Jen Rubio, Away

How do you stay ahead of the curve?

Our typical retail leases are short, allowing us to have a portfolio of brands which are relevant and trend-driven. It is important we identify the next generation of ideas and concepts. We travel a lot looking for inspiration, seeing other cities and their brands, and visiting retailers who are interested in opening in London. Many retailers we meet view London's West End as the place to launch a successful international business.

Trade shows also provide new ideas, as do existing tenants who look to grow within our areas or start new concepts. Sometimes we trial new brands on a short and flexible basis, which often are converted to longer leases.

4 years

weighted average unexpired lease term^{1,3}

How do you assess whether a brand is a success?

Our relationship with brands starts when we select them. Our office is close to all our shops so we have real-time day-to-day experience of their trading. This knowledge is supplemented by turnover data.

How has online retail affected you?

Whilst online is having a major impact on wider high street retail, we find that there is consumer demand for the interesting mix of brands and concepts across our areas, particularly when coupled with the experience that our food and beverage offer provides. Also, we are starting to see internet brands wanting physical space in our destinations, to reinforce their brand identities.

How are retailers trading in your areas?

Despite continued headwinds and challenges across the retail sector, generally our tenants continue to trade well. Importantly, our mid-market retail offer is not limited solely to fashion, but includes, for example, health and beauty, accessories and lifestyle brands.

Whilst businesses are being more cautious in taking on new commitments over larger space, and the average time to conclude lettings has increased a little this year, we are continuing to see good interest for the smaller space we typically have to offer. Our flexible portfolio allows us to respond to this demand, and, where practical, we are dividing larger units.

Leasing activity during the year has been good with lettings, renewals and rent reviews being concluded ahead of ERVs assessed by our valuers.

At 30 September 2018, EPRA vacancy^{1,2} of our retail space was 10.9%, of which 7.0% was under offer, including 5.3% at Central Cross and Thomas Neal's Warehouse. Average retail vacancy¹ over the past ten years has been 3.7%.



10.9%

EPRA vacancy^{1,3}

Typical lease terms

Our retail leases generally are short, giving us the opportunity to refresh tenant mix:

Smaller shops: 3-5 years

Larger shops: 5-10 years

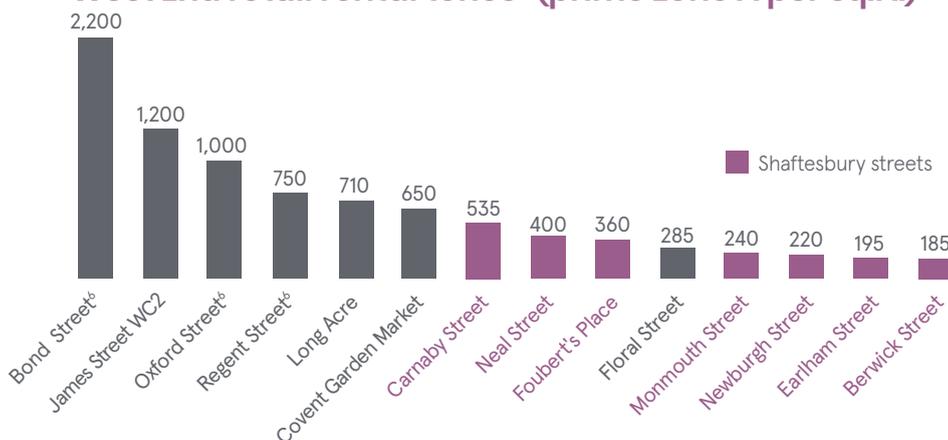
Short rent-free period to help cover tenant fit-out periods.

23 new lettings
18 lease renewals
14 rent reviews

£6.5m

lettings/rent reviews^{1,4}
(13.9% of retail ERV)

West End retail rental tones⁵ (prime zone A per sq.ft.)



Progress against 2018 priorities

Priority	Status
Letting space at Thomas Neal's Warehouse and Central Cross	Thomas Neal's Warehouse: let ⁷ Central Cross: two retail units under offer, three units available to let ⁷
Introduce further interesting retail concepts to our destinations	23 new openings during the year

2019 priorities

Let remaining retail space at Central Cross
Continue to introduce interesting retail concepts to our destinations

See page 45 for more information on Thomas Neal's Warehouse and Central Cross

Offices

We are an important provider of small, flexible office space in the West End.

20%

of our portfolio^{1,2}

0.5m sq.ft.

of offices¹



Rob Kirk
Portfolio Executive



Charles Owen
Portfolio Executive
answer questions
on our offices

How important are offices to your areas?

Offices are integral to the mix of uses in our areas, bringing a large working population which is an important source of customers for our restaurants, cafés, pubs and shops during the week.

How big is a typical office?

As with our other uses, the historical nature of our buildings means that there is no typical unit size. At 30 September 2018, we owned 466,000 sq. ft. of office space across our wholly-owned portfolio, a net increase of 63,000 sq. ft. during the year, of which 54,100 sq. ft. was due to the purchase of 72 Broadwick Street, Carnaby. Our office space, which is mostly above restaurants, cafés and shops, is let to 253 tenants. Our average letting is 1,420 sq. ft., often over more than one floor. We do have a number of larger floor plates, mainly in Carnaby and Seven Dials, which means we appeal to different sized businesses.

Typically, who are your tenants?

Many are SME companies in the media, creative, fashion and tech sectors, which have traditionally been based across Carnaby, Soho and Covent Garden. They are attracted by the community of similar businesses in this vibrant, creative part of London. Additionally, our tenants benefit from privilege cards, offering discounts in our shops, restaurants and cafés.

Are you being adversely impacted by the rise of flexible and co-working operators?

We offer flexible space on affordable terms and have a range of office sizes, allowing our occupiers to grow and adapt in a rapidly-changing market. At 30 September 2018, our average rent was £57 per sq. ft. (2017: £55 per sq. ft.) and average ERV was £64 per sq. ft. (2017: £61 per sq. ft.).

The growth in flexible and co-working operators, in and around our areas, is a positive, bringing additional, often young, workers, who become customers for our restaurants, cafés, pubs and shops.

Responding to the need to remain competitive with occupiers' requirements, we have a programme to ensure fibre connectivity to our buildings, so occupiers can "plug and play". Also, in Seven Dials, we are trialling a flexible workspace concept, providing tenants with fitted and cabled space, and are working on a portal system which will better connect occupiers to provide a more integrated community. Lease contracts for this space are short and simple, costs are fixed and lease terms are flexible, starting at two years.

"Many tenants are SME businesses in the media, creative, fashion and tech sectors"

How is demand?

The availability of office space like ours remains low across our locations and we continue to see good demand. Whilst we have seen a small increase in incentive packages, retention rates have been good, and occupancy levels have remained high. At 30 September 2018, EPRA vacancy^{1,2} for our offices was 2.0% of total office ERV.

¹ Wholly-owned portfolio

² % of ERV

³ At 30 September 2018

⁴ Leasing activity during the year ended 30 September 2018

26 new lettings
15 lease renewals
5 rent reviews

4 years
weighted average
unexpired lease term^{1,3}

2.0%
EPRA vacancy^{1,3}

£6.2m
lettings/rent reviews^{1,4}
(21.2% of office ERV)

ERV by village¹



- Carnaby **69%**
- Covent Garden **19%**
- Chinatown **4%**
- Soho **7%**
- Fitzrovia **1%**

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

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

Progress against 2018 priorities

Priority	Status
Maintain strong cash flows through high occupancy	Occupancy levels have remained high throughout the year and retention rates have been good with 15 leases renewing
Complete our 57 Broadwick Street redevelopment	The scheme completed in April 2018 and the space is fully let
Further office upgrades to meet modern, flexible space standards	Schemes extending to 55,200 sq. ft. completed or underway at 30 September 2018

2019 priorities

Maintain strong cash flows through high occupancy

Obtain planning consent for our 72 Broadwick Street scheme

Further office upgrades to meet modern, flexible space standards



See page 45 for more information on 57 Broadwick Street and page 50 for 72 Broadwick Street

Residential

Demand to rent our 593 mid-market apartments – mainly studios and one or two bedroom flats – remains good.

12%
of our portfolio^{1,2}

593
apartments¹

0.4m sq.ft.



Shelley Webb
Head of Residential
answers questions on our residential portfolio

What are your typical apartments?

They are mainly mid-market, affordable 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.

Who are your tenants?

Typically they are international students and people working in and around the area, often for a few years only, who want the buzz of the West End.

How is the letting market?

Demand remains good and normally we have over 98% occupancy. Lettings and renewals³ with a rental value of £8.2 million were completed during the year. Whilst rents achieved, on average, were 0.1% below previous levels, reflecting a greater availability of flats to rent in Central London, high occupancy levels have delivered an important cash flow for the business.

How are you responding to increased competition across central London?

We have a rolling programme to upgrade our apartments, in order to ensure their specification remains competitive. Currently, we are planning to install fibre connectivity to our flats, a feature which is increasingly demanded by potential tenants.

How long are your leases?

We let our apartments unfurnished, on three-year Assured Shorthold Tenancies. In our experience, around 10% of leases renew at the end of term.

“Demand for our mid-market apartments remains good, resulting in high occupancy levels and a stable cash flow”

Will your residential portfolio continue to grow?

Over the past five years, we have increased the number of apartments by approximately 26%, through conversion from other uses and acquisitions. We have a number of planning consents for residential conversion, which we could implement in the future. However, we do not expect the proportion of our income from residential to change materially.

Why do you choose to lease rather than sell your apartments?

Most of the value of our buildings is in the commercial uses on the lower floors. Generally, we do not sell our apartments so that we retain control over whole buildings to realise the long-term potential in those valuable lower floors.



¹ Wholly-owned portfolio

² % of ERV

³ At 30 September 2018

⁴ Leasing activity during the year ended 30 September 2018

1.1%
EPRA vacancy^{1,3}

224 new lettings
68 lease renewals

£8.2m
lettings/renewals^{1,4}
(46.9% of residential ERV)

ERV by village¹



- Carnaby **19%**
- Covent Garden **39%**
- Chinatown **23%**
- Soho **10%**
- Fitzrovia **9%**

Typical lease terms

Three year Assured Shorthold Tenancies

Let unfurnished

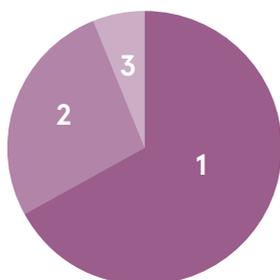
Annual RPI uplifts

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

Progress against 2018 priorities

Priority	Status
Continue our rolling refurbishment programme to upgrade our apartments and improve their rental prospects	Refurbishment works on 66 apartments during the year, of which 43 were ongoing at year end
Identify future potential residential conversions	Planning consents granted to create 24 apartments
Maintain strong cash flow through high occupancy	Average occupancy: 98% of ERV

Apartments by number of beds



- 1 bed **67%**
- 2 bed **27%**
- 3 bed **6%**

2019 priorities

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

Maintain strong cash flow through high occupancy



**FREE
WATER
HERE**



We have been committed to operating in an environmentally and sustainable way for many years.

Focusing on environmental sustainability is a key aspect of our long-term strategy. We have a rolling programme to improve the environmental efficiency of our buildings. We encourage our tenants to embrace sustainability, be it through fit-out or reducing waste.

More details on our approach to sustainability and the environment can be found on pages 34 to 37.

Shaftesbury and sustainability

Sustainable buildings

We aim to achieve BREEAM “Very Good” on all our refurbishment projects. We have a rolling programme of energy performance improvement across our 600 buildings. We now have more than 38% of our space with an energy performance rating of C or above.

Pass on Plastic

We donated space to create an exciting pop-up ocean experience to support this campaign to educate the public on the need to eliminate single-use plastics.

Sustainable Restaurant Association

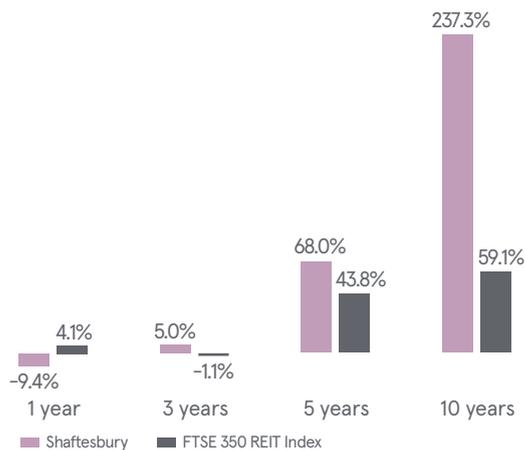
We encourage restaurant tenants to become members of the SRA and fit-out and operate their premises sustainably. Also, we sponsor the Open Right Award at the “Food Made Good” awards in recognition of restaurants fitting-out sustainably from initial opening.

Left: We support the Mayor of London and the #OneLess campaign to install public water fountains. As a step towards reducing plastic waste in London and protecting the environment, Kingly Court was chosen as the first site for this important initiative. We are actively working with our restaurant, cafe and pub tenants across the portfolio to remove single-use plastic water bottles from their businesses.

Measuring success

The principal metrics we focus on in running the business include both long-term performance and operational measures, reflecting our long-term strategy.

Total shareholder return (%)



Rationale

Measures shareholder value creation, taking into account share price movements and dividends in the period.

Alignment with remuneration

Performance over three years is benchmarked against an index of other listed real estate companies for our LTIPs. For executive directors, the benchmark is the FTSE 350 REIT Index. For staff, this is the last year of vesting of LTIPs benchmarked against the FTSE 350 Real Estate Index. For future years there will be alignment with the executive directors.

Commentary

Over the long term, we have outperformed the sector. However, during the past year we have underperformed with our share price falling from a small premium to a modest discount to EPRA NAV.

LTIP vesting: page 101

Compound annual growth in EPRA NAV¹ (%)



Rationale

Traditional sector measure of value creation.

Alignment with remuneration

We compare compound annual growth in EPRA NAV per share to a target of RPI plus 3% as a performance measure for our LTIPs.

Commentary

Over five and ten years, we have out-performed the benchmark. However, over the shorter term, EPRA NAV growth has been below the target, largely reflecting exceptional refinancing costs incurred in 2016 and 2017.

EPRA NAV growth over 2018 was 4.1%, largely driven by the revaluation of our portfolio (see page 43). This compared with the benchmark hurdle of 6.3%.

Over three years to 30 September 2018, compound annual growth was 4.5%, 1.6 percentage points below the benchmark. Excluding the exceptional refinancing costs, three year growth was 6.0% p.a.

LTIP vesting: page 101

Operational measures

In addition to our KPIs, there are other operational metrics we monitor in assessing the performance of the business.

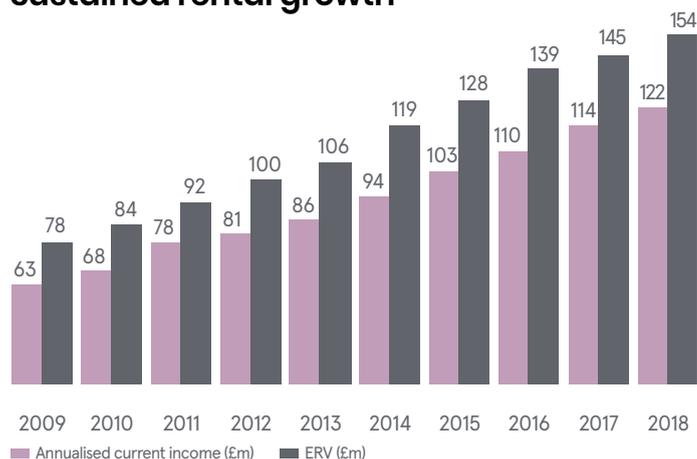
Portfolio management		Financial management	
Growth in annualised current income ^{3,5}	5.1%	Loan to value ¹	22.8%
ERV growth ^{3,5}	2.4%	Blended cost of debt ¹	3.2%
Reversionary potential ³	26.7%	Weighted average debt maturity	10.2 years
Scheme vacancy ⁴	7.6%		

See more on pages 55 to 56

See more on pages 44 and 47

1 An alternative performance measure. See page 140
 2 Data includes acquisitions
 3 Including our 50% share of property held in joint venture
 4 Wholly-owned portfolio
 5 Like-for-like
 6 Excluding larger schemes

Sustained rental growth^{2,3}



Rationale

In our leasing activity, we aim to establish new rental tones which exceed ERVs assessed by our external valuers. This grows our portfolio's reversionary potential by providing rental evidence in leasing negotiations on our nearby holdings. We aim to crystallise this rental potential into contracted income over three to five years. Importantly, the level of lease incentives granted to tenants remains modest.

Alignment with remuneration

Achieving rents above ERV is a KPI in our annual bonus scheme.

Commentary

Our strategy has delivered sustained growth in annualised current income and rental values over many years. The 10-year like-for-like compound annual growth rate in annualised current income and ERV of our portfolio has been 5.1% p.a. and 3.9% p.a. respectively, with growth every year.

Commercial leasing transactions⁴ during the year were concluded 5.1% higher than ERV at September 2017.

Reversionary potential: page 44; Leasing: page 45;
Annual bonus outcome: page 100

Maximise occupancy⁴



Rationale

Low vacancy levels are a key factor in ensuring our portfolio produces good cash flows.

Alignment with remuneration

Maximising occupancy is a KPI in our annual bonus scheme.

Commentary

Average EPRA vacancy⁴ over the past ten years has been 2.9% of ERV. Over the past two years, EPRA vacancy has increased as a result of our larger Thomas Neal's Warehouse and Central Cross development schemes. At 30 September 2018, EPRA vacancy included 1.9% in respect of these schemes (2017: 3.5%).

Average letting time⁵ in 2018 was 2.5 months (2017: 1.5 months).

Vacancy: page 46;
Annual bonus outcome: page 100

Financial results and reporting	
Growth in net property income	6.2%
EPRA earnings per share ¹	17.1p

See more on pages 51 to 54

Our people	
Employee retention	100%
% female employees	60%

See more on page 39

Sustainability and stakeholders	
% of Energy Performance Certificates of grade E or above	78%
London Benchmarking Group contribution as a % of EPRA earnings	1.7%

See more on pages 36 to 38

Sustainability and stakeholders

Our goals are:

- The environmentally sustainable re-use and management of existing buildings
- Invest in the local community
- Effective stakeholder engagement
- A fair and ethical framework for employees and our supply chain

Benchmark indices



FTSE4Good



At the heart of our sustainability strategy is a focus on extending the economic useful lives of our buildings. Through changes of use and reconfiguration, within the constraints of legislation, our buildings can continue to meet the needs of modern occupiers.

In an urban location, which is intensively used by huge numbers of visitors, 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.

The Wild West End collaboration, which promotes biodiversity, continues to gain momentum. Working with other neighbouring landowners, we are increasing the number of biodiversity features throughout our portfolio, with the consequent associated benefits of improved health and well-being for tenants, residents and visitors. The concept won an EPRA sustainability award for its outstanding contribution to society.

Our non-financial information statement is set out on page 146.



Management of sustainability

The Sustainability Committee meets quarterly to define objectives, agree strategies and review progress. We have a robust and effective Sustainability Policy which is reviewed annually by the Board and is available on our website.

We continue to base our sustainability strategies on our core goals:

Stakeholders: engaging with our tenants, investors and other stakeholders 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: re-use and careful management of existing buildings. In addition, reducing the running costs of buildings and improving their operational efficiency is important in attracting tenants, as well as meeting regulatory requirements.

Working closely with our supply chain enables us to control our most significant impacts and facilitate better sustainability standards throughout.

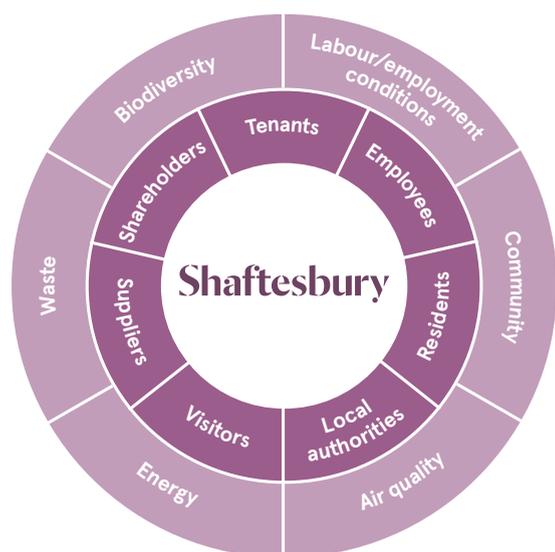
Community: engaging with local groups and charities to ensure we support our community.

Employees: investing in our employees to support their development and encourage retention.

During 2018, we reviewed our materiality assessment which identifies the sustainability key issues and challenges which we should be addressing in the year ahead. Our broad strategic goals remain relevant and will continue to form the framework of our approach. Community, central London air pollution, living wage, health and safety, greenhouse gas emissions and infrastructure continue to be key issues, both internally and externally, and human rights, waste, material use and biodiversity are all increasing in significance.

Stakeholders

As a long-term business in the West End, we have developed relationships with an extensive range of stakeholders with whom we work across a range of activities.



We work closely with our suppliers and hold an annual sustainability seminar which considers environmental and community matters and ensures that our supply chain is aligned with our values. For the first time this year, we held a similar seminar for the construction companies and project managers in our supply chain, which was received very positively.

We hold an annual community breakfast which is a networking opportunity for our local partners – community groups, charities, not-for-profit organisations and local government which operate in our areas.

Our employees work closely with our local community including local organisations, groups and statutory authorities with responsibility for particular issues in our local environment such as safety and policing.

Modern slavery and human rights

We have policies in place which address human rights, modern slavery and the ethical conduct of our business, all of which are included within our Sustainability Policy which is updated annually. We respect international principles of human rights and have been a signatory of the UN Global Compact since 2015.

Our Sustainability Policy is also provided to organisations in our supply chain to encourage them to adopt and enforce similar policies in their own businesses. We ask our principal advisors and suppliers to commit to the Universal Declaration of Human Rights with respect to all employees and sub-contractors employed by them.

We promote the human rights of our employees through equal opportunity and in our recruitment process, regardless of their sex, sexual orientation, age, race, disability, marital status, religion and nationality.

As a consequence of our outsourcing model, the effective communication of our policies and objectives throughout our supply chain is important to ensure that an ethical and sustainable approach is adopted to the employment of labour and the purchase of goods and services on our behalf.

We ensure our Supplier Code of Conduct is circulated to our principal suppliers for inclusion in contracts. Our Code requires payment of the London living wage and compliance with the Modern Slavery Act 2015 throughout our supply chain.

We have recently launched a new supplier engagement process which includes our expectation that suppliers commit to our Sustainability Policy and Supplier Code of Conduct.

As part of our 2017 Modern Slavery Statement, we committed to seek accreditation with the Living Wage Foundation which we have successfully achieved. It covers payment of our own employees as well as those within our immediate supply chain.

We have updated our whistleblowing policy and expanded our commitment to facilitate the reporting of inappropriate business behaviour through a dedicated and confidential whistleblowing hotline for employees and our supply chain.

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 no reportable health and safety incidents in the portfolio. The accident frequency rate for Shaftesbury employees was zero (2017: zero) and there were no health and safety prosecutions, enforcement actions or fatalities in 2018.

57 Broadwick Street

An office refurbishment scheme which is on track to achieve BREEAM Excellent post construction.

The use of the existing structure provided the opportunity to reduce the amount of new materials used within the construction process while reducing the environmental impact caused by the development.

The building incorporates a variety of energy and water efficiency measures within both the building fabric and the services installation including:

- Enhancements to the building fabric envelope thermal performance by introducing thermal insulation to achieve lower capacity heating systems, thereby reducing energy consumption
- Providing new high performance glazing in order to reduce solar heat and reduce the cooling plant required
- Providing occupancy detection and automatic daylight dimming within the lighting control system
- Using low energy, high efficiency light sources
- Maximising the use of daylighting within the building
- Including water appliances within the building that reduce water consumption.

The 5th floor roof area includes a green roof and planters that have been planted with species in accordance with the objectives of Wild West End and provide both biodiversity benefits as well as reducing potential water run-off compared with the original building.

Environment

We improve and extend the useful economic life of our buildings through refurbishment, change of use and reconfiguration.

All our portfolio is located in Conservation Areas and around 20% of our buildings are listed. Within these constraints, we strive to provide environmentally efficient commercial and residential accommodation as well as advice to occupiers, to minimise the overall impact of our business on the environment.

Waste

We achieved a recycling and composting of food waste rate of 55% for Carnaby and Seven Dials. We encourage composting by our restaurant tenants, and active engagement with tenants has increased the proportion to 18%. The remaining waste is diverted from landfill to energy from waste schemes.

Our refurbishment projects diverted, on average, over 98% of waste from landfill.

Air quality

We recognise the decline in air quality in central London and although we cannot directly influence this, we are promoting measures that will contribute to an improvement. We promote to occupiers the benefits of delivery consolidation and the use of a zero-emissions vehicle through our nominated suppliers. Through this initiative, there was a saving of 2.9 tonnes of carbon over the course of the year – equivalent to 6,838 miles driven. Biodiversity measures also help with improving air quality.

Single-use plastic

This year we have engaged with our tenants to address the environmental issue of single-use plastic that is affecting both the local and global environment. Initiatives have included the installation of a water fountain at Kingly Court as part of the #OneLess and Mayor of London initiative. To date, the equivalent of over 20,000 500ml plastic bottles have been avoided.

We hosted a two-week public exhibition to raise awareness of single-use plastic and had a visit from Plasticus The Whale. The Carnaby arch was themed for WWF's Earth Hour 2018 and our Street Eat food festival in August was entirely single-use plastic free.

Building certifications

Our objective is to achieve BREEAM Very Good for all larger commercial and domestic refurbishment schemes with three schemes completing during the reporting period and a number of others are in progress with the majority on course to achieve at least Very Good. In total over 10% of the portfolio by floor area is on course to be BREEAM certified.

Energy consumption

Energy consumption has been largely unchanged year-on-year reflecting fluctuations in tenant numbers and occupancy. Due to the increased use of renewable energy in the national grid, greenhouse gas emissions decreased by over 16% from 1,316 tonnes to 1,099 tonnes.

EPCs

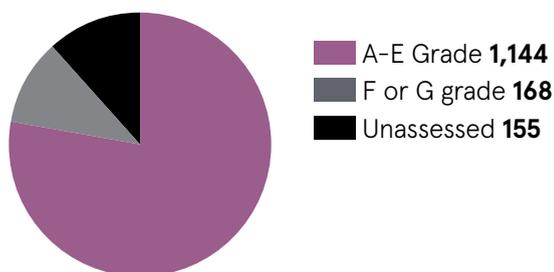
We continue to make good progress against the Government's Minimum Energy Efficiency Standards (MEES). From April 2018, demised areas at the time of letting are required to have an Energy Performance Certificate (EPC) of grade E or above.

Properties that have in the past been assessed at Grades F or G are currently occupied. Once they become vacant, we will carry out such works as are necessary to improve their rating to above the minimum level.

A number of properties have not been assessed yet as they are let on long-term leases which have not been subject to an expiry since 2008, when EPCs were introduced. They will be scheduled for works, to meet or exceed the requirements of MEES, when the leases expire.

Of the EPCs assessed after refurbishment, over 80% were a grade C or above.

Number of leases



Use of materials

We maximise the re-use of materials on site in all our refurbishment projects, with a significant proportion of the primary structure and external façade retained. Similarly, our approach is to re-use timber. Timber features such as windows, joists, floorboards, staircases and panelling are retained where possible.

For the small volume of timber purchased, 89% was Forest Stewardship Council (FSC) certified and, overall, 96% was sustainably sourced with full chain of custody.

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 both for wildlife and the health and well-being of occupiers and visitors.

This year we made further progress with our goal to improve the biodiversity of empty and inaccessible roof tops. Through installing additional features throughout the portfolio, including green roofs, sedum roofs, window boxes, bird boxes and insect homes, we have increased total area coverage by 33% from 9,524 sq. ft. to 12,644 sq. ft.

We promoted Defra's Bees' Needs Week again this year, by installing a bee-themed Carnaby Street arch and hosted a pop up 'Hive' on Carnaby Street, which helped to promote bee conservation organisations and research. Our work was recognised by DEFRA with an award as a Bees' Needs Champion 2018 for raising public awareness of the needs of pollinators.

We have installed two bee hives in Carnaby, making a total of five across our portfolio.



See page 109 for our Greenhouse gas reporting

See page 41 for information on greening our villages



Community

Our activities are aligned with the area in which our portfolio is located and community engagement is embedded at all levels of our organisation. We have a long record of close involvement with local charities and not-for-profit organisations which work on initiatives in these communities. Not only are they our neighbours, but the work of our local partners ensures that the West End continues to be a vibrant and diverse destination which supports residents, businesses and cultural organisations and welcomes growing numbers of domestic and international visitors.

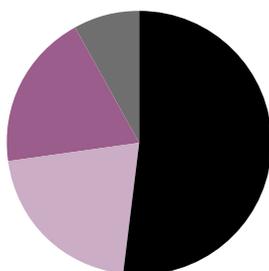
Our community investment committee oversees the strategic direction and effectiveness of our community giving. Reporting directly to the Board, the committee strengthens our community engagement through its focus on developing our relationships with key community partners and expanding participation opportunities.

We have continued our membership of the London Benchmarking Group (LBG). Our contribution is measured in accordance with their framework which provides a standard and comparable methodology.

The total contribution comprises more than just cash - it is time given by employees and the cost of properties used for charitable or educational purposes. We provide space to charities and other not-for-profit organisations on a short-term basis to assist in promoting their charity or cause in our areas or provide cost-effective space for organisations in our central locations. The chart shows the breakdown of these elements of our contribution. Our community contribution amounted to £0.89 million which equates to 1.7% of EPRA earnings.

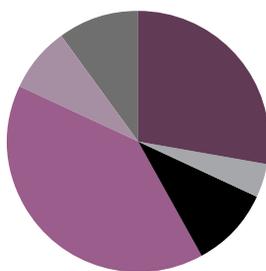
We support a wide range of organisations, a number of which are showcased throughout this annual report. Others not mentioned elsewhere include: London College of Fashion, ZSL, Phoenix Gardens, St Anne's Church, China Exchange, Trekstock and the Chinese Information and Advice Centre.

How we contribute



- Cash **52%**
- Employee time **21%**
- In-kind contributions **19%**
- Management costs **8%**

What we support



- Social welfare **28%**
- Other **4%**
- Arts/culture **10%**
- Education **40%**
- Health **8%**
- Environment **10%**

Key activities

CEO Sleepout for The House of St Barnabas
Staff, including our Chief Executive, took part in the CEO Sleepout raising funds for The House of St Barnabas, a charity which works to break the cycle of homelessness. A total of £24,000 was raised.

Founding Partner of the Young Westminster Foundation

As a founding partner, we support the Foundation's mission to create opportunities for children and young people in Westminster enabling the next generation to fulfil their potential. In this role, we encourage the local community, visitors, occupiers and partners to engage with the initiative.

Westminster Lion accreditation

A new initiative from Westminster City Council which recognises businesses that work hard to make a positive impact in their communities.



Recognised by
Westminster City Council
as a responsible business
delivering a **City for All**

businesswestminster.com/business-enterprise/csr

Our fifth community breakfast

We work with many not-for-profit organisations in the local area. To enable them to meet each other and network, we host an annual community breakfast.

More than 80 people attended the breakfast from 30 organisations spanning the arts, education, health, food, organisations for the homeless and elderly, environment, business improvement districts and local councils.

Brian Bickell welcomed guests and introduced Councillor Nickie Aiken, Leader of Westminster City Council, who spoke about local issues and the City Council's priorities.

See page 63 for more on community engagement

See page 18 for more information on charitable engagement

See page 49 for more on our support to the arts

Employees

Our team

We have a team of 30 full and part-time permanent employees. We operate on an outsourcing business model whereby day-to-day activities are devolved to long-term external advisors, agents and suppliers. Decision-making and strategic functions are not outsourced.

Employees by department

Executive Directors/company secretarial	5
Property (including marketing)	15
Finance	4
Administration	6

Fairplace Award 2017

We became the first FTSE 250 real estate company to win the prestigious Fairplace Award, an ethical workplace accreditation from property charity the Ethical Property Foundation. The award recognises good policy and practice in the community in terms of funding local projects, carbon footprint and sustainability, and landlord and tenant engagement.

Our culture

Our culture is open and inclusive. We encourage individuality and independence and we treat others with respect. Our roles are interesting and varied, providing a breadth of experience and interest.

Another essential ingredient in making Shaftesbury a good place to work is our culture of encouraging innovation and embracing new ideas. Decisions are made efficiently and employees can see their ideas coming to life.

As a business, we make long-term decisions and are proud of our reputation for being a responsible landlord and an integral part of our local community. We care about our impact, aiming to create legacies that sustainably improve our locations. This attracts people to work, and stay working, with us. This is borne out by the fact that our average length of service is 11 years and our employment turnover in 2018 was zero.

Diversity and inclusion

We are committed to diversity within our team, recognising that diversity of thought, skills and personal attributes contribute to a successful business. As a signatory to the 30% Club, gender diversity at senior levels of our organisation is important but we also recognise that diversity is not just limited to gender. Hence, we also support Real Estate Balance which seeks to address the gender imbalance in property.

Our approach is reflected in our recruitment procedures where we ensure that we recruit from the widest talent pool and consider a full spectrum of attributes and backgrounds.

We support the Pathways to Property programme which aims to improve diversity in the property sector by introducing students from less-advantaged and non-traditional backgrounds to the industry.

Pay and benefits

We offer our employees competitive remuneration packages which recognise their contribution to our business. Everyone, regardless of their role or level of seniority, receives the same benefits, including participation in our LTIP scheme, a generous pension scheme and a tailored development programme.

Volunteering leave was introduced last year and 14% of employees have taken advantage of the flexible working arrangements we offer which are designed to accommodate different working patterns.

Training and development

Investment in the training and development of our employees is essential to our long-term success. All employees have access to training and development tools and support that they require for their day-to-day roles and for their career progression.

We offer a wide suite of training opportunities which can comprise psychometric analysis, 360-degree assessment, external courses, internal training and professional development. This year, we have partnered with Henley Business School to enable senior employees to undertake more intensive development training.

We have engaged a human resource specialist to assist with our strategic approach to employees and to formalise procedures we have in place. As we are part way through this work, we expect to be able to report more extensively next year.

For the first time, we have undertaken an employee survey, so that we can be aware of our working environment and the expectations of employees. The results of this will be reported in next year's annual report.

	2018	2017
Number of employees	30	29
Female	60%	59%
Females on Executive Committee (excluding executive directors)	57%	57%
Percentage of female board members	30%	30%
Average training hours per employee	19	16
Average length of service (years)	11	12
Employee turnover (number)	0	1
Absentee rate (EPRA calculation)	1.6	0.96
Employees with flexible working arrangements	14%	14%



See also the Nomination Committee report on pages 80 to 81 for the Board's approach to gender diversity.

See page 8 for more information on supporting the diversity agenda



Shaftesbury and the environment

Window boxes and planters

Across our portfolio, we have over 1,000 window boxes, 105 planters and 50 hanging baskets, planted with "bee-friendly" species.

Green walls and roofs

Twelve green roofs and walls, together with over 1,700 sq. ft. of sedum pods increase biodiversity across our areas.

Bees' Needs Week

Carnaby became a hive of activity as, together with many of our tenants, we supported Bees' Needs Week to raise awareness of the importance of pollinators to the beauty of our landscapes and our economy.

We have five bee hives in Carnaby and Covent Garden.

The greening of our villages is an intrinsic part of our sustainability strategy

With over 200 million visits annually to the West End, we recognise the importance that thriving green spaces play in the city environment .

Across our portfolio, we have a number of features which not only make our locations more pleasant places to spend time, by encouraging biodiversity, improving air quality and encouraging access to green spaces.

Further details on our approach to sustainability are set out on pages 34 to 37.



Left: Together with other West End property owners, we have formed "Wild West End" which is working to encourage birds, bees and bats back into the West End. Situated between four of London's Royal Parks, the partnership aims to create a connecting network of green stepping stones through a combination of green roofs, green walls, planters, street trees and flower boxes. This benefits not just wildlife and the environment, but all those who come to the area. As part of our biodiversity strategy, we have created a roof-top garden at our office planted with pollinator-friendly plants.

Portfolio report

Relentless asset management and leasing activity continues to drive high occupancy, rental growth and the valuation of our portfolio.



Simon Quayle
Property Director



Tom Welton
Property Director

Valuation

Portfolio valuation¹

Our portfolio, including our 50% share of the Longmartin joint venture, has been valued at 30 September 2018 at £3.95 billion, an increase of £304.9 million over the year.

After allowing for acquisitions, disposals and capital expenditure, the revaluation surplus¹ was £118.1 million.

This surplus reflects:

- strong investor demand for well-located assets with the prospect of high occupancy, growth in rents and cash flows, yet limited exposure to obsolescence;
- the benefits of our asset management activity delivering increased contracted income and improved ERV, with the incremental benefits often having a compound effect across nearby holdings;
- the relative affordability of our rents in our high footfall locations compared with nearby streets; and
- robust occupier demand in our carefully-curated locations and the resilience this provides against the headwinds that are impacting wider UK high street rents and occupancy.

Like-for-like valuation growth was 3.8%, comprising 4.2% in the wholly-owned portfolio, partly offset by a decline of 2.4% in the Longmartin joint venture.

Continued investor demand and limited supply

Our portfolio, in the heart of the West End, has a history of delivering sustained rental growth and sector outperformance over the long term. Unsurprisingly, existing owners of the types of buildings we seek to acquire remain reluctant to sell in this especially prosperous and resilient area, severely limiting the availability of assets to buy.

Macroeconomic uncertainty is continuing to focus institutional and private investors on less cyclical locations and secure income streams. This, together with a limited supply of investment opportunities, means that when assets become available, competition is intense.

The equivalent yield attributed by our valuers to our wholly-owned portfolio reduced by 5 basis points in the six months to 31 March 2018 and remained flat over the following six months at 3.41% (2017: 3.46%).

The valuation of the geared long leasehold interest held by the Longmartin joint venture fell over the year by 2.4%, of which 1.9% was reported in the first half. The equivalent yield has remained broadly flat at 3.82% (2017: 3.80%). However, during the year, our valuers have reduced their estimate of retail ERVs on Long Acre by 8.5%, of which 5% was reported in our interim results. This reflects a lack of recent letting evidence and a potential increase in availability of large shops in this “high street” location, where rental tones have increased significantly over recent years. Additionally, the valuation takes into account the short-term impact of securing vacant possession of space for our planned restaurant scheme in St Martin’s Courtyard.

Potential for greater value

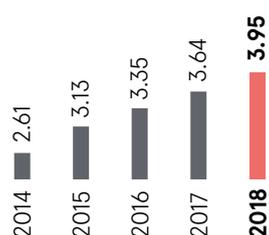
Cushman & Wakefield, independent valuer of our wholly-owned portfolio, has continued to note that:

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

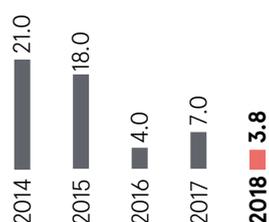
Consequently, they have reiterated to the Board that some prospective purchasers may recognise the rare and compelling opportunity to acquire, in a single transaction, substantial parts of the portfolio, or the portfolio in its entirety. Such parties may consider a combination of some, or all, parts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

See page 47 for information on St Martin’s Courtyard

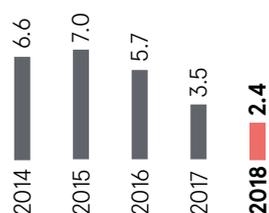
See page 25 for the relative affordability of our rents

Portfolio valuation (£bn)^{1,4}

£3.95bn

Valuation growth (%)^{1,2,4}

3.8%

ERV growth (%)^{1,2,4}

2.4%

Village	Fair value £m	% of portfolio	Annualised current income £m	ERV £m	Topped-up net initial yield %	Equivalent yield %
Carnaby	1,424.7	36%	44.8	57.2	2.96%	3.56%
Covent Garden	1,013.7	26%	30.2	37.6	2.78%	3.26%
Chinatown	837.2	21%	24.1	31.6	2.67%	3.34%
Soho	300.8	7%	9.4	11.6	2.90%	3.44%
Fitzrovia	148.2	4%	4.9	5.7	2.83%	3.31%
Wholly-owned portfolio⁴	3,724.6	94%	113.4	143.7	2.84%	3.41%
Longmartin joint venture ³	224.6	6%	8.1	10.3	3.16%	3.82%
Total portfolio^{1,4}	3,949.2	100%	121.5	154.0		

Village	2018 valuation growth ²	5-year CAGR ²
Carnaby	3.9%	12.1%
Covent Garden	4.0%	9.6%
Chinatown	4.2%	9.4%
Soho	6.2%	10.8%
Fitzrovia	4.5%	11.0%
Wholly-owned portfolio⁴	4.2%	10.6%
Longmartin joint venture ³	-2.4%	8.6%
Total portfolio^{1,4}	3.8%	10.5%

1 Including our 50% share of the Longmartin joint venture. See presentation of financial information on page 51

2 Like-for-like. See Glossary on page 148 for definition

3 Our 50% share

4 Portfolio excluding non-core asset acquired as part of a portfolio. See note 8 on page 126 for a reconciliation to the financial statements

Reversionary potential

Converting our portfolio's reversionary potential into contracted income and cash flow, while further increasing rental values, are key drivers to long-term value creation.

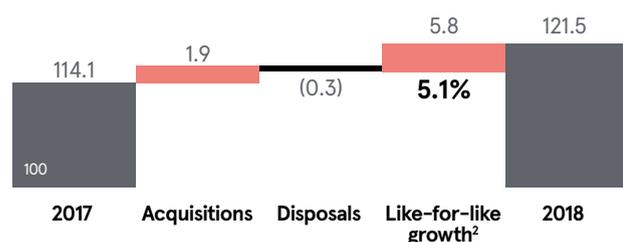
Our leasing and active asset management activity during the year has, once again, delivered growth in both annualised current income and ERV.

At 30 September 2018, annualised current income stood at £121.5 million following a like-for-like increase of 5.1% over the year.

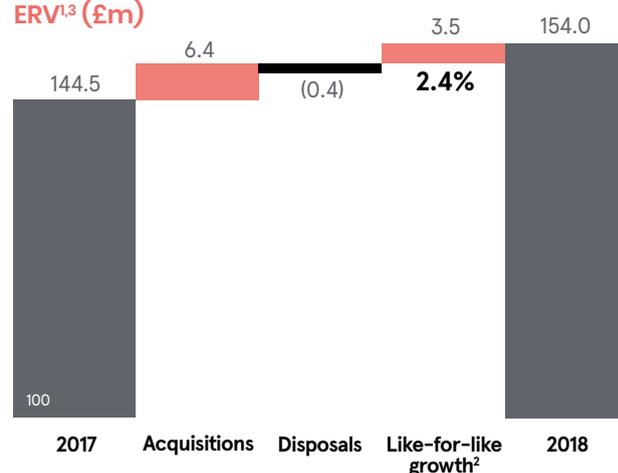
Total ERV, which is based on today's rental tones, and largely reflects rental evidence established through leasing transactions, was estimated by our valuers at £154.0 million. Excluding the impact of acquisitions and disposals, which contributed £6.0 million (net), like-for-like growth was 2.4%.

The total reversion now stands at £32.5 million, 26.7% above annualised current income. The components of this reversionary potential are shown below. We remain confident that, through 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.

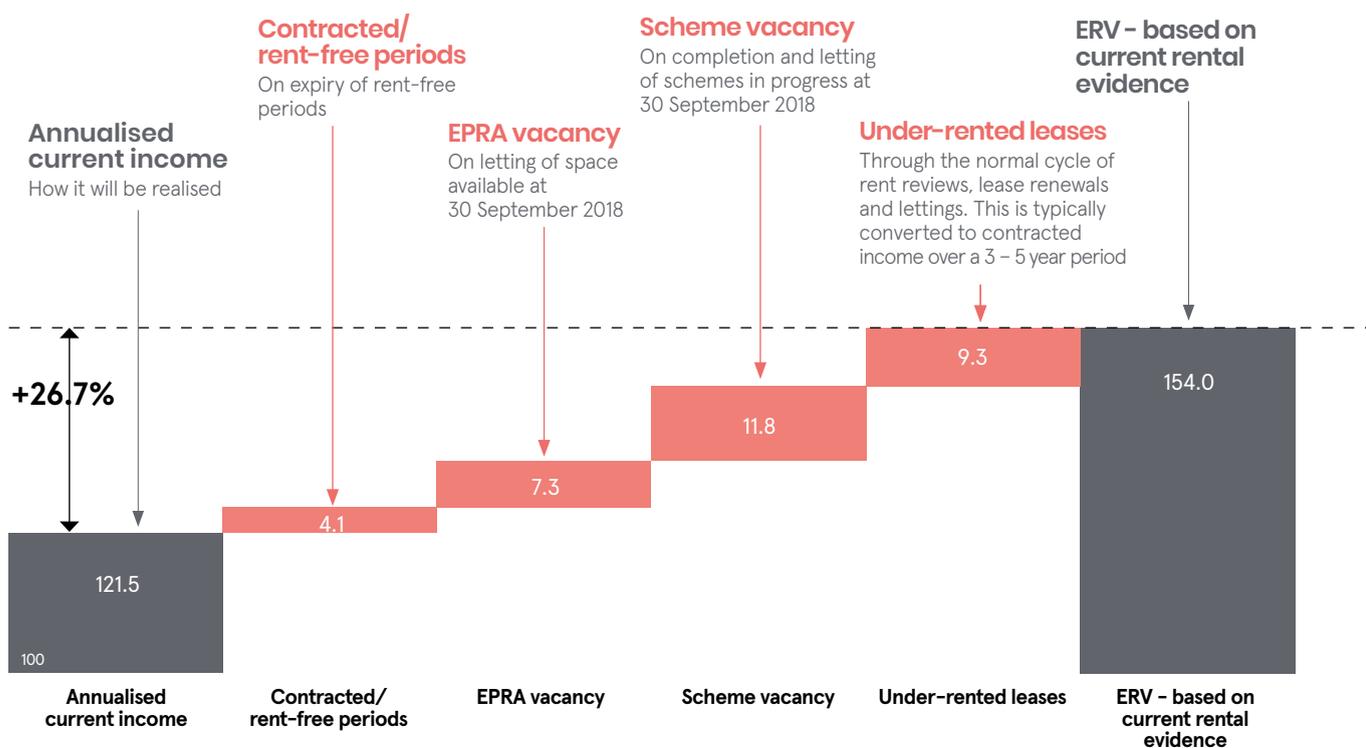
Annualised current income^{1,3} (£m)



ERV^{1,3} (£m)



Components of the reversion^{1,3} (£m)



1 Including our 50% share of the Longmartin joint venture. See presentation of financial information on page 51
2 Like-for-like. See Glossary on page 148
3 Excluding a non-core asset acquired as part of a portfolio

Leasing and occupancy

Leasing

During the year, we concluded lettings, lease renewals and rent reviews in the wholly-owned portfolio with a rental value of £31.4 million (2017: £31.1 million), equating to 21.9% of ERV.

Commercial leasing transactions totalled £23.2 million (2017: £23.8 million) and residential lettings and renewals amounted to £8.2 million (2017: £7.3 million). Rents for commercial uses were, on average, 5.1% above ERV at 30 September 2017, providing useful evidence for our valuers.

At 30 September 2018, space with a rental value of £3.7 million was under offer.

	2018 £m	
Commercial		
Lettings and renewals	14.5	+4.0% vs September 2017 ERV
Rent reviews	8.7	+25.4% vs previous rent (5-year CAGR: +4.6%)
	23.2	+5.1% vs September 2017 ERV
Residential		
Lettings and renewals	8.2	-0.1% vs previous rent
Total	31.4	

Our share of leasing transactions in the Longmartin joint venture was £1.4 million (2017: £3.9 million).

Progress at our completed larger schemes

57 Broadwick Street, Carnaby (1.7% of ERV¹)



We completed and let this mixed-use scheme, at the eastern entrance to Carnaby, during the year. On the lower floors, where we created new retail and restaurant space, we have introduced an online retailer who wanted a presence in Carnaby, and a new restaurant concept.

Thomas Neal's Warehouse (0.6% of ERV¹)



In the heart of Seven Dials, Thomas Neal's Warehouse is a unique flagship retail unit extending to 22,800 sq. ft. including 3,000 sq. ft. of restaurant space. In autumn 2017, we agreed terms with an international retailer over the whole space but in August 2018 they withdrew. At 30 September 2018, this unit was under offer again, and recently we have completed the lease. Opening in summer 2019, this food hall concept will further strengthen Seven Dials as a popular and distinctive retail and leisure destination.

Central Cross, Chinatown (2.6% of ERV¹)



Located at the eastern gateway to Chinatown, our scheme provides 28,500 sq. ft. of retail space and 20,400 sq. ft. of restaurant and café accommodation. At 30 September 2018, 76% of the scheme was let or under offer. Subsequently, we have placed another unit under offer, but one offer has been withdrawn. At 26 November 2018, the scheme was 70% let or under offer:

- Eight of the nine restaurant, café and leisure units (ERV: £1.8 million) had been let and one (ERV: £0.3 million) was under offer.
- Two retail units (ERV: £0.5 million) were under offer and three units (ERV: £1.1 million), extending to 19,400 sq. ft., were available and are being marketed.

1 Wholly-owned portfolio

2 Letting status at 26 November 2018

EPRA vacancy¹ at 30 September 2018

	Restaurants, cafés and leisure	Shops	Offices	Residential	Total	% of total ERV 2018	% of total ERV 2017
Larger schemes²							
Under offer	-	1.9	-	-	1.9	1.3%	0.2%
Available-to-let	0.3	0.6	-	-	0.9	0.6%	3.3%
	0.3	2.5	-	-	2.8	1.9%	3.5%
Other vacancy							
Under offer	0.2	1.4	0.1	0.1	1.8	1.3%	0.8%
Available-to-let	0.2	1.2	0.5	0.1	2.0	1.4%	1.7%
	0.4	2.6	0.6	0.2	3.8	2.7%	2.5%
Total							
Under offer	0.2	3.3	0.1	0.1	3.7	2.6%	1.0%
Available-to-let	0.5	1.8	0.5	0.1	2.9	2.0%	5.0%

EPRA vacancy¹

EPRA vacancy decreased by 1.4% to 4.6% of total ERV over the year, following letting progress at our larger schemes. Excluding these larger schemes, EPRA vacancy was 2.7%, of which 1.3% was under offer.

Other vacancy

Excluding larger schemes, available-to-let vacancy comprised nine shops (ERV: £1.2 million), 8,000 sq. ft. of office space (ERV: £0.5 million), one restaurant and one café (ERV: £0.2 million) and two apartments (ERV: £0.1 million). Space under offer included eight shops, two restaurants, 1,500 sq. ft. of offices and three flats.

In the Longmartin joint venture, four shops (8,400 sq. ft.), one apartment and 5,700 sq. ft. of office space were available. The ERV of our 50% share of this space was £0.7 million, of which £0.3 million was under offer.

Asset management activity

Conservation status and listed building legislation limits wholesale development in our areas. However, through refurbishment and reconfiguration, we improve our buildings to improve their income prospects and unlock value. This involves a combination of:

- maximising trading space across the lower floors.
- converting under-utilised space on upper floors to introduce more valuable uses.
- improving environmental performance.

Annual capital expenditure is normally around 1% of portfolio value. Whilst capital outlay on schemes is generally modest, often the loss of income is a relatively large part of the overall cost.

Schemes during the year extended to 177,200 sq. ft. (9.7% of wholly-owned floor space). Capital expenditure totalled £25.3 million, representing 0.7% of wholly-owned portfolio value. This included £4.8 million in respect of 57 Broadwick Street, Carnaby.

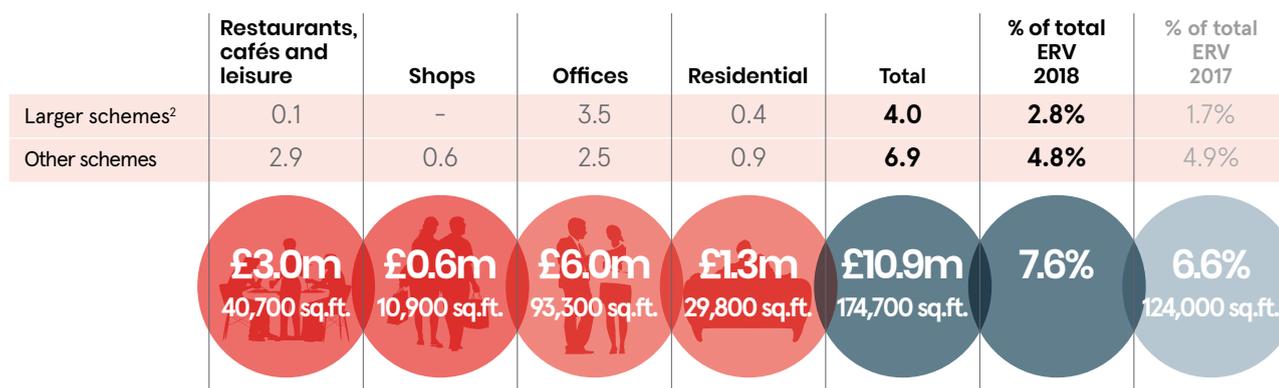
At 30 September 2018, vacant space held for, or under, refurbishment extended to 174,700 sq. ft. and represented 7.6% of ERV. This included 65,300 sq. ft. at 72 Broadwick Street, where we recently secured vacant possession.

During the year, schemes with an ERV of £8.1 million completed, including 57 Broadwick Street, Carnaby. New schemes with an ERV of £10.0 million commenced, of which our larger scheme at 72 Broadwick Street, Carnaby, accounted for £4.0 million. Our current schemes are not expected to make a significant contribution to revenue in the year ending 30 September 2019.

¹ Wholly-owned portfolio

² Thomas Neal's Warehouse and Central Cross

Vacant space¹ held for, or under, refurbishment at 30 September 2018



Other schemes

Excluding 72 Broadwick Street, we had 47 other schemes underway at 30 September 2018, extending to 109,400 sq. ft. and representing 4.8% of ERV. These included 39,600 sq. ft. of restaurants and cafés (ERV: £2.9 million), 10,900 sq. ft. of shops (ERV: £0.6 million), 39,500 sq. ft. of office space (ERV: £2.5 million), and 32 apartments either being created or upgraded (ERV: £0.9 million). These included some medium-sized schemes, as set out below.

Longmartin

In the Longmartin joint venture, our share of capital expenditure in the period was £2.4 million. At 30 September 2018, the ERV of our 50% share of space held for refurbishment was £0.9 million. This included:

- Our mixed-use commercial scheme on the corner of Long Acre and Upper St Martin's Lane, currently on track to complete in spring 2019. Our share of the cost is £4.6 million of which £3.1 million has been spent to date.
- A scheme to improve St Martin's Courtyard, including creating two new restaurants whilst reconfiguring a third, which we will commence shortly. Expected to complete in autumn 2019, our share of the cost is £3.7 million.

Public realm improvements

We identify and contribute to public realm improvements in our villages. In our experience, creating safe and welcoming environments is an important catalyst for long-term growth in footfall and spending.

During the year, the scheme to improve the pedestrian environment on the west section of Earham Street completed. Together with the recently-completed improvements to Cambridge Circus, we are seeing increased footfall already, and expect this to grow further once the Elizabeth Line opens.

Westminster City Council's extensive public realm scheme encompassing Newport Place and Newport Court, which we have funded, is now complete and has transformed the eastern end of Chinatown. The new part-pedestrianised public square in Newport Place will provide a focal point for visitors, and, subject to planning and licensing, will provide the opportunity for al fresco dining for the first time in Chinatown.

Scheme	Description	Estimated cost £m	Costs to date £m	Estimated completion
1 Gerrard Place, Chinatown	Reconfiguration to create two restaurants, including active frontage in Horse & Dolphin Yard, and 9 apartments	6.4	1.1	Autumn 2019
45/49 Charing Cross Road, Chinatown	Reconfiguration and extension to provide new flagship restaurant space at this gateway to Chinatown and five apartments	3.6	0.8	Summer 2019
50 Marshall Street, Carnaby	Creation of retail unit and refurbishment and extension of office space.	5.0	–	Summer 2020
1 Little Marlborough Street, Carnaby	Office extension and refurbishment	2.6	0.6	Summer 2019

¹ Wholly-owned portfolio

² 2018: 72 Broadwick Street, 2017: 57 Broadwick Street

Read more on 72 Broadwick Street on page 50

Read more on public realm improvements on page 72



We are supporters of the arts

With over 40 live theatres, world-class museums, galleries and live music venues, the arts are an important part of the patchwork of features which make the West End so special. Our support, provided in a variety of ways, some of which are noted here, helps ensure the West End continues to be a thriving cultural and creative hub.

Left: We participated in Lumiere London 2018, the UK's largest light festival. Featuring more than 50 artworks by UK and international artists, the festival attracted huge numbers of visitors.

We contributed a number of pieces, including puppeteer-operated flame-coloured flamingos in Chinatown, our giant plug, bulbs and Shaida Walking installations in Carnaby and, in Seven Dials, an iconic telephone box which had been transformed into a contemporary aquarium.

Shaftesbury and the arts

Donmar

We are a corporate sponsor of this not-for-profit theatre in Seven Dials, which is renowned for its diverse artistic policy and exceptional educational work with young people and budding artists.

ENO community choir

We are founding funders of this choir, which is open to all who live or work in Westminster, providing the opportunity to learn, sing with professional opera singers, attend dress rehearsals at the Coliseum and sing in public.

Soundtrack

As part of the Mayor of London's "Sounds like London" campaign, Soundtrack was a popular one-day music festival in Seven Dials, which showcased up and coming music, comedy and theatre acts.

Stage One

Through subsidised space, we help this charity which aids aspiring theatre producers get on the career ladder and provides them with valuable co-working space.

Soho Music Month

Carnaby and Soho celebrated Soho Music Month in June. Events included an all-female record market in Berwick Street, and an exhibition, Platform LDN, in Carnaby. Many tenants participated, putting on music sessions and hosting events. There was also an educational element with local students working towards their Open College Network qualification.

Acquisitions

Whilst the availability of assets to buy continues to be limited, during the year, we secured acquisitions totalling £167.8 million.



Andrew Price
Portfolio Executive

Acquisitions

When seeking out new acquisitions, we remain disciplined, concentrating on buildings:

- in, and around, our areas;
- 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.

72 Broadwick Street, Carnaby

In early December 2017, we acquired the freehold of 72 Broadwick Street, situated at the important eastern gateway to Carnaby, for £92.1 million.

The Group already owned an ungeared long leasehold interest over 13,900 sq. ft. of retail and café space in the lower floors of the building. Acquiring the freehold gave us control over this important 0.5 acre site, which, on purchase, provided 54,100 sq. ft. of office accommodation, eleven apartments extending to 11,200 sq. ft. and a large basement car park.

In September 2018, we secured vacant possession of the office and residential space, and held a public consultation on our plans for this building, which include:

- introducing new retail, restaurant and leisure uses;
- relocating the office and residential entrances;
- refurbishing and extending the remaining office space; and
- reconfiguring and upgrading the residential accommodation.

We will be submitting a formal planning application shortly and, subject to receiving the necessary consents, expect to start our works in summer 2019. Ahead of this, we have commenced stripping out the space.

We estimate our enhanced scheme will take two years at a cost of around £30 million.

Neal Street, Seven Dials

In late December 2017, we acquired six shops on Neal Street, Seven Dials, for £24.4 million. Adjacent to existing holdings, these buildings increase our ownership of frontages on the northern section of Neal Street to around 70%.

Situated close to the Tottenham Court Road Crossrail hub, we expect the northern end of Neal Street to see material footfall growth once the Elizabeth Line service starts next year. Current rental tones on this part of the street are significantly lower than at the southern end. However, with the benefit of growing footfall and our careful curation, we expect this differential in rents will narrow significantly over the medium term.

Great Marlborough Street, Carnaby

In March 2018, we purchased the freehold of 35 and 36 Great Marlborough Street, for £22.5 million. Located at the busy northern gateway to Carnaby, the buildings comprise two food retail units (3,000 sq. ft.) and 4,250 sq. ft. of office accommodation on the upper floors.

We are discussing plans with Westminster City Council to improve the street-scape in the vicinity, which, together with our wider estate management strategy, will improve medium-term rental growth prospects for this part of Carnaby.

Other acquisitions

Other acquisitions during the year totalled £28.8 million. These additions to our portfolio in Carnaby, Covent Garden, Chinatown and Soho comprised one restaurant, one café, one bar, one shop, 9,200 sq. ft. of office space and one apartment. These offer the potential for good rental and capital growth through short and medium-term asset management initiatives.

90-104 Berwick Street, Soho (forward purchase)

The redevelopment of 90-104 Berwick Street, Soho, which we have contracted to purchase once it has been completed, has been delayed. We now anticipate completing the acquisition of this long leasehold interest, for £41 million, including acquisition costs, in mid-2019.

Located at the southern end of Berwick Street, the development will provide 12,500 sq. ft. of retail, a 5,500 sq. ft. supermarket, a 2,000 sq. ft. restaurant and a 110-bedroom hotel. Both the hotel and supermarket have been pre-let, representing two thirds of the expected income from the property. Following this acquisition, we will own around 50% of Berwick Street's frontages.

Financial results



Chris Ward
Finance Director

£93.8m **£175.5m**

net property income

+6.2%

profit after tax

(41.8)%

58.1p

basic EPS

(46.3)%

16.8p

dividends per share

+5.0%

£51.7m

EPRA earnings¹

+14.4%

17.1p

EPRA EPS¹

+5.6%

£9.91

EPRA NAV¹

+4.1%

Presentation of financial information

EPRA measures

As is usual practice in our sector, we produce alternative measures for certain indicators, including earnings, making adjustments set out by EPRA in its Best Practice and Policy Recommendations.

EPRA earnings are a measure of the level of underlying operating results and an indication of the extent to which current dividend payments are supported by recurring earnings. In our case, EPRA earnings exclude portfolio valuation movements, profits on disposal of investment properties and deferred tax arising in our Longmartin joint venture. In 2017, it also excluded fair value movements in respect of interest rate swaps, until they were cancelled in September 2017.

EPRA NAV is a sector-recognised benchmark, which makes adjustments to reported NAV to provide a measure of the fair value of net assets on a long-term basis. Assets and liabilities which are not expected to crystallise in normal circumstances are excluded. In our case, the calculation excludes deferred tax related to property valuation surpluses in the Longmartin joint venture.

Net asset value return measures shareholder value creation, taking into account the growth in EPRA NAV together with dividends paid in the year.

Presentation of investment properties and debt

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

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

Internally, management consider the valuation of properties and our debt position on a proportionally consolidated basis, including our 50% share of the joint venture. Consequently, the analysis of the valuation on pages 42 to 44 and the finance review on pages 55 to 56 are presented on this proportionally consolidated basis.

We consider that this presentation better explains to stakeholders the Group's activities and financial position. Measures presented on a proportional consolidation basis are alternative performance measures (APMs) as they are not defined under IFRS.

Further details on APMs used in this annual report, and how they reconcile to IFRS, are set out on page 140.

¹ An alternative performance measure. See page 140

Income statement

	2018 £m	2017 £m
Net property income	93.8	88.3
Administrative expenses	(13.7)	(14.1)
Valuation gains and disposal profits	127.7	231.7
Operating profit	207.8	305.9
Net finance costs	(31.2)	(32.7)
Interest rate swaps fair value movements	-	22.0
Share of Longmartin post-tax results	(1.1)	6.4
Profit before tax	175.5	301.6
Tax	-	-
Reported earnings for the year	175.5	301.6
Basic earnings per share	58.1p	108.1p
EPRA earnings¹	51.7	45.2
EPRA earnings per share¹	17.1p	16.2p

Profit after tax

Profit after tax for the year was £175.5 million (2017: £301.6 million) and basic earnings per share was 58.1p (2017: 108.1p). The decrease in profit after tax was largely due to a lower revaluation surplus in the wholly-owned portfolio this year. Together with disposal profits, this contributed £127.7 million (2017: £231.7 million).

Additionally, earnings were boosted last year by a gain on the fair value of interest rate swaps of £22.0 million. These swaps were cancelled in September 2017.

Higher net property income, lower administrative costs, and reduced net finance costs, together, increased profit after tax by £7.4 million. This was partly offset by a post-tax loss in the Longmartin joint venture, our share of which reduced earnings by £1.1 million in 2018, compared with a profit in 2017 of £6.4 million. The results of the joint venture are set out on page 53.

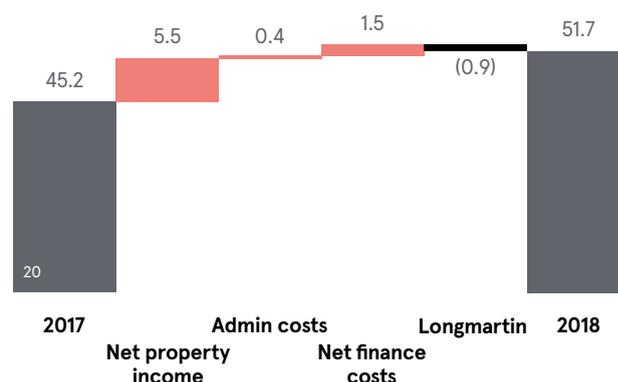
EPRA earnings¹

EPRA earnings increased by 14.4% to £51.7 million (2017: £45.2 million) and EPRA earnings per share grew 5.6% to 17.1p (2017: 16.2p). The smaller relative increase in EPRA earnings per share, compared with that for EPRA earnings, reflects the additional shares in issue following the equity placing in December 2017.

EPRA earnings are reconciled to profit after tax in note 22 to the financial statements.

The increase in EPRA earnings was driven principally by growth in net property income and lower net finance costs, partly offset by lower net property income in the Longmartin joint venture, largely due to scheme vacancy.

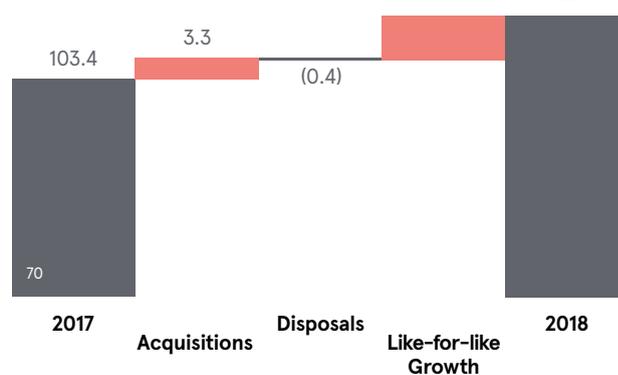
EPRA earnings¹



Net property income

Rents receivable increased by 9.1% to £112.8 million (2017: £103.4 million), reflecting continued conversion of our portfolio's reversionary potential into contracted cash flow, together with the impact of acquisitions. Excluding acquisitions and disposals, the like-for-like increase was 6.4%. Turnover-related rental top-ups made a useful contribution, totalling £1.1 million (2017: £0.7 million). Acquisitions accounted for £3.3 million of the increase, while disposals reduced rents receivable by £0.4 million compared with last year.

Rents receivable



Irrecoverable property charges were £19.0 million (2017: £15.1 million). The increase in property operating costs reflects:

- growing our promotional and social media activities, an essential aspect of our strategy to drive footfall and spending;
- a high incidence of repairs and maintenance projects in the year, the cost of which is only partly recoverable through service charges;
- increases in estate management costs; and
- buying in leases to allow us to improve our tenant mix.

Net property income was £93.8 million, up 6.2% (2017: £88.3 million).

Portfolio valuation: pages 42 to 44

Read more on the equity placing on page 56

Acquisitions: page 50

Promoting our destinations: page 21

Administrative expenses

Administrative expenses amounted to £13.7 million (2017: £14.1 million). Despite increased headcount, employee costs were £1.4 million lower than in 2017, due to decreased charges for variable compensation. Other administrative costs were £1.0 million higher than last year, largely as a result of increased professional fees and irrecoverable VAT.

Valuation gains and disposal profits

Our wholly-owned portfolio's revaluation surplus was £123.1 million (2017: £230.6 million), representing like-for-like valuation growth of 4.2% (2017: 7.5%), principally driven by a like-for-like increase in ERV of 2.6% (2017: 3.4%) and yield compression of five basis points (2017: 11 basis points compression).

Disposals of non-core properties generated net proceeds, after sale costs, of £13.3 million (2017: £13.4 million) and a surplus over 2017 book value of £4.6 million (2017: £1.1 million). These included three shops, 1,875 sq. ft. of office space and three apartments, as well as nine lease extension premiums received from residential long leaseholders.

Net finance costs

Net finance costs decreased by £1.5 million to £31.2 million (2017: £32.7 million). This reflects the benefits of reduced borrowing costs following the refinancing last year, together with lower net debt and higher interest income following the equity placing in December 2017. These savings were partly offset by an accelerated write-off of previously unamortised loan issue costs, totalling £0.3 million, following the refinancing of our bank facilities in February 2018.

Tax

As a REIT, the Group's activities are largely exempt from corporation tax. As a result, there is no tax charge in the year (2017: £Nil).

As with most businesses, we do collect and pay other taxes and levies e.g. payroll taxes, VAT, stamp duty land tax, business rates, and withholding tax on Property Income Distributions. During the year, the total amount paid in respect of these taxes amounted to £29.2 million (2017: £18.1 million). In addition, our share of taxes, including corporation tax, levied on, or collected by, the Longmartin joint venture was £1.8 million (2017: £0.9 million).

Tax strategy

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

Annual bonus outcome: page 100

Portfolio valuation: pages 42 to 44

Share of Longmartin post-tax results

Following the reduction in the valuation of Longmartin's investment property (see page 43), the joint venture delivered a loss after tax for the year, our 50% share of which was £1.1 million (2017: profit of £6.4 million).

Our share of the revaluation deficit was £5.0 million, compared with a surplus last year of £2.6 million. Excluding this revaluation loss and the related deferred tax credit, our share of EPRA earnings¹ from the Longmartin joint venture decreased by £0.9 million to £2.8 million (2017: £3.7 million). This reduction was largely due to scheme-related vacancy during the year and the benefit, last year, of back-rents following rent review settlements.

Dividends

Dividend strategy

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

Notwithstanding this distribution requirement, our dividend policy is to maintain steady growth in dividends, reflecting the long-term trend in our income and EPRA earnings, adjusted to add back the non-cash accounting charge for equity-settled remuneration. To the extent that dividends exceed the amount available to distribute as a PID, we pay the balance as ordinary dividends. Principal risks and uncertainties, including those which might affect income and earnings, are set out on pages 59 to 60.

The Board monitors the Group's ability to pay dividends out of available resources and distributable reserves. Prospective dividend payments are estimated in our forecasts, which also take into consideration future liquidity requirements. At 30 September 2018, we had distributable reserves of £222.2 million. It is our policy, where possible, for subsidiary companies to distribute the majority of their distributable profits to Shaftesbury PLC annually. Currently, there are no restrictions on any subsidiaries' ability to distribute profits.

The Board has recommended a final dividend of 8.5 pence per share, an increase of 4.9% on last year's final dividend (2017: 8.1 pence). This brings the total dividend for the year to 16.8 pence per share, an increase of 5.0% on 2017 (16.0 pence).

This increase reflects growth in net property income and earnings enhancements from last year's refinancing. Total dividends for the year are covered 1.02 times by EPRA earnings per share¹ and 1.03 times by adjusted earnings per share¹, after adding back the non-cash accounting share option charge of £0.6 million (2017: £1.4 million).

Financial management: pages 55 to 56

¹ An alternative performance measure. See page 140

The total distribution for the year will be £51.6 million, 9.6% higher than last year (2017: £47.1 million). This reflects the increased dividend per share and the greater number of shares now in issue, and is fully covered by adjusted EPRA earnings¹ of £52.3 million.

If approved at the 2019 AGM, the final dividend will be paid on 15 February 2019 as an ordinary dividend.

Dividends vs adjusted earnings¹ (pence per share)

Dividends 5-year CAGR: 6.1%



Balance Sheet

	2018 £m	2017 £m
Investment properties	3,714.8	3,407.3
Investment in joint venture	143.9	148.0
Net debt	(841.3)	(914.2)
Other net assets	15.6	5.8
Net assets	3,033.0	2,646.9
NAV per share¹	£9.87	£9.49
EPRA NAV per share¹	£9.91	£9.52
Net asset value return¹	5.8%	8.9%

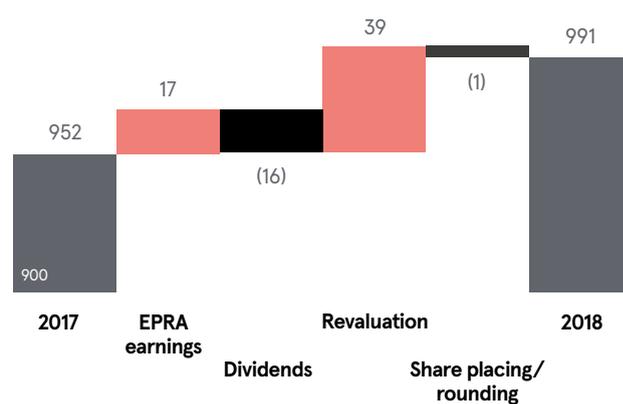
Net assets

Net assets increased by £386.1 million, predominantly due to the equity placing in December 2017, which added £260.4 million, and profit after tax of £175.5 million, partly offset by dividends paid which totalled £50.6 million.

EPRA NAV

EPRA NAV per share¹ increased by 39p (4.1%) to £9.91 during the year (2017: £9.52). Revaluation surpluses, including disposal profits, added 39p, comprising 41p from the wholly-owned portfolio less our share of the revaluation deficit in the Longmartin joint venture. EPRA earnings of 17.1p per share largely were offset by dividends paid (16.4p per share). EPRA NAV is reconciled to net assets in note 22 to the financial statements.

EPRA NAV¹ (pence per share)



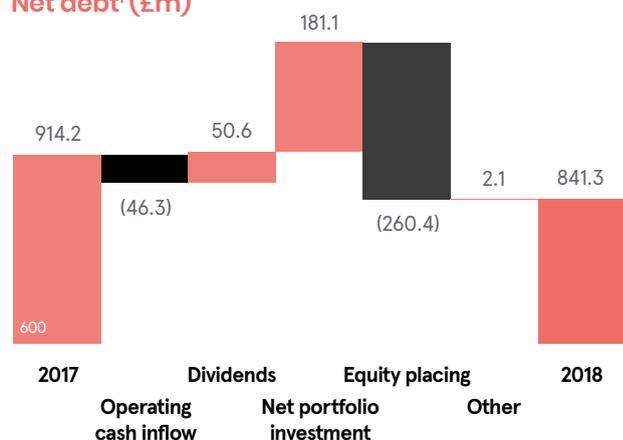
Cash flows and net debt

Net debt decreased by £72.9 million to £841.3 million (2017: £914.2 million). The major cash flows were:

- net proceeds from the share placing of £260.4 million.
- net capital investment in our portfolio of £181.1 million.
- operating cash inflow totalling £46.3 million.
- dividends paid amounting to £50.6 million.

Net cash flows from investing activities in respect of the Longmartin joint venture were nil, following receipt of dividends totalling £3.0 million, offset by an equal amount advanced under the shareholder loan agreement.

Net debt¹ (£m)



¹ An alternative performance measure. See page 140

Financial management

Equity placing and refinancing activities completed during the year. Long-term financing and available resources continue to support our long-term investment strategy.

Our approach to financial management

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. Debt provides capital for investment in our portfolio.

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.

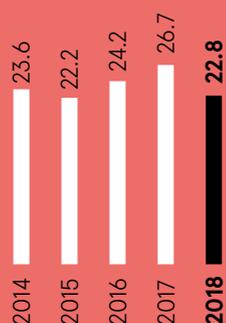
We seek to minimise financing risk and whilst we do not set out loan-to-value targets, over the long term, we would expect debt to represent around one third of our invested capital. Typically, when gearing approaches the upper limit of our tolerance, we look to secure additional equity funding to provide financial capacity for continued investment in our portfolio.

Key aspects of our debt arrangements are:

- **Conservative leverage** We use debt to enhance, not drive, returns.
- **Spread of maturities and sources of finance** Reduces refinancing risk.
- **Long-term arrangements form the core of our debt finance** Consistent with the long-term nature of our portfolio and secure income streams.
- **Medium-term revolving facilities** Provide flexibility and the ability to act swiftly when acquiring properties.
- **Majority of interest is fixed** Limits exposure to interest rate risk.

Loan to value^{1,3,4}

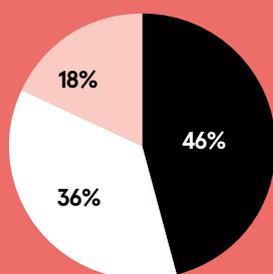
22.8%



Sources of finance¹

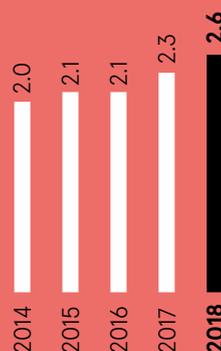
£1.2bn

■ Bonds⁵ ■ Term loans⁵
■ Revolving bank facilities⁶



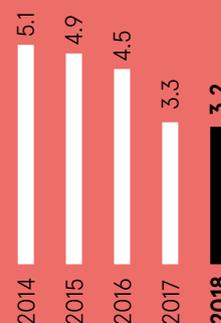
Interest cover^{1,4}

2.6x



Blended cost of debt^{1,2,4}

3.2%



1 Including our 50% share of Longmartin debt. See presentation of financial information on page 51

2 Including non-utilisation fees on undrawn bank facilities

3 Based on net debt

4 An Alternative Performance Measure (APM). See page 140

5 Fixed rate

6 Variable rate

Share issue

On 6 December 2017, we strengthened our equity base, through a non pre-emptive issue of 27,855,508 million new ordinary shares, representing approximately 9.98% of our issued share capital at the time. The shares were issued at £9.52 per share, which equated to EPRA NAV at 30 September 2017 and represented a discount of 4.9% to the closing price of £10.01 per existing ordinary share on 5 December 2017. After issue costs of £4.8 million, net proceeds were £260.4 million, representing a total discount of approximately 6.59%.

The placing was to finance:

- the acquisition of 72 Broadwick Street, Carnaby, and additional anticipated capital expenditure;
- the forward purchase of a long-leasehold interest in 90-104 Berwick Street; and
- other property acquisitions, totalling £9.0 million, in the preceding six months.

The remainder of the proceeds were raised to provide financial capacity for further acquisitions, as opportunities arise, and to fund value-enhancing schemes.

At 30 September 2018, all of the net proceeds had been spent or earmarked for acquisitions and schemes.

Use of proceeds at 30 September 2018

	£m
Gross proceeds	265.2
Issue costs	(4.8)
Net proceeds	260.4
Amounts deployed to date	
Acquisitions	
- Completed in the 6 months preceding the placing and £2m deposit for 90-104 Berwick Street	11.0
- Completed since the share issue	167.8
Capital expenditure to date	17.4
	196.2
Amounts earmarked for investment	
- 90-104 Berwick Street (net of deposit)	39.0
- Contribution to anticipated capital expenditure for our enhanced scheme at 72 Broadwick Street	25.2
	64.2
Total deployed or earmarked for deployment	260.4

Related party disclosures relevant to the share issue are set out in note 17 to the financial statements. We had not issued shares for cash on a non pre-emptive basis during the three-year period preceding December 2017.

Refinancing bank facilities

In February 2018, we restructured our revolving bank facilities with arrangements as follows:

- £125 million facility extended from 2020 to 2022.
- new £100 million facility maturing in 2023, replacing a £150 million facility which was due to mature in November 2018.

In line with our approach to financial management, as we invest further in our portfolio, we shall utilise these facilities and raise additional new debt facilities to support our long-term strategy, whilst maintaining a balance between equity and debt which avoids the risks inherent in excessive leverage for this business.

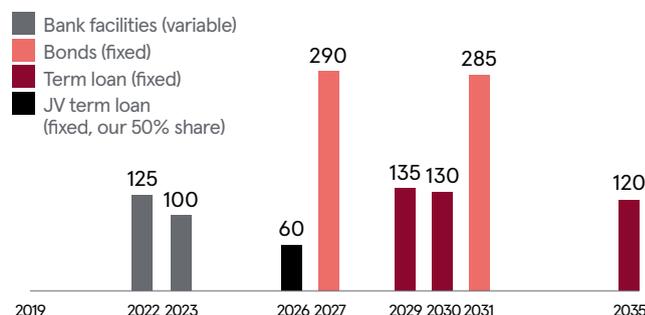
	2018 £m	2017 £m
Finance summary		
Reported net debt	841.3	914.2
Net debt (including 50% share of the Longmartin joint venture) ^{1,5}	900.0	973.6
Cash and cash equivalents	118.5	45.6
Undrawn floating rate facilities	225.0	275.0
Available resources	343.5	320.6

At 30 September 2018, available resources amounted to £343.5 million, of which £92.7 million will be used to fund capital commitments at that date, the anticipated capital expenditure at 72 Broadwick Street, and our share of scheme costs in the Longmartin joint venture.

	2018 £m	2017 £m
Debt metrics¹		
Loan-to-value ^{4,5}	22.8%	26.7%
Gearing ^{3,4,5}	29.5%	36.5%
Interest cover ⁵	2.6x	2.3x
% debt fixed	100%	100%
Blended cost of debt ^{2,5}	3.2%	3.3%
Marginal cost of undrawn floating rate facilities	1.6%	1.2%
Weighted average maturity (years)	10.2	10.3

Debt maturity profile (£m)¹

Weighted average maturity: 10.2 years



1 Including our 50% share of Longmartin debt. See presentation of financial information on page 51

2 Including non-utilisation fees on undrawn bank facilities

3 Based on EPRA net assets

4 Based on net debt

5 An Alternative Performance Measure (APM). See page 140

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 61.

Context and risk appetite

We invest exclusively in London’s West End, a location of which our management team has a forensic knowledge and which has shown significantly greater long-term growth and economic stability through the property cycles than the wider real estate market.

Our strategy has delivered long-term success for the Group. However, inevitably our geographic concentration is an inherent risk and there are certain external factors which we cannot control. However, in the execution of our strategy, we seek to structure the Group’s operations to minimise exposure to operational and financial risks, recognising that our appetite to risk varies across different elements of our strategy, as follows:



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

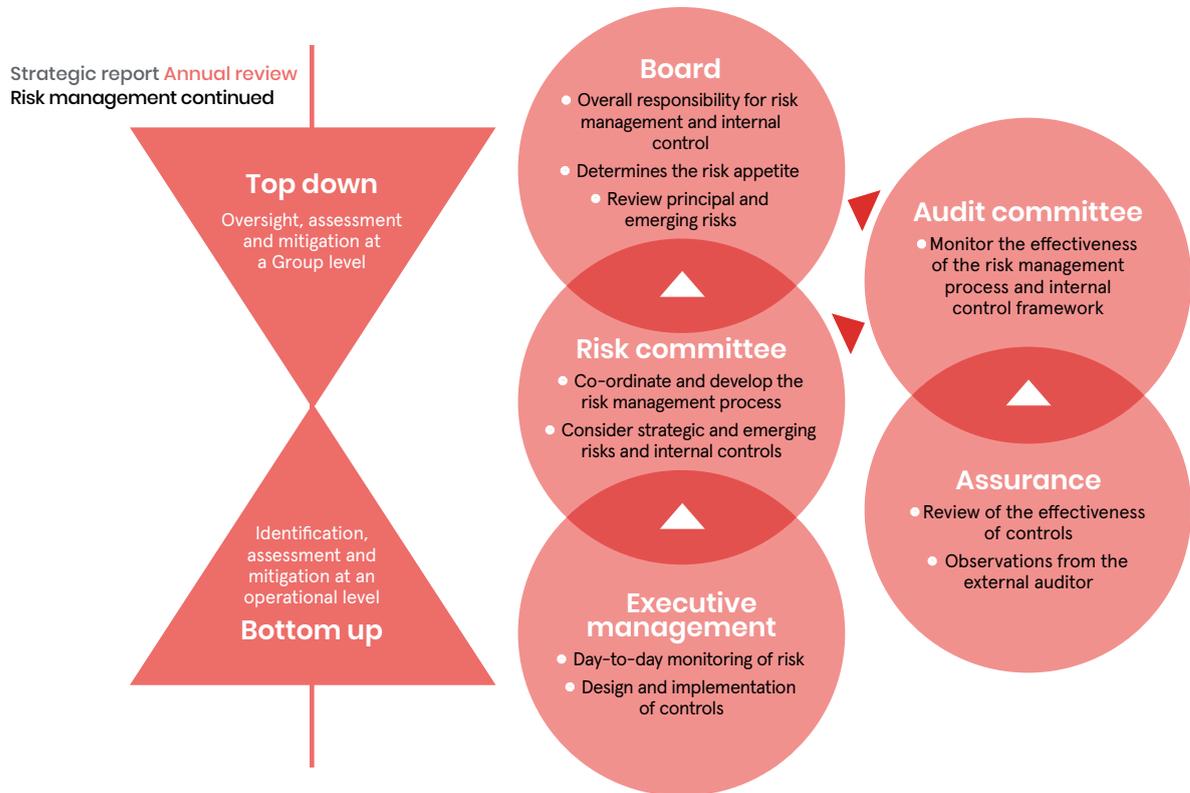
- Our experienced senior leadership team, with an average tenure of 16 years, has an in-depth knowledge of our business and the West End property market. We are based in one location, close to all our holdings;
- The nature of our portfolio does not expose us to risks inherent in material speculative development schemes;
- With a diverse tenant base, there is limited exposure to any single occupier;
- 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;
- Our culture encourages open dialogue within the management team and with the wide range of external advisors we employ in running the business;
- The organisation of our Group structure is simple and transparent; and
- Our governance framework includes clearly defined responsibilities and limits of authority.

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

Senior management 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 on the basis of long-term benefit, rather than short-term gain.

- Exceptional portfolio in the heart of the West End: page 12
- Asset management activity: pages 46 to 47
- Restaurants, cafés, leisure and retail: pages 22 to 25
- Financial management: pages 55 to 56

- Culture: page 39
- Sustainability and stakeholders: pages 34 to 39
- Governance: pages 74 to 79
- Remuneration report: pages 86 to 88



How we monitor and manage risk

Roles and responsibilities in managing our risk and controls framework are summarised above.

The Board has overall responsibility for risk management and the systems of internal control. 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.

Executive management are closely involved with day-to-day operations. Issues are dealt with as they arise and, where significant, are discussed more widely with the executive team. This ensures an awareness of the risk and solutions adopted. Challenges that have arisen and how risks have changed are key inputs from executive management to the Risk Committee.

The day-to-day management of the Group's portfolio is outsourced to two managing agents. The Group monitors their performance 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 their internal control assessments with the Group.

During the year, areas of focus included:

Topic	Actions
GDPR	Project to implement the requirements of GDPR, including training for all staff.
Cyber security	External review of our arrangements.
Reputation management	Crisis communications training for senior management

In the coming year, we plan to review tax procedures in relation to both the "Senior Accounting Officer" regime and preventing the facilitation of tax evasion. Also, we plan to carry out an audit on one of our managing agent's processes.

The Risk Committee, comprising a mix of executive directors and members of the senior management team, co-ordinates and develops the risk management and controls framework. It meets twice a year, or more frequently as needed, and reports to the Audit Committee and Board.

Risk Committee – key activities

- Review and assessment of the Group's risk register;
- Identification of new and emerging risks;
- Provide support in defining risk appetite;
- Assess and review the Group's control environment; and
- Assess the effectiveness of the Group's controls.

During the year, we commissioned an external review of the Risk Committee's activities to ensure it remains effective and meets the needs of the business, now and into the future.

How we assess risk and internal controls

Significant risks and mitigating controls are detailed in the risk register.

Risks are considered in terms of the likelihood of occurrence and their potential impact on the business. In assessing impact, a number of criteria are considered including the effect on our strategic objectives, operational or financial matters, our reputation, stakeholder relationships, health and safety and regulatory matters. Risks are assessed on both gross (assuming no controls are in place) and residual (after mitigation) bases.

To the extent that significant risks, failings or control weaknesses arise during the year, appropriate action is taken to rectify the issue and implement controls to mitigate further occurrences.

During the year, executive management assessed the effectiveness of key controls, reporting their findings to the Audit Committee. The review did not identify any significant control failings. In the coming year, it is anticipated that the effectiveness of these key controls will be reviewed independently, to provide third-party assurance.

The Group's processes and procedures to identify, assess, and manage its principal risks and uncertainties were in place throughout the year and remained in place up to the date of the approval of the Annual Report.

Principal risks and uncertainties

The Board has carried out a robust assessment of the principal and emerging 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, their mitigation and the evolution of risk during the year are set out below. They are largely consistent with those reported in 2017, although now include the potential impact of a disorderly Brexit.

Other risks discussed, but, through mitigation, currently are not considered to be principal risks or uncertainties included:

Market	Failure to adapt to changing market conditions or competition Failure to anticipate changes in profitability
Reputation	Misconduct or poor operational standards by third party agents Damage to reputation with stakeholders
Governance, data and internal control	Significant cyber security breach leading to disruption and/or loss of data Expulsion from REIT regime through non-compliance Health and safety issues Failure to meet our corporate social responsibility objectives Failure to meet financial or tax compliance obligations
People	Attracting, retaining and developing talented people Succession planning

Emerging risks include the well-publicised headwinds affecting the retail sector, including future consumer trends and technological disruption to the retail landscape. These topics are considered regularly so that we can adapt to ensure our destinations remain distinctive and interesting.

This report should be read in conjunction with the viability statement on page 61.

Reduction of spending and/or footfall in our areas

Spending and footfall are important ingredients for the success of our restaurant, leisure and retail tenants

Potential causes

- Fall in the popularity of the West End and particularly our areas leading to decreasing visitor numbers
- Changes in consumer tastes, habits and spending power
- Terrorism or the threat of terrorism
- Competing destinations

Consequences

- Reduced tenant profitability
- Reduced occupier demand
- Higher vacancy
- Reduced rental income and declining earnings
- Reduced ERV, capital values and NAV (amplified by gearing)

Mitigation

- Focus on areas and uses which have a long history of growth and resilience
- Ensure our areas maintain a distinct identity
- Seek out new concepts, brands and ideas to keep our areas vibrant and appealing
- Active promotion of our areas
- Tourism and retail/leisure spending in the West End are not solely reliant on the wider-UK economy
- Regular Board monitoring of performance and prospects
- KPI to deliver sustainable rental growth

Link to strategy 1 2 3

Evolution of risk →

Residual risk within appetite ✓

- 1 Exceptional portfolio in the heart of London's West End: page 12
- 2 Focus on restaurants, leisure and retail: page 17
- 3 Curating distinctive and lively destinations: page 20
- 4 Financial management: pages 55 to 56

Changes in planning and licensing regulations

All our properties are in the boroughs of Westminster and Camden. Changes to policies may limit our ability to maximise the long-term potential of our portfolio

Potential causes

- Unfavourable changes to national or local planning and licensing policies
- Tenants acting outside of planning/licensing consents

Consequences

- Ability to maximise the growth prospects of our assets limited
- Reduced occupier demand
- Reduced earnings
- Decrease in property values and NAV (amplified by gearing)

Mitigation

- Ensure our properties are operated in compliance with local regulations
- Make representations on proposed policy changes, to ensure our views and experience are considered
- Use of specialist advisors on planning and licensing
- Monitoring of tenant compliance with planning consents and licences
- Mix of uses in our portfolio means we are not reliant on income from one particular use

Link to strategy 2

Evolution of risk →

Residual risk within appetite ✓

Macroeconomic factors

Impact of economic and political uncertainty, including a disorderly Brexit

Potential causes

- Unforeseen macroeconomic shocks or events
- Disorderly Brexit
- Upward cost pressures

Consequences

- Lower consumer confidence
- Reduced visitor numbers
- Reduced tenant profitability
- Reduced occupier demand
- Pressure on rents
- Higher vacancy
- Reduced rental income and declining earnings
- Reduced ERV, capital values and NAV (amplified by gearing)
- Specifically in the case of a disorderly Brexit, tenants could suffer:
 - Staff shortages
 - Increased import prices
 - Longer lead times and lower availability of stock

Mitigation

- Focus on locations and uses which historically have proved to be economically resilient
- Tourism and retail/leisure spending in the West End are not reliant on the wider-UK economy
- Active promotion of our areas
- Diverse tenant base with limited exposure to any one tenant
- Tenant deposits held against unpaid rent obligations at 30 September 2018: £20.6 million.

Link to strategy 1 2 3

Evolution of risk ↗

The increased rating reflects continued uncertainty as our EU departure approaches

Residual risk within appetite ✓

Decline in the UK real estate market

Changes to macroeconomic outlook

Potential causes

- Changes to global political landscape
- Increasing bond yields and cost of finance
- Reduced availability of capital and finance
- Lower relative attractiveness of property compared with other asset classes

Consequences

- Reduced property values
- Decrease in NAV (amplified by gearing)
- Risk of loan covenant breaches
- Ability to raise new debt funding curtailed

Mitigation

- Focus on assets, locations and uses where there is a structural imbalance between availability of space and demand, and which historically have demonstrated much lower valuation volatility than the wider UK property market
- Regular review of investment market conditions including bi-annual external valuations
- Conservative levels of leverage
- Spread of sources of finance and loan maturities
- Quarterly forecasts including covenant headroom review
- Pool of uncharged assets available to top up security held by lenders

Link to strategy 1 2 4

Evolution of risk ↗

Risk increase reflects growing macroeconomic uncertainty and expectations of rising long-term interest rates

Residual risk within appetite ✓

- 1 Exceptional portfolio in the heart of London's West End: page 12
- 2 Focus on restaurants, leisure and retail: page 17
- 3 Curating distinctive and lively destinations: page 20
- 4 Financial management: pages 55 to 56

Viability statement

The directors have assessed the Group's viability and confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the five-year period to September 2023.

Period of assessment

The five-year assessment period reflects lease lengths or rent review patterns across the majority of our portfolio, and corresponds with the Group's current forecast period. Typical lease terms are set out on pages 23 to 29. Whilst the directors consider prospects over a longer period in the execution of our strategy, we consider this assessment horizon strikes the optimum balance between planning for the longer term and the progressively unreliable nature of forecasting in later years. The directors confirm that they have no reason to expect a material change in the Group's viability immediately following the end of the five-year assessment period.

Assessment process

Our forecasts are updated at least half-yearly and reflect the Group's established strategy of long-term investment in London's West End, existing commitments, available financial resources, and long-term financing arrangements. They consider profits, cash flows, 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.

In its assessment, the Board considered a five-year review of the Group's viability, prepared by senior management. The base case scenario was the latest five-year forecast. The key forecast assumptions were:

- continued crystallisation of the portfolio reversionary potential over the period. ERVs are based on current, proven rental tones, and do not assume any further growth. Our long record of converting ERV into contracted income and cash flow, typically over a three-to-five year period, is set out on page 33.
- no further acquisitions or capital expenditure, other than that which had been committed or approved by the Board.
- no new debt facilities are raised and no debt refinancing takes place, other than refinancing bank facilities totalling £125 million and £100 million which mature in 2022 and 2023 respectively. These facilities represent 18% of our total committed debt arrangements.

The review considered the potential impact of the principal risks which could affect solvency or liquidity in 'severe but plausible' scenarios, and particularly those risks which could result in reduced income, profitability and capital values. Sensitivity analyses were prepared which flexed these key inputs, both individually and in unison.

See pages 59 to 60 for principal risks and uncertainties.

Our investment strategy is focused on restaurants, leisure and retail, uses which, in the West End, have a long record of resilience and growth. Our management strategy has delivered high occupancy and sustainable income growth over the long term as set out on page 33. A fall in income would result in lower earnings. If sustained, this could lead to reduced dividends but would not threaten the Group's viability unless loan covenants were breached. See page 53 for information on our dividend policy.

A reduction in capital values might curtail the ability to raise new debt funding, but would not present a viability risk if loan-to-value loan covenants continued to be satisfied. See page 55 for more on our prudent approach to financial management, including loan-to-value and interest cover ratios.

The sensitivity analyses modelled asset value declines resulting from increasing equivalent yields to levels similar to those in 2008/09, together with a 10% decline in ERVs. This would result in a near halving of our portfolio valuation. In unison, we considered decreases in rental income of up to 50%. These assumptions would represent a significant contraction in the size of the business over the five-year period. However, our assessment is that such a scenario would not threaten the viability of the Group.

The Strategic Report on pages 1 to 61 was approved by the Board on 26 November 2018.

Brian Bickell
Chief Executive

Chris Ward
Finance Director



As a responsible, long-term investor in our areas, being a good neighbour and focusing on local issues is essential.

By working with, and supporting, our local community to address issues and challenges of mutual interest and concern, collectively we make the West End an even better place. Working within fifteen minutes' walk of all our holdings, we are well-positioned to understand local issues and support local charities and not-for-profit organisations, to help them make a difference.

Read more on our work with the local community on page 38.

Shaftesbury and the community

Chinese Community Centre

The Centre preserves and promotes Chinese culture, arts and identity and fosters better community integration.

We fund a Chinese-speaking advisor to provide advice on welfare, benefits and housing.

Soho Fete

We sponsor this fete, which marked its 40th anniversary this year. With live music, food and drink from local restaurants, this fete is popular amongst the Soho community.

Soho Parish Primary School

We supported the school through trips, including to the London Zoo, and advice on refurbishing classrooms.

Westminster Tea Dance

Organised through the Sir Simon Milton Foundation, we co-sponsor the afternoon at the ballroom of the Grosvenor House hotel which hosts 1,000 Westminster residents over 65. The event is part of the Silver Sunday national campaign to tackle loneliness and isolation in the elderly in the community.

Left: We sponsor the annual Soho Food Feast - a festival which raises money for Soho Parish Primary School. Supported by many of our restaurants, it attracts foodies from across London as well as families and Soho residents, giving it a great community feel and energetic atmosphere. To date, the event has raised funds for a new multi-level playground and for a healthy eating kitchen.

Our people

Executive Directors

Brian Bickell FCA
Chief Executive

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

Board appointment
Appointed Finance Director in 1987 and Chief Executive in 2011

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

Simon J Quayle BSC MRICS
Executive Director

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

Board appointment
Appointed Property Director in 1997

External appointments
ZSL development strategy board
Revo strategy board
Member of Council for Sustainable Business

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 in 1997

External appointments
Director of Longmartin Properties Limited

Chris PA Ward MA (OXON), ACA
Finance Director

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

Board appointment
Appointed Finance Director in 2012

External appointments
Westway Trust: trustee, chairman of audit committee and member of property and regeneration committee

Left to right: Chris Ward, Simon Quayle, Brian Bickell, Tom Welton



Our people

Non-executive Directors

Jonathan C Nicholls ACA, FCT*

Non-executive Chairman and Chairman of the Nomination Committee

Board Chairman appointment 2016

Experience

From 1985 various roles at Abbey National. In 1996 joined Hanson PLC and became Finance Director in 1998 Old Mutual plc Group Finance Director from 2006-2008

Non-executive director of Man Group plc 2004-2006

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

Non-executive director and chairman of the audit committee of SIG plc 2009-2017

Current external appointments

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

Skills

Over 20 years' experience of public company boards and their operation
Finance, commercial, strategic, communication, investor relations and management skills

21 years' 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

Current external appointments

Chairman of the Commercial Group of the National Trust, NTE Limited and NTRE Limited

Non-executive director of Joules Group Plc and Nobia AB

Skills

Extensive experience in the retail sector
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

Current external appointments

Trustee of the Fidelity Foundation
Director of the Pantry Partnership

Skills

Experience of financial markets and fund management

Financial analysis skills

Experience in remuneration structures

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
Senior partner of BDO and chairman of the policy board of BDO International 2004-2010

Current external appointments

Non-executive director and chairman of the audit committee of JTC PLC
Governor of Activate Learning

Skills

Strong financial skills

Extensive experience in leadership and management

Richard Akers FRICS*

Non-executive director

Board appointment 2017

Experience

Senior executive of Land Securities Group PLC from 1995-2014. Joined main board in May 2005 as Managing Director of the Retail Portfolio
Director and President of the British Council of Shopping Centres 2009-2012

Current external appointments

Non-executive director, senior independent director and chairman of the remuneration committee and safety, health and environmental committee of Barratt Developments PLC
Member of the advisory board of Battersea Power Station Development Company Limited

Non-executive director of The Unite Group plc

Skills

Broad range of real estate knowledge and experience at board level, including retail property

Hilary S Riva OBE*

Non-executive director and designated non-executive director for employee engagement

Board appointment 2010

Will retire from the Board in February 2019

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 2010

Current external appointments

Non-executive director and chairman of the remuneration committee of ASOS Plc

Director of Shepherd Neame Limited

Skills

Extensive experience in the fashion retail sector

Understanding of consumer behaviour and strategic planning

Left to right: Jill Little, Jonathan Nicholls, Hilary Riva, Richard Akers, Sally Walden, Dermot Mathias



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

Our people

Senior leadership team

The Executive Committee comprises the executive directors and the senior leadership team.



Penny Thomas LLB (HONS), FCIS
Company Secretary

Joined 2005

Advises the Board on governance. Responsible for compliance, company secretarial and group-wide sustainability. Member of sustainability, risk, pension and community investment committees.

Trustee of Soho Square Garden Committee.



Julia Wilkinson BSC MSC
MRICS

Portfolio & Group Restaurant Strategy Executive

Joined 1997

Group restaurant and leisure leasing strategy and Opera Quarter, Coliseum and Fitzrovia asset management.



Andrew Price BSC (HONS),
MRICS

Portfolio Executive

Joined 2001

Group-wide acquisitions strategy and Chinatown asset management.

Chairman of community investment committee and member of pension and risk committees.



Rob Kirk BSC (HONS), MRICS
Portfolio Executive

Joined 2004

Carnaby and Soho asset management and group-wide property management and environmental strategy.

Member of sustainability and risk committees.

Board member of Soho Neighbourhood Forum.



Sam Bain-Mollinson

BA (HONS) MSC, MRICS

Head of Retail

Joined 2011

Group retail strategy and leasing.



Charles Owen BSC (HONS),

MRICS

Portfolio Executive

Joined 2012

Seven Dials and St Martin's Courtyard asset management and group-wide planning strategy.

Member of community investment and risk committees.



Karen Baines FCIM

Head of Group Marketing & Communications

Joined 2016

Consumer, trade and corporate communications, marketing and events.

Corporate website

shaftesbury.co.uk

Other websites

carnaby.co.uk

sevendials.co.uk

chinatown.co.uk

thisissoho.co.uk

stmartincourtyard.co.uk

Our people **Directors' Q&A**

Chairman Jonathan Nicholls and non-executive director Richard Akers, our most recent appointment, provide an insight into their respective roles at the Group.



Jonathan Nicholls
Chairman
answers questions
regarding his role
as Chairman

What skills are required to be an effective Chairman and how do these differ from other board positions?

The fundamental role of the Chairman is to manage and lead the Board which means that strong leadership skills are essential, more so than in other directorship positions since responsibility for the successful running of the Board rests with the Chairman.

We benefit from a Board comprised of individuals with a breadth of experience. The Chairman should have the interpersonal skills to ensure the Board functions cohesively and effectively, and where each director's views and opinions are respected. Even the most experienced boards can face difficult and challenging periods and the Chairman should have the experience and strength of personality to overcome these situations and provide leadership to the rest of the Board.

The Chairman should be able to communicate effectively to external stakeholders, for example, at the annual general meeting.

How do you feel that your industry experience has prepared you for your role as Chairman of the Board?

I have held numerous management and directorship positions in my career, all of which have equipped me with the diverse skill set required to hold the positions of Chairman of the Board and the Nomination Committee.

As a former executive director and a non-executive director of various PLCs for over ten years, I have had meaningful decision-making roles at board level which informs my business judgement. I know what it is like to be both an executive and non-executive director so that I can put myself in the shoes of our directors which helps me to understand and cultivate different points of view and act as a liaison between management and the Board.

How do you encourage open and constructive dialogue at board meetings?

For the Board to operate effectively, it is essential that every director's opinion is heard and fed into the decision-making process. In order to facilitate constructive dialogue, I strive to cultivate a board culture that is open and transparent. On a practical level, I ensure that Board papers are sent out early so that the directors have sufficient time to properly prepare for every meeting.

“The Chairman must have the interpersonal skills to ensure that the Board as a whole functions cohesively and effectively”

What do you enjoy most about your roles as Chairman and Chairman of the Nomination Committee?

I have seen first-hand how the Group's management strategy has created dynamic and attractive West End destinations, and I am proud to be the Chairman of such an exciting company. My role has presented me with the unique opportunity to learn about how we operate. Relative to its financial size, we are a small organisation of 30 staff all based in one office in Carnaby, and it has been a real pleasure getting to know our people, our exceptional portfolio and how the business operates.



Richard Akers
Non-executive Director
answers questions
regarding the roles
and responsibilities of
the non-executive
directors

What attracted you to the role of a non-executive director at Shaftesbury?

I have always been a fan of Shaftesbury because of its clear identity, strategy and consistent performance. It is unique in its approach to property investment, namely the careful curation of its locations to create vibrant and attractive destinations. Joining the Board gives me the opportunity to contribute my own industry experience to help drive that strategy through creative contribution and helpful challenge to the Board.

What types of skills and competencies make a successful non-executive director?

A fundamental skill for any effective non-executive director is the capacity for independent thought and a resistance to group-think. Non-executive directors must provide an external perspective to the Board which means that big picture and long-term thinking skills are extremely valuable as well. Effective communication, active listening skills and knowing how to ask the right questions to get to the root of an issue quickly are important if there is to be effective debate at Board level. It goes without saying that non-executive directors must be passionate about the company and its direction and bring some specific competency or experience to the table.

How do the non-executive directors simultaneously support and constructively challenge the executive directors?

It is a delicate balance. On the one hand, the non-executive directors must maintain independence and hold the executive directors to account against the strategy whilst on the other they must provide support and be committed to our direction.

I am pleased to say that this Board maintains a very open and collaborative culture which is overseen by our Chairman, and this encourages the type of constructive debate one would expect from a well-functioning and supportive Board.

“A fundamental skill for any effective non-executive director is the capacity for independent thought and a resistance to group-think”

Outside of the boardroom, how do the non-executive directors maintain a high level of involvement?

A non-executive directorship does not involve just attending board meetings every few months. In between board meetings, the non-executive directors are given regular progress updates and a good deal of information is shared to ensure we are each fully aware of developments and can prepare effectively for upcoming meetings. In addition, there are regular meetings with members of the executive team as well as portfolio tours with the property team, all of which promote a high level of involvement and engagement with employees at all levels of the business.

Governance at a glance

Leadership

Sets out the Group's governance structure as well as the function and operation of the Board

The role of the Board

- Leadership of the Company
- Meets 5 times a year
- Schedule of matters reserved for the Board
- D&O cover and deeds of indemnity

Division of responsibility

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

The Chairman and Non-executive directors

- Independent Chairman
- Meetings of non-executive directors held without executives after each Board meeting
- Senior Independent Director identified

Risk management and internal control

- Robust assessment of principal risks - pages 59 - 60
- Effectiveness of risk management and internal control systems - pages 57 - 58
- Viability statement - page 61

UK Corporate Governance Code (2016)¹

Full compliance
- see pages 74 - 75

Financial and business reporting

- Annual report which is fair, balanced and understandable - page 54
- Auditor's report - pages 111 to 117
- Business model description - pages 10 - 11
- Going concern - page 84

Audit Committee and auditors

- Audit Committee report - pages 82 to 85
- Whistleblowing policy - page 85
- Review of need for internal audit function - page 85
- Recent and relevant financial experience

The level and components of remuneration

- Annual Remuneration report - pages 86 to 107

Accountability

Explains the role of the Board and Audit Committee in maintaining effective risk management and internal control procedures

¹ Available at www.frc.org.uk

Re-election and Commitment

- All directors stand for annual re-election
- 3 non-executive directors have more than 6 years' service and are subject to rigorous review
- Engagement with largest shareholders on extension of tenure of Jill Little
- Time commitment considered when electing and re-electing directors

Composition of the Board

- Independent Chairman
- Balance of 4 executive directors, 5 independent non-executive directors and Chairman
- Skills and experience
- pages 64 - 65

Development and Evaluation

- Induction of new non-executive director - page 81
- Directors' training monitored and updates on regulatory and legislative changes provided
- Internal Board performance evaluation - page 78

Appointments to the Board

- Succession planning
- Nomination Committee report - pages 80 - 81
- Independent non-executive directors
- Non-executive director search

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 175 meetings with investors and potential investors in the year, including portfolio tours
- page 79
- Chairman and Senior Independent Director available to shareholders
- Regular updates on shareholder meetings provided to Board

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 proposed for shareholder approval at 2019 AGM
- pages 90 to 96
- Annual remuneration report - pages 97 to 107
- No director is involved in fixing their own remuneration
- Committee Chairman engages with shareholders

Effectiveness

Explains the procedures in place and the steps taken to ensure the Board and its Committees function effectively

Relations with shareholders

An overview of the actions taken to engage with shareholders

Remuneration

Describes the Group's approach to remuneration in relation to directors and how it is implemented

Good quality, well-managed public spaces are an important part of our strategy to encourage visitors and businesses to our locations, and improve local amenity for residents.

We partner with our local authorities, investing in improvements to the public realm in our locations to raise the standard of the paving, redistribute more space to pedestrians and improve lighting. We also work with them to promote and fund pedestrianised streets that are available for servicing at limited times, but are then given over solely to pedestrians at all other times.

With exceptional footfall across our areas, we supplement services provided by the authorities with additional street cleaning, on-street waste management, CCTV monitoring and patrolling with on-site staff. We help people to move around our areas by providing wayfinding, and we create the sense of place using signage, environmental improvements such as window boxes and planting, iconic art installations and creative seasonal lighting and decorations.

Shaftesbury and the public realm

Earlham Street *(right)*

Improvements included a new single surface road and widening scheme following the road closure at the junction with Shaftesbury Avenue

Newport Court

The resurfacing of the area in the courtyard and funding for a new pagoda to enhance the area in front of the new restaurants

MERRY CHRISTMAS
FROM
SEVEN DIALS

Corporate governance

Dear shareholder

Corporate governance is embedded in our culture and the day-to-day running of your Company.



I am committed to maintaining the high standards of governance we have demonstrated for many years. We pride ourselves on being open, transparent and engaged with our shareholders, stakeholders and our local community. The theme of our annual report this year reflects the network of our relationships with our wider stakeholder group.

I am pleased to report how we have complied in full with the UK Corporate Governance Code, which sets out the principles of good governance we apply in our day-to-day operations. We are now preparing for an updated code which will come into effect for the financial year commencing 1 October 2019.

Board changes

Jill Little, our senior independent director, has been on the Board since February 2010 and will reach nine years' service in February 2019. Hilary Riva also reaches nine years' service at the same time and will retire from the Board at the 2019 AGM.

As part of our non-executive succession process, we are currently undertaking a search for an additional Board member to join us following Hilary Riva's retirement. However, in order to manage the succession of our non-executive directors, we are smoothing the bunching of appointments that has occurred in the past by proposing that Jill Little

remain on the board for a further year. We value Jill Little's experience and wisdom; she makes a valuable contribution to the Board and her independence is undoubted. However, she will step down as senior independent director and from membership of all the Committees of the Board at the 2019 AGM. As extending her service beyond nine years is a departure from the UK Corporate Governance Code, we have written to our largest shareholders to seek their views. Of those that responded, all indicated that they were supportive of this approach. Therefore, we are proposing Jill Little's re-election for a further year at the 2019 AGM.

Richard Akers, who joined the Board in November 2017 will become senior independent director at the conclusion of the 2019 AGM.

Employees

We have continued to focus on employee recruitment, training and development. We have instigated a number of procedures to ensure we recruit from a diverse talent pool. We have continued our investment in training and development which is important to ensure that employees grow in their roles and that we retain their skills and experience.

2018 UK Corporate Governance Code

A new code comes into effect next year. This will apply to us from 1 October 2019. However, in accordance with best practice, we are assessing what provisions we have in place already, and what we can adopt early during the course of this year. We will report on compliance and progress in next year's annual report.

What's in place now:

- Two-year post-vesting holding period in the LTIP rules.
- Designated non-executive director for employee engagement.
- Whistleblowing helpline.
- Emerging risks description.

What's coming in during the year:

- The remuneration policy to adopt the same pension level for directors as employees for newly-appointed directors. This will apply from the 2019 AGM, if the policy is approved by shareholders.
- Review of diversity policy.
- Progress work on culture to document our values.
- Update terms of reference for committees to reflect new code.

The Executive Committee comprises the executive directors, company secretary and the senior leadership team. Its role is to monitor operational matters and contribute to the longer-term evolution and implementation of strategy. It provides senior employees below Board level greater engagement and experience in the management of the business. We continue to embed the Executive Committee structure into the business. This Committee meets on a monthly basis and this year had an off-site meeting where the team considered how the business should respond to various structural changes in the business environment in which we operate.

We appointed Hilary Riva as the designated non-executive director with responsibility for employee engagement. Her remit is to engage with our employees so the Board understands their views. On Hilary Riva's retirement from the Board at the 2019 AGM, Richard Akers will take on the role.

We have a wide range of external advisors with whom we work closely. We are very aware of the importance of these relationships together with how their behaviour impacts on our wider stakeholders. This year, we have updated our Supplier Code of Conduct, compliance with which is mandated throughout our supply chain.

Compliance with the UK Corporate Governance Code

The Company has complied in full with the main and supporting principles of the UK Corporate Governance Code during the year. Their application is contained in the rest of the governance section. Where appropriate further information is given on the Code provisions and how they are applied.

Culture

Our corporate culture underpins the success of our business and is embedded throughout our business model.

The Board has an open and transparent culture which is facilitated and monitored by me. This is particularly evident in Board meetings where discussion is constructive and open.

Last year, the Board undertook the first stage of our work to articulate and document our culture and values. During this year, the work has continued with employees across the organisation who participated in a similar workshop as the directors. The output comparison showed that, organisation-wide, the views on the culture of the business were consistent between the Board and employees.

As one of the first activities as designated non-executive director for employee engagement, Hilary Riva set up a culture group and is meeting with employees and our external human resources advisor, to document our values and behaviours that will be used to describe our culture and frame how we work. As this work spans more than one reporting year, we expect to report more fully next year.

Data protection

The Data Protection Act 2018 came into force in May. It has changed the way personal data is managed by all businesses. Our policies and procedures were updated and we verified that, not just us, but key suppliers were also prepared for the changes. This has linked in with our work on cyber security and making sure we have robust IT systems in place.

Board performance evaluation

This year, we have undertaken an internal Board performance review. The process, recommendations made, and the actions to implement those recommendations, are summarised on page 78.

As you will see from my biography, I am a director of two other FTSE companies and chairman of one of those. I would like to assure you that I have sufficient time to devote to my role as your Chairman and do not envisage any new appointments.

We are proud of our annual report and strive each year to improve the transparency and clarity of our reporting. We received EPRA gold awards for both our sustainability and financial reporting in last year's annual report.

We are committed to being a sustainably-focused business and we are working with our wider stakeholder group to improve the environment. Therefore, we are this year using the authority in our articles to move away from the paper version of this report and ask shareholders to look at it online in future years. You have the option to continue to receive the report through your letterbox. We hope you share our commitment and in future will read this report online.

We are always willing to engage with our shareholders who are the owners of the business. The Board, and in particular Committee Chairmen, are available via the Company Secretary for dialogue with shareholders.

Jonathan Nicholls
Chairman

26 November 2018

Corporate governance

Leadership

The Board has executive and non-executive directors, with a wide range of business experience, including property, finance, retail and fund management which, together, provide a balanced skillset.

Leadership

Board and Committee meeting attendance

	Board	Audit	Remuneration	Nomination	Independent
Number held	5	3	6	2	

Chairman

Jonathan Nicholls ^{1,2}	5	-	-	2	N/A
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Non-executive directors

Richard Akers ³	4/4	2/2	4/4	1/1	Y
Jill Little	5	3	6	2	Y
Dermot Mathias ¹	5	3	6	2	Y
Hilary Riva	5	3	6	1	Y
Sally Walden ¹	5	3	6	2	Y

Executive directors

Brian Bickell ²	5
Simon Quayle	5
Tom Welton	5
Chris Ward ²	5

¹ Chairman of a Committee

² Has attended Committee meetings by invitation

³ Indicates the actual number of meetings Richard Akers could attend following his appointment to the Board and Committees on 28.11.2017

The Chairman leads the Board. He was independent on his appointment to the Board. He chairs the Nomination Committee, but, in line with the UK Corporate Governance Code, is not a member of the Remuneration or Audit Committees. Each of the other non-executive directors is considered by the Board to be independent as they do not fall within any of the criteria within the UK Corporate Governance Code that would impact their independence.

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. The non-executive directors meet after each Board meeting without management present.

Each Committee provides a summary of business discussed to the Board and the minutes of all Committee meetings are circulated to the Board.

The Chief Executive is responsible for the operational and day-to-day management of the business.

Senior employees below Board level are invited to present to the Board on operational topics during the course of the year. Non-executive directors have direct and open access to all employees below Board level.

The structure of our Committees is set out opposite.

Board of directors

The Board is collectively responsible for strategy, performance, risk management and sustainability

Board Committees

Certain functions of the Board and decision-making powers are delegated to the Board Committees

Audit Committee

- Financial reporting
- Monitor external auditors
- Risk and internal control

Read the report pages 82 - 85

Remuneration Committee

- Remuneration policy
- Annual remuneration including bonus and LTIP awards
- Set annual performance objectives

Read the report pages 86 - 107

Nomination Committee

- Succession planning
- Recommend candidates
- Board performance evaluation
- Diversity

Read the report pages 80 - 81

Chief Executive

Management Committees

The Management Committees have responsibility for setting and executing certain strategic outcomes overseen by the Chief Executive

Executive Committee

- Implementation of long-term strategy
- Day-to-day operational matters

Sustainability Committee

- Sustainability policy and strategy
- Annual sustainability report

Risk Committee

- Assessment of principal risks
- Effectiveness of risk management and internal control

Community Investment Committee

- Strategy for community investment
- Approve investment in community activities

Pensions Committee

- Pension scheme governance

Corporate governance

Effectiveness

Effectiveness

All directors are subject to annual re-election. Jill Little will have served nine years as a non-executive director of the Company in February 2019. Under the UK Corporate Governance Code, she will cease to be independent. For the reasons explained on page 74, we are proposing her re-election by shareholders for a further year though she will step down as senior independent director and from all committee memberships following the 2019 AGM.

Hilary Riva will retire at the 2019 AGM having reached nine years on the Board.

Sally Walden and Dermot Mathias have more than six years' service and were subject to a detailed review by the Nomination Committee which considered their contribution and independence.

In terms of Committee membership, unless not permitted by the UK Corporate Governance Code, all non-executive directors are members of each Committee. This ensures that they are involved in all aspects of the Committees' business.

All Committees have written terms of reference which are available on the corporate website.

Tenure of directors

Executive directors
Non-executive directors



Directors' skills

	Property	Retail	Finance	Remuneration management	Fund
Executive directors					
Brian Bickell	○		○		
Simon Quayle	○				
Tom Welton	○				
Chris Ward	○		○		
Non-executive directors					
Jonathan Nicholls	○		○		
Jill Little		○		○	
Sally Walden				○	○
Dermot Mathias			○		
Richard Akers	○	○		○	
Hilary Riva		○		○	

Board performance evaluation

A full externally-facilitated evaluation took place in 2017. As a result of that review, non-executive directors now meet at every Board meeting without the executives present. We have also streamlined the volume and format of the information sent to the Board.

This year, an internal questionnaire-based evaluation was led by the Chairman and supported by the Company Secretary. Each director was invited to comment on the operations and performance of the Board, its Committees and their fellow directors. The results were collated by the Company Secretary and feedback was provided by the Chairman at the September meeting of the Board. The Senior Independent Director undertook a review of the Chairman's performance with contributions from the other directors and provided feedback on his performance to the Board as a whole.

The evaluation this year highlighted that the key area of focus for the year ahead remains both executive and non-executive succession.

See page 80 for Nomination Committee non-executive director tenure review

Corporate governance

Relations with shareholders

Relations with shareholders

The Board considers regular contact with our shareholders to be 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 175 meetings with UK and overseas institutional investors, comprising both current and potential shareholders as well as equity market analysts. Meetings involved either group or individual presentations and tours of the portfolio. Tours provide an opportunity to see our assets, understand management strategy, and to meet the senior leadership team. Feedback from these meetings is provided to the Board.

All directors are present at the AGM and available to answer questions from shareholders. Our AGM includes a presentation from the Chief Executive on our business activities.

Live audio webcasts with replay facilities are available for the annual and half year results presentations to analysts. A live-streamed video webcast will be available for the 2018, and subsequent, analyst results presentation.

During the year, we have undertaken a number of engagement activities with major shareholders and corporate governance agencies:

- consulted on the extension of tenure of Jill Little.
- consulted on the 2019 Remuneration Policy which is being proposed for a binding shareholder vote at the AGM.
- offered general engagement meetings with the Chairman.

At the 2018 AGM, three resolutions received votes against in excess of 20%:

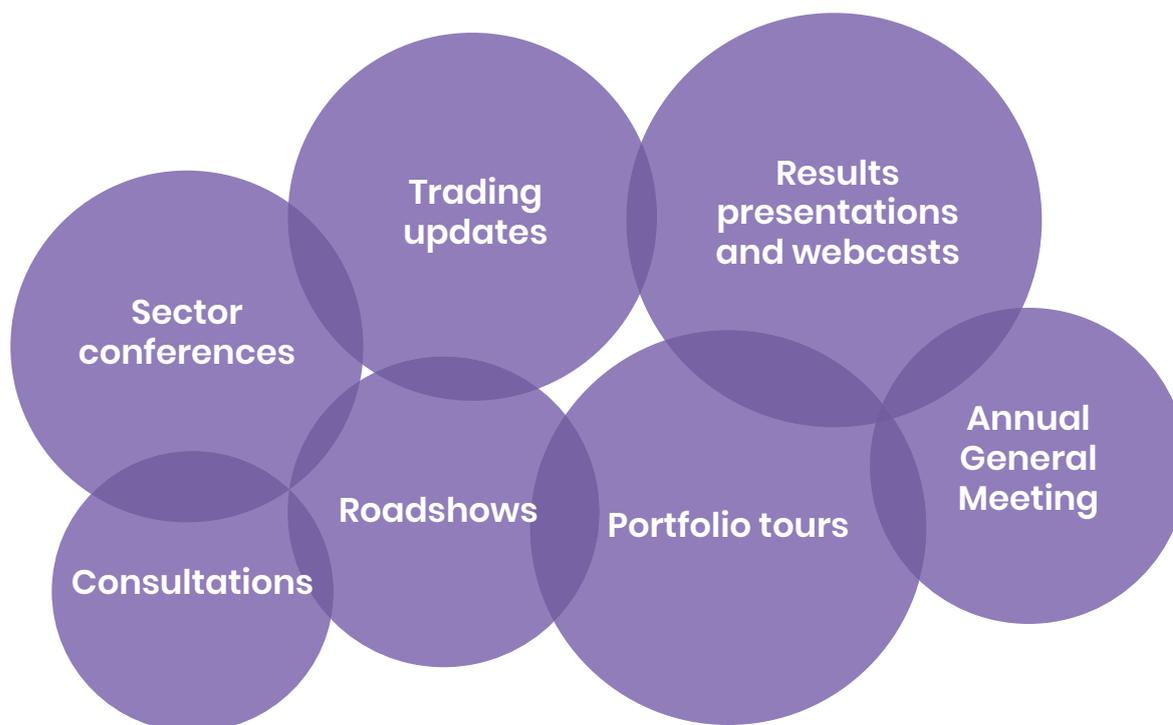
- Ordinary resolution – authority to allot shares: 27.4%
- Special resolutions – authority to allot shares on a non-pre-emptive basis: 25.2% and 26.1%

In each case, the combined holdings of PEL (UK) Limited, Orosi (UK) Limited and Orosi (UK) 2 Limited, our largest shareholder, voted their then 25.02% shareholding against these resolutions.

Votes against resolutions in excess of 20% are recorded on the Investment Association's public register of substantial votes against resolutions. Under the UK Corporate Governance Code, companies are expected to engage with shareholders who cast large votes against a resolution, to understand the reasons for their voting. The votes against these resolutions followed the shareholder's request to us to circulate a letter to our other shareholders under the authority of Section 314 of the Companies Act 2006.

Since the 2018 AGM, the Board has sought to engage with the beneficial owner. To date, we have only received an acknowledgement of our letters so we will continue to seek a meeting as we believe constructive dialogue and engagement is in the interests of all our shareholders.

The Board considers the authority sought by the allotment and pre-emption resolutions continues to be in the best interests of the Company, and will propose them at the 2019 AGM.



Nomination committee report

Dear shareholder

The primary role of the Committee is to consider Board composition and orderly succession, both for executive and non-executive directors.



Committee members

Jonathan Nicholls (*Chairman*)

Richard Akers

Jill Little

Dermot Mathias

Hilary Riva

Sally Walden

Succession planning and development

As Chairman of this Committee, my focus is on Board succession and talent development to ensure that there is a pipeline of able and experienced people in the business for potential future senior executive and Board appointments.

The Committee ensures that the evolution of the Board's membership is planned and properly managed, and that in the event of unforeseen changes, management and oversight of the business and long-term strategy would not be disrupted.

In considering executive director succession, we address continuity in, and development of, the management team below Board level. Current executive directors have a long tenure. Whilst there are no immediate vacancies at Board level, we recognise that it is important to develop internal talent. Our development planning encourages employees to fulfil their potential and grow in their roles.

We continue to keep the composition of the Board under review.

Directors standing for re-election

Dermot Mathias and Sally Walden have been non-executive directors for more than six years. The Committee has concluded that they continue to bring to the Board the appropriate range of skills and expertise to operate effectively and maintain their independence. The Committee therefore recommends that they remain on the Board for a further year.

As set out on page 74, Jill Little will remain on the Board for a further year. The Committee advised the Board on the proposal to re-elect each director, other than Hilary Riva, who will retire from the Board at the 2019 AGM as she will reach nine years' service in February 2019.

Non-executive directors

I reported in detail last year on the process for the search for a new non-executive director. This culminated in the recommendation to the Board to appoint Richard Akers. He joined the Board at the end of November 2017 and a detailed summary of his induction process is contained within this report.

Hilary Riva will retire at the 2019 AGM. We have commenced a search for an additional non-executive director to join us on the Board as her replacement.

Engagement with shareholders

As Chairman of the Committee, I consult with shareholders regarding succession. With the departure from the UK Corporate Governance Code to extend the tenure of Jill Little by a year, I have written to shareholders representing 66% of our share capital to ascertain their views on this approach. Of those that responded, all were in favour of the proposal.

I am available to shareholders throughout the year and at the 2019 AGM to answer questions on the work of the Committee.

Jonathan Nicholls

Chairman – Nomination Committee

26 November 2018

Focus for 2019

- Non-executive succession
- Culture
- Diversity policy/action plan
- Oversight of employee development

Key activities

- Appointment of Richard Akers recommended to the Board
- Committee Report
- Proposed directors for election and re-election
- Reviewed skills of directors for re-election with more than 6 years' service



November 2017

Non-executive director induction

The Chairman led the induction process for Richard Akers, assisted by the Company Secretary.

Core programme Richard Akers' induction began shortly after the announcement of his appointment on 5 October 2017. In addition to various one-to-one meetings (see below), he was also provided with reading and reference material relating to our operations. As there are a small number of senior employees in one location, Richard met the team during the process.

One-to-one briefings Chairman
Chief Executive
Portfolio tours with Property Directors
Finance Director
Chairs of Audit, Nomination and Remuneration Committee
Key advisors: external auditors, valuers, corporate communications

Reading and reference material Role of a director: Directors' duties and Shaftesbury policies
The Board: Schedule of matters reserved, minutes, and procedures
Rules: Articles of Association
Current issues: Shareholder feedback
The Group: Key information including history, structure, financial reports and budget
People: Structure chart
Relationships: Key advisors and joint venture partner
Board Committees: Terms of reference, membership, and minutes

Key responsibilities

- Review the structure, size and composition of the Board and its Committees (including skills, experience, independence and diversity) and make recommendations to the Board accordingly.
- Lead the process for new Board appointments and review succession for directors and senior management.
- Review the time commitment expected from the Chairman and non-executive directors.
- Ensure an effectiveness review of the Board, its Committees and directors is conducted annually.

- Succession planning for executive and non-executive directors

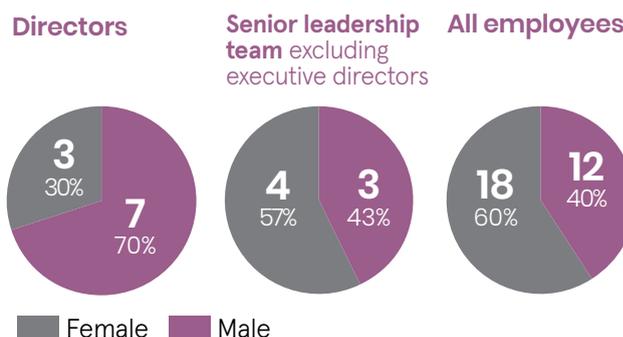
Diversity

The Board recognises the importance of diversity, both in its membership, and its employees. It has a clear policy to promote diversity across the business.

The Board considers that quotas are not appropriate in determining its composition and has therefore chosen not to set targets but keeps the topic of diversity under consideration in all aspects of Board composition.

Diversity includes but is not limited to gender, and is considered at every level of recruitment. All appointments to the Board, and elsewhere, are made on merit. Gender diversity across the Company is set out below.

For the second year running, we were top of FTSE 250 in the Hampton-Alexander review for the highest female representation on the executive committee and direct reports. The Hampton-Alexander review, which is an independent, business-led initiative supported by the Government, aims to increase the number of women in leadership positions in FTSE 350 companies.



We were ranked in the top 200 globally for gender diversity by Equileap which provides insight on diversity data.

We support initiatives to promote diversity within the real estate sector. Brian Bickell is a board member of Freehold, a forum for LGBT real estate professionals.

We have 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. During the year, we have appointed two permanent employees and four interim employees and these principles have been applied in the recruitment process.

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

The Group is a signatory to the 30% Club which is a campaign to achieve a minimum of 30% women on FTSE 350 boards. It also seeks to develop a diverse talent pool. Our Board has achieved the 30% target.

Diversity is wider than gender balance, and the Board is committed to maintaining a diverse workforce. We will be preparing a policy and action plan in the coming year.

Audit committee report

Dear shareholder

I am pleased to present the Committee's report which highlights the key activities and focus for the year ended 30 September 2018.



Committee members

Dermot Mathias (Chairman)

Richard Akers

Jill Little

Hilary Riva

Sally Walden

The Committee is an important element of the governance structure. It is composed solely of independent non-executive directors, with a good diversity of experience, including property, retail and finance. For the purpose of the UK Corporate Governance Code, I meet the requirement of having appropriate recent and relevant financial experience.

Meetings

At my request, all meetings are attended by the external auditor, the Chairman and members of the senior management team.

The Committee meets privately with the external auditor and the valuers to discuss any matters they may wish to raise. The Committee is satisfied that both the external auditor and valuers remain independent and objective in their work.

Throughout the year, I meet with executive directors, as appropriate, to obtain a good understanding of key issues affecting the Group which helps me in my oversight of the agenda and discussions at Committee meetings.

Risk, control and assurance

The Risk Committee evaluates the risk and control arrangements, reporting to the Audit Committee.

Whilst we do not have a formal internal audit function, we commission external reviews, from time to time, to supplement the existing risk and control arrangements. Reviews this year and anticipated work for the coming year, are set out in the following report.

Effectiveness

The Committee receives comprehensive reports for consideration on a timely basis in advance of meetings. This facilitates a good quality of discussion and level of challenge by the Committee.

The performance of the Committee was considered as part of the wider Board effectiveness review. The review was positive and we believe that the Committee continues to operate effectively.

Engagement with shareholders

I welcome questions from shareholders on the Committee's activities. If you wish to discuss any aspect of this report, please contact me via the Company Secretary. I will be attending the 2019 AGM and look forward to meeting you there.

I would like to thank the other members of the Committee, management and our external auditors for their support during the year.

Dermot Mathias

Chairman – Audit Committee

26 November 2018

See page 78 for the Board effectiveness review

Key activities

- Annual report
- Viability statement
- Going concern
- Committee report
- Re-appointment of auditors
- Independence and objectivity of auditors
- Approved auditor fees
- Risk management and internal control



November 2017

Key responsibilities

- Review the work of the external auditor and valuer and any significant financial judgement made by management.
- Monitor the reporting process and financial management.
- Review the full and half year financial statements, including consideration of material estimates and areas of judgement exercised in their preparation.
- Advise 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 performance, business model and strategy.
- Consider the appointment of the external auditor, their reports to the Committee, performance, objectivity and independence.
- Review the risk management framework and ensure that risks are carefully identified and assessed, and that systems of risk management and internal control are in place and effective.
- Consider the need for an internal audit function.
- Review the whistleblowing arrangements.

Focus for 2019

- Assessing the effectiveness of key controls
- Review of one of our managing agent's processes
- Consideration of certain tax procedures

Financial Reporting

The Committee reviewed the content and tone of the annual and half year results. The Finance Director provided a commentary on the draft results, financial position and key estimates and judgements.

The executive directors confirmed to the Committee that they were not aware of any material misstatements in the half year and annual results 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 discussions with the external auditor and valuers, the Committee was satisfied that:

- the financial statements appropriately addressed the critical judgements and key estimates, both in respect of the amounts reported and the disclosures;
- the processes used for determining the value of the assets and liabilities had been appropriately reviewed, challenged and were sufficiently robust; and
- the Group has adopted appropriate accounting policies.

During the year, we received a letter from the Financial Reporting Council (FRC), following a review of our 2017 Annual Report by their Conduct Committee¹. No questions or queries arose from the review and no response from us was requested. A number of minor matters were noted for consideration and, where appropriate, changes have been made to disclosures in the 2018 Annual Report.

¹ The FRC noted that the review was carried out without the benefit of a detailed understanding of our business or the underlying transactions entered into, although it was conducted by staff who have an understanding of the relevant legal and accounting framework. They also commented that their role is to consider compliance with reporting requirements, rather than to verify information provided. Therefore, their letter does not provide assurance that our 2017 Annual Report is correct in all material respects.

- Half year results
- Audit plan and strategy
- External auditor effectiveness
- Non-audit fees
- Cyber-security
- Risk management and controls

- Whistleblowing policy
- Considered need for internal audit function
- Risks and controls update
- Cyber-security update

2018 Annual Report

Valuation of investment properties

The valuations provided by external valuers are significant components of the annual and half year results. External valuations are subjective and require significant estimates to be made, including, but not limited to, market yields and ERVs. At 30 September 2018, the valuation of investment properties was £3.72 billion. Additionally, our share of the valuation of investment properties held in joint venture was £224.6 million. A commentary on these valuations is set out on page 42 and a summary of the key assumptions made by the valuers is shown on pages 144 to 145.

In reviewing the valuations, the Committee considered:

- an analysis and commentary by management;
- presentations from the valuers of the wholly-owned portfolio and the Longmartin joint venture, which included comparable evidence for the key assumptions adopted; and
- an assessment by the external auditor, who used in-house real estate valuers as part of its audit.

The Committee was satisfied with the assumptions and estimates used in the valuation.

Other estimates

Whilst not material in the context of the Group's assets or net assets, the Committee reviewed the estimates made by management in calculating the charge for equity-settled remuneration and was satisfied with the assumptions adopted.

The above description of the significant estimates should be read in conjunction with the Independent Auditor's Report on pages 111 to 117 and the significant accounting policies disclosed in the notes to the financial statements, particularly note 1 which describes significant estimates and assumptions. Further information on the approach taken by the valuers in valuing investment properties and a sensitivity analysis on equivalent yields and ERV are set out in note 8 to the financial statements.

Fair, balanced and understandable

The Committee discussed a report from the Finance Director covering the systems and controls around the preparation of the financial statements and whether the Annual Report:

- was open and honest, reporting challenges alongside successes and opportunities;
- provided clear explanations of KPIs and their link to the strategy;
- explained our business model, strategy and accounting policies simply, using clear language;
- included clear signposts to additional information; and
- was in accordance with the information provided to the Board during the year.

The Committee considered whether the Annual Report:

- was fair, balanced and understandable;
- provided the necessary information for shareholders to assess the Group's performance, business model and strategy; and
- had been written in straightforward language, without unnecessary repetition, and that the use of Alternative Performance Measures had been adequately explained and reconciled to the financial statements and not been given more prominence than a corresponding measure under IFRS.

The Committee reported to the Board that, in its view, the Annual Report was fair balanced and understandable. The Board's confirmation can be found in the directors' responsibilities statement on page 110.

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. We continue to adopt a five-year assessment period, based on lease lengths and review patterns for the majority of the portfolio and corresponding to current forecasts. The Committee discussed the viability assessment, prepared by management, which included, inter alia:

- stress testing in severe but plausible scenarios, particularly in respect of loan covenant compliance; and
- an assessment of investment commitments alongside liquidity and financing capacity.

The Committee was satisfied that the five-year assessment period remained appropriate and recommended the Viability Statement to the Board. See also page 61.

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 forecasts, availability of liquidity and expected headroom under the financial covenants in debt arrangements. Following the review, it recommended to the Board that it was appropriate to adopt the going concern basis. The Board's confirmation is set out on page 108.

External valuers

The Committee monitored the valuers' objectivity and independence and met with the valuer of the wholly-owned portfolio without management present to allow them to raise any concerns they may have had. The valuers have confirmed that they are appropriately qualified to carry out the valuations and that fees they receive are not a material part of their overall fee income. Further details in respect of the valuer of the wholly-owned portfolio, including fees for valuation and non-valuation services, are given in note 8 to the financial statements. The Committee remains satisfied that the valuers are objective and independent.

External auditors

The Company has complied 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 third year that Eamonn McGrath has been the lead audit partner. Eamonn has announced his retirement following the conclusion of the 2018 audit. His successor, Dan Saunders, has met with the Chairman, Audit Committee Chairman and Finance Director. We are assured that the transition and handover period will be managed efficiently. The Committee would like to thank Eamonn for his professionalism as audit partner to the Group over the past three years.

There are no contractual obligations restricting our choice of external auditor. In accordance with the current regulations, we will re-tender the audit at least every ten years. The last tender was in 2014.

Accountability

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 confirmations from the external auditor. The Chairman of the Committee and the Finance Director also meet with an independent partner of Ernst & Young LLP (EY).

EY has confirmed to the Committee that:

- It has internal procedures in place to identify any aspects of non-audit work which could compromise its role as auditor and to ensure the objectivity of its audit report.
- The total fees paid by the Group during the year do not represent a material part of its firm's fee income.
- It considers that it has maintained audit independence throughout the year.

The Committee's relationship with the external auditor is one of openness and professionalism. From its discussions during the year, it considers that the auditor provides appropriate professional challenge and reports its findings in a frank and honest manner.

During the year, an Audit Quality Review Team (AQRT) from the FRC undertook an inspection of EY's audit of the Group's financial statements for the year ended 30 September 2017. As part of that process, the Audit Committee Chairman spoke with the AQRT to share the Audit Committee's perspectives on the quality of EY's audit and its delivery on commitments made by the audit firm as part of the audit tender process. On completion of the review, the Audit Committee received and considered the AQRT's final report on its inspection and discussed it with the audit partner. The report gave the Committee no concerns over the quality, objectivity or independence of the audit.

The Committee remains satisfied with the effectiveness of the external audit and the interaction between the auditors and the Committee. Also, it is satisfied as to the auditor's qualifications, expertise and resources and remains confident that its objectivity and independence are not in any way impaired by the provision of non-audit services.

Audit fees

Fees payable to the auditor for audit and non-audit services are set out in note 4 to the Financial Statements on page 126.

Total fees related to non-audit services represented 18% of the total fees for audit services (2017: 41%).

The auditor was also paid £31,400 (2017: £31,000) for its audit of Longmartin Properties Limited. The Company's 50% share of this was £15,700 (2017: £15,500).

The Committee's policy is that non-audit assignments are not awarded to the external audit firm if there is a risk that audit independence and objectivity could be compromised. Other than in exceptional circumstances, non-audit fees should not exceed 70% of audit and assurance fees over a rolling three-year period. The award of any non-audit assignment to the auditors in excess of £25,000 is subject to the prior approval of the Committee.

Risk management and internal control

Our approach to risk management and internal control is set out on page 57 to 58. Principal risks and uncertainties are disclosed on pages 59 to 60.

Risks and internal controls are monitored by executive management on a day-to-day basis. The Risk Committee formally assesses strategic and emerging risks, as well as key mitigating controls, reporting to the Audit Committee.

Executive management reports to the Audit Committee on its assessment of the effectiveness of key controls. In the coming year, we anticipate this work will be supplemented by an external review (see internal audit, below).

Additionally, the external auditors review procedures and controls as part of their work and comment, where appropriate, to the Committee.

The Committee remains satisfied that there is a robust review of risks and that the controls over the significant risks operate effectively.

Internal audit

The Committee reviews the need for an internal audit function annually. The Committee has advised the Board that it considers that there is no need to establish an internal audit function. This assessment is based on the focused nature of the Group's business, the close involvement of the executive directors in day-to-day decision making and relatively simple Group structure.

From time to time, the Group engages external advisors to carry out targeted reviews to supplement the existing risk management and internal control arrangements and provide further assurance. In 2018, this comprised:

- reviews of the cyber security and GDPR arrangements; and
- an assessment of procedures to identify, evaluate and control strategic risks.

Projects anticipated for the coming year are set out on page 83 and the findings from these reviews will be made available to the external auditor.

Whistleblowing

The Committee reviewed and approved the Group's whistleblowing procedures and has introduced a dedicated whistleblowing line for employees and the wider supply chain.

Directors' remuneration report

Dear shareholder

I am pleased to present our 2018 directors' remuneration report.



Committee members

Sally Walden (*Chairman*)

Richard Akers

Jill Little

Dermot Mathias

Hilary Riva

The resilience of our strategy and business model against the backdrop of the economic and political uncertainty nationally has delivered EPRA earnings¹ of 17.1 pence per share, an increase of 5.6% and an increase² in the portfolio valuation¹ of 3.8% to £3.95 billion. The key performance metrics are summarised on page 89 and more detailed financial information is set out in the strategic report.

The remuneration policy on pages 90 to 96 sets out our approach to the reward of executive and non-executive directors. Our aim is to provide a remuneration structure which is fair, with incentives aligned to our strategy and long-term objectives, and which encourages executive continuity, in line with our culture. This policy will be submitted for a binding shareholder vote at our 2019 AGM.

The remainder of the report, on pages 97 to 107, summarises the remuneration outcomes in respect of the reporting year and the proposed executive director remuneration for the year ahead. This part of the report will be subject to an advisory shareholder vote at the 2019 AGM.

Committee composition and meetings

We have good experience on the Committee with two current and one former public company remuneration committee chairs.

Our external advisors attend meetings when required. The Chairman is invited to attend all meetings, and the Chief Executive also attends when invited.

Annual bonus and LTIP outcomes for the year

At the beginning of each year, we set financial and operational targets for the annual bonus scheme which align with our 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 targets, we use the Group's KPIs which drive value through the delivery of long-term rental growth.

The outcome of performance against our targets was 52.5% of the maximum potential award. Each executive director has elected to receive his award solely in the form of deferred shares, and will therefore receive an award under the Deferred Annual Share Bonus Scheme of 78.75% of salary in December 2018, which will vest in December 2021.

LTIP awards which were made in 2015 will vest in December 2018, based on a three-year performance period which ended on 30 September 2018. Annualised TSR of 1.9% per annum exceeded that of the benchmark (FTSE 350 REIT Index) by 1.5% per annum over the period. Growth in NAV exceeded the benchmark RPI by 1.4% over the period. As a result of this performance, the TSR target was partially met and the NAV target was not met resulting in 22.5% vesting of these awards. This vested award will be subject to a two-year holding period in line with our policy.

The Committee has not exercised discretion in making these awards.

¹ An alternative performance measure see page 140.

² Like-for-like. See glossary on page 148.

Key activities

- Set 2018 annual bonus targets
- Review 2017 annual bonus outcomes
- Ratify LTIP vesting
- LTIP grant approval
- Committee report
- Annual salary review
- Oversight of all employee salary reviews
- Review annual work cycle
- Update on share schemes



October 2017



November 2017



February 2018

Remuneration

Key responsibilities

- Determine the terms of employment and remuneration for executive directors and senior management.
- Ensure that the executive directors are remunerated fairly and responsibly with the long-term interests of the Company in mind.
- Consider the appropriateness of the directors' remuneration framework against arrangements for other employees.
- Review and approve the performance targets and outcomes for the annual bonus schemes and share incentive schemes.
- Review the remuneration policy every three years.
- Ensure that the remuneration report and disclosure of director remuneration is simple to read and understand, accurate and complete.

Focus for 2019

- Monitor practice of post-employment shareholding guidelines
- Impact of new Corporate Governance Code generally
- Oversight of remuneration policies and procedures throughout Shaftesbury and link with culture

Review of remuneration policy

In advance of the renewal of our remuneration policy at the 2019 AGM, during 2018 the Committee undertook a thorough review of the framework currently in place to ensure it remains appropriate for the business and in the context of evolving shareholder expectations and market practice. The Committee determined that our current remuneration policy continues to support the delivery of the strategy and long-term objectives whilst encouraging executive continuity. Therefore, the Committee is not proposing to make any major changes to the structure of the policy.

The Committee is mindful of recent developments in the market and UK Corporate Governance Code regarding the alignment of executive pension contributions with those across the wider organisation. The Committee is proposing that the new policy will reduce pension provision for future executive director appointments from 25% to 17.5% of salary, in line with the pension contribution received by all our other employees.

The new UK Corporate Governance Code will be applicable to us from 1 October 2019. The Committee will monitor how practice and investor expectations evolve during 2019 with respect to the extension of shareholding requirements into a post-employment period and will report on our proposed approach in next year's Directors' Remuneration Report.

2019 LTIP grant

An LTIP award will be made in December 2018 at 125% of basic annual salary with a three-year performance period ending 30 September 2021. Subject to performance against the targets, awards will vest in December 2021, and be released in December 2023 following a two-year post-vesting holding period.

As part of the policy review described above, the Committee reviewed the performance measures within our incentive framework to ensure they remained appropriate to reflect business performance and shareholder value creation. Following the review, we are proposing to amend the LTIP performance measures as follows:

- Introduce a new element based on Total Accounting Return (TAR) against a peer group of FTSE 350 REIT companies. This measure captures NAV per share growth plus any ordinary dividends paid, expressed as a percentage of the period's opening NAV.
- We will retain the current TSR and NAV measures in their current form. These measures have been used since the inception of the LTIP.

The three measures will be equally weighted (one-third on each).

We believe that this structure provides a more balanced and comprehensive approach to assessing our property and shareholder value performance over the long-term and provides a less binary outcome to performance assessment.

- Feedback from shareholders
- Review Committee performance



May 2018

- Review advisor's performance
- Interim update on bonus and LTIP performance



July 2018

- Policy review



September 2018

- Policy review
- Preparation for year end remuneration processes
- Dilution review

2018 salary review

Salaries of executive directors were reviewed and increases of 2% for the Chief Executive and Property Directors and 3% for the Finance Director were approved, effective from 1 December 2018. This is in line with CPI of 2.7% and below the average salary increases awarded to employees.

Alignment with employees

In reviewing salaries and bonus outcomes, we consider overall remuneration packages of the executive directors together as well as all other employees' remuneration.

All employees have the same benefit structure 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.

Engagement with shareholders

As Chairman of the Committee, I consult with shareholders on a regular basis regarding executive remuneration. Ahead of the publication of this report, I engaged with shareholders representing 70% of our share capital and received good support for the proposed changes to policy and to our LTIP performance measures.

I am available to shareholders throughout the year and at the 2019 AGM to answer questions on executive remuneration.

Sally Walden

Chairman - Remuneration Committee

26 November 2018

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 £32,000 (excluding VAT). Deloitte LLP provided no other services to the Group during the year.

Context for our approach to remuneration

We have 30 permanent employees, including four executive directors. The combined holdings of the executive directors is just over 3.3 million shares (market value at 30 September 2018 of circa £30 million). This equates to individual holdings of between 3 and 30 times their annual salary.

These substantial holdings have been built up over a number of years through a combination of:

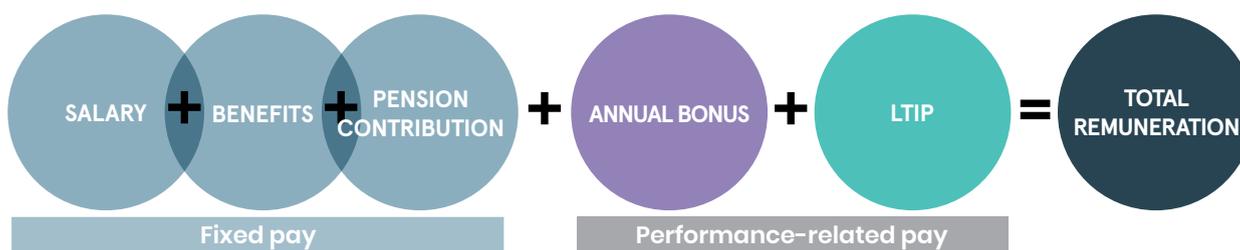
- Taking the annual bonus in shares through the Deferred Annual Share Bonus scheme;
- Retaining shares from the LTIP; and
- Acquiring shares for cash.

Our small team of executive directors and key employees all have a close involvement and direct impact on the continuing development and implementation of the Group's strategy. Consequently, the Committee considers it appropriate that, in setting objectives and measuring performance, emphasis is placed on team rather than individual performance.

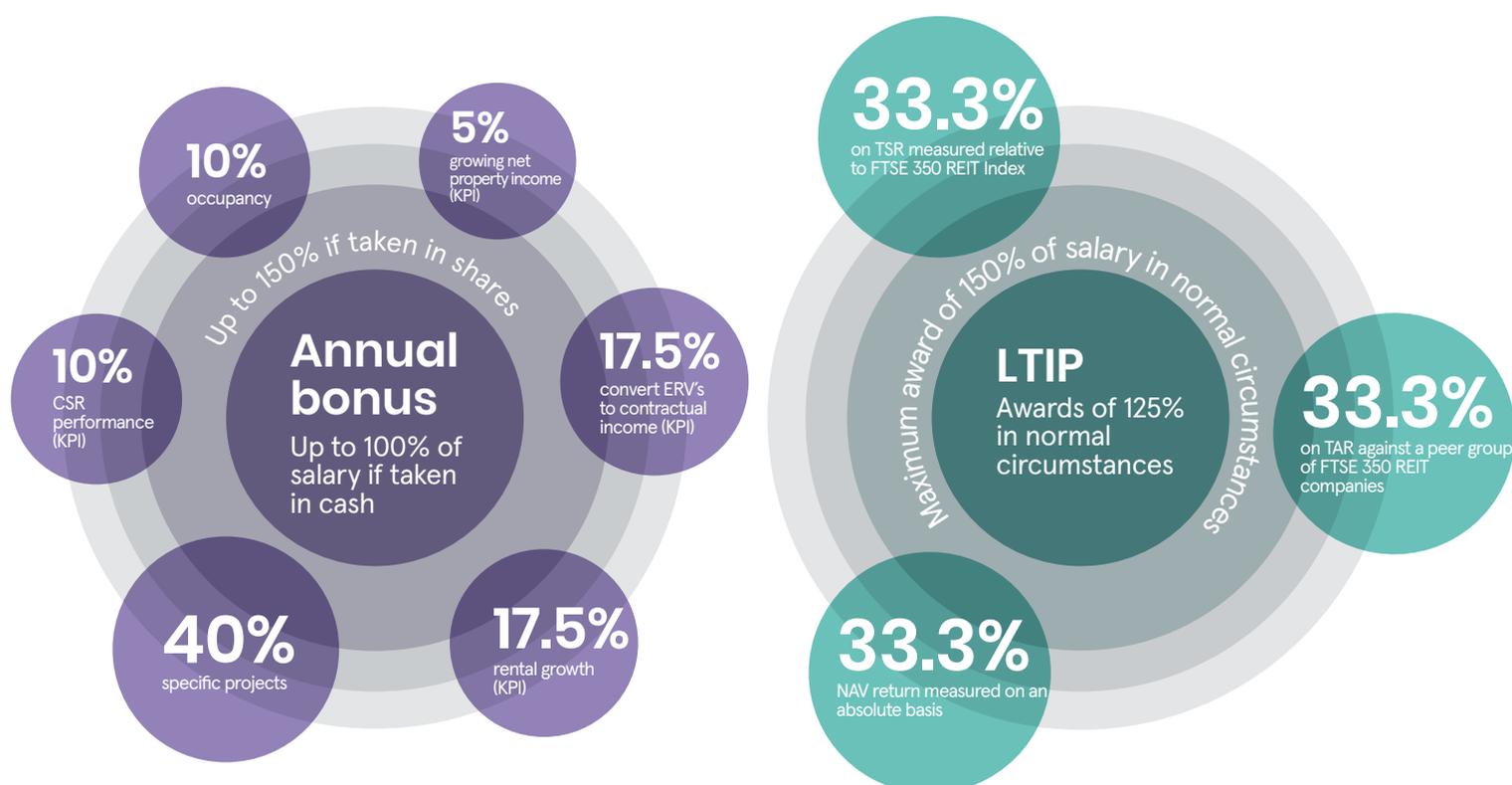
Average length of service of the executive directors is 25 years and members of the executive committee (excluding executive directors) is 11 years.

Remuneration

Remuneration at a glance



Performance-related pay framework (2019 awards)



2018 Group performance

Net property income	EPRA earnings per share ¹	Portfolio valuation ¹	TSR (Shaftesbury)	ERV growth ²
£93.8m	17.1p	£3.95bn	-9.4%	+2.4%
+6.2%	+5.6%	+3.8%	versus FTSE 350 Real Estate Index +4.1%	
Dividends per share	EPRA NAV per share ¹			
16.8p	£9.91			
+5.0%	+4.1%			

1 An alternative performance measure (APM). See page 140
2 Like-for-like. See Glossary on page 148

Remuneration policy

Set out below is our policy on directors' remuneration, which will be proposed for a binding vote at the 2019 AGM. If approved, the policy will be effective from that date.

Changes to the remuneration policy

The main change to this remuneration policy, from the previous policy approved by shareholders at the 2016 AGM, and as described in Sally Walden's introductory letter, is the reduction in pension contributions (or equivalent cash allowance) for newly appointed executive directors from 25% to 17.5% of salary to bring it in line with all other employees in the organisation.

Executive directors

Element	Link with strategy	Operation
Salary	Fixed remuneration at a level appropriate to skills, experience and complexity of the role.	<p>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 (see recruitment policy).</p> <p>Sector and other relevant market data (eg against constituent companies of the FTSE 350 REIT Index) may be requested from remuneration advisors.</p> <p>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.</p> <p>The emphasis in the Group's remuneration policies is to place greater weight on performance-based rewards within the overall remuneration package.</p>
Annual bonus	To incentivise performance in the reporting year through the setting of targets at the beginning of the year. These annual targets are consistent with the Group's long-term strategy. The opportunity to defer the bonus and take it in shares seeks to align directors' interests with those of shareholders and discourage short-term decision making.	<p>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.</p> <p>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.</p> <p>Within the parameters 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.</p> <p>Minimum performance required for any part of the bonus to be earned is calibrated so as to be appropriately stretching and achievable.</p> <p>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.</p> <p>Awards may also, at the Committee's discretion, be settled in cash.</p> <p>Malus and clawback provisions apply to all elements of the bonus (as described elsewhere in this section).</p>
LTIP	To incentivise and reward performance over the long-term, aligning directors' interests with those of shareholders and to encourage the management of the Group's business in accordance with its long-term strategy and goals.	<p>Awards may be granted in the form of nil cost options, conditional share awards or, at the Committee's discretion, be settled in cash.</p> <p>At the end of the performance period, performance against the targets is calculated, and the percentage of awards that will vest is determined.</p> <p>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.</p> <p>Malus and clawback provisions apply to the LTIP (as described elsewhere in this section).</p>

Remuneration

Maximum potential value	Performance measures and performance periods
<p>The Committee does not specify a maximum salary or maximum salary increase.</p> <p>Further details on salary levels and any increases are provided in the Annual Remuneration Report.</p>	None
<p>Directors have the choice to take a bonus in shares or cash, in full or part as follows:</p> <p>Up to 150% of salary if taken entirely in shares; or</p> <p>Up to 100% of salary if taken entirely in cash.</p>	<p>Performance targets are set by the Committee. 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 and prevailing market conditions. Measures will be weighted in alignment with the Group's objectives 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 are provided in the Annual Remuneration Report for that year.</p>
<p>Maximum value 150% of salary at date of grant in normal circumstances.</p> <p>Maximum value 200% of salary in exceptional circumstances such as executive recruitment (this has not been used to date).</p>	<p>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. For awards under this policy, the performance measures will be as follows (equally weighted):</p> <ul style="list-style-type: none"> • Total Accounting Return (TAR) measured against a peer group of FTSE 350 REIT companies; • Net Asset Value Return, being growth in EPRA NAV together with dividends paid in the period measured on an absolute basis; and • Total shareholder return measured relative to a relevant index of peers. <p>Threshold vesting will be no higher than 25% of the each performance measure. The detailed targets are set out in the Annual Remuneration Report.</p> <p>The Committee will consider the Group's underlying financial performance over the performance period before determining the final vesting level.</p>

Executive directors continued

Element	Link with strategy	Operation
All employee plans	Part of overall package for all employees, encouraging share ownership.	Executive directors are eligible to participate in other share plans, which are offered on similar terms to all employees, for example Sharesave and SIP.
Pension	Part of overall package for executive directors providing appropriate remuneration and retirement benefits.	Contribution paid into a personal pension plan or taken as a cash equivalent, reduced for any resultant tax liability borne by the Group.
Other benefits	Part of overall package for executives providing comprehensive remuneration.	<p>Each executive director currently receives:</p> <ul style="list-style-type: none"> • car allowance • private medical cover • life insurance • permanent health insurance <p>Newly appointed directors will not receive a car allowance.</p> <p>Other benefits may be provided if considered reasonable and appropriate by the Committee, including, but not limited to, housing allowance and relocation allowance.</p>
Shareholding guidelines	To further encourage long-term alignment between executives and shareholders.	Executive directors are expected to build up a shareholding of 200% of salary (as at the date of appointment to the Board), to be accumulated over five years from appointment. Shareholding may include shares subject to deferred annual share bonus awards, though reduced in number to reflect that the holding is subject to income tax and national insurance deductions on exercise. Shares received under the LTIP and deferred annual share bonus scheme are required to be retained on a net of tax basis, until the minimum shareholding level is attained.

Notes to the table:

Performance measures

1 The performance measures set by the Committee for the annual bonus scheme reflect Group KPIs and short-term measures which are consistent with, and support, the Group's strategic goals of long-term growth in rental income and net asset value. The Committee may make reasonable changes to the measures or weightings each year in order to ensure continued alignment with strategy.

2 LTIP performance measures have been selected to align the interests of directors with those of shareholders. Performance targets are set by the Committee to be appropriately stretching and achievable taking into account the Group's strategic priorities and the economic environment in which the Group operates.

Non-executive directors and Chairman

Element	Link with strategy	Operation
Fees and benefits	To provide market-competitive director fees.	<p>Fees are normally reviewed every two years. Sector and other relevant market data (eg constituent companies in the FTSE 350 REIT Index) may be requested from remuneration advisors where required.</p> <p>A further fee is payable to reflect the additional time commitment required for other Board duties, such as chairing Board committees or acting as Senior Independent Director.</p> <p>The fee paid to the Chairman is determined by the Committee and fees to non-executive directors are set by the Board.</p> <p>No director takes part in discussions regarding their own remuneration. Benefits may be provided to non-executive directors if considered reasonable and appropriate by the Board.</p>

Maximum potential value	Performance measures and performance periods
The limits are as defined by HMRC from time to time.	None
For any executive director appointed after 8 February 2019, the maximum contribution (or cash allowance) is 17.5% of salary. For any executive director appointed prior to 8 February 2019, the maximum contribution (or cash allowance) remains 25% of salary.	None
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.	None
N/A	N/A

Notes to the table continued:

3 The Committee may amend or substitute any performance measure applicable to an LTIP award if an event occurs that causes the Committee to determine an amended, or substituted, measure would be more appropriate and not materially less difficult to satisfy. The Committee reserves the right to make any remuneration payments, and payments for loss of office (including exercising any discretion available to it in connection with such payments), notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed: (i) before 5 February 2016 (the date the Company's previous directors' remuneration policy approved by shareholders in accordance with section 439A of the Companies Act came into effect); (ii) before the policy set out above came into effect, provided that the terms of the payment were consistent with the

directors' remuneration policy (approved by shareholders in accordance with section 439A of the Companies Act) in force at the time they were agreed; or (iii) at a time when the relevant individual was not a director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a director of the Company. For these purposes "payments" includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted.

The Committee may make minor amendments to the policy set out above (for regulatory, exchange control, tax or administrative purposes, or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

Maximum potential value	Performance measures and performance periods
As with the policy for the executive directors, the policy does not specify a maximum fee or level of increase.	None

Difference between policy for directors and employees

Pay and benefits throughout the Group are taken into consideration when setting remuneration policy. The 26 employees below Board level are offered the same remuneration package elements as executive directors, although not all employees are eligible for all benefits provided to executive directors. Individual salary levels, percentage levels of awards in the annual bonus and LTIP vary according to employees' level of responsibility. The same performance criteria, where relevant, are applied to executive directors and other employees.

As the same remuneration policy is applied to executive directors and all employees, the Committee did not consult employees when drawing up the policy.

Recruitment policy

Executive directors

A newly-appointed director's remuneration would be proposed by the Committee and approved by the Board in line with the policy. The Group offers salary, benefits, annual bonus and awards under the LTIP. If the Group considered it appropriate to buy out any pre-existing variable pay arrangements of an incoming director, it would only be with replacement awards structured on a comparable basis eg in terms of vesting period, performance conditions etc. In doing so, the Committee would consider relevant factors when structuring such awards, including the likelihood of those pre-existing conditions being met. The Committee has the discretion to implement a one-off arrangement for the purposes of buy-out awards only, in accordance with Listing Rule 9.4.2 R.

External appointment

Element	Approach	Maximum annual grant value*
Salary	The salaries of new appointees will be determined by reference to relevant market data, experience and skills of the individual, internal relativities and their current salary. Where new appointees have initial salaries set below market, any shortfall will be managed with phased increases within three years, subject to the individual's development in the role.	
Annual bonus	In line with the limits set out in the policy table. For executive directors joining part way through a year, awards would be pro-rated. The Committee may determine different performance targets for the new recruit, to reflect the shortened period in role.	150% of salary
LTIP	New appointees will be granted awards under the LTIP under the limits described in the policy table. The Committee may amend or alter the performance targets for the new recruit, as it considers appropriate.	200% of salary
All employee share plans, pension and other benefits	In line with the limits as described in the policy table.	

*excludes compensation for variable remuneration lost on leaving a former employer

Internal appointment

In the event of appointing a new executive director by way of internal promotion, the policy will be consistent with that for external appointees as detailed above. Further detail on the policy for employees below board level is set out above.

Non-executive directors

Newly appointed non-executive directors are paid fees at a level consistent with existing non-executive directors. Fees would be paid pro-rata in their first year.

Loss of office payment

Provisions for payments on termination contained in executive directors' service contracts are set out below:

	Date of appointment	Date of current contract	Notice period	Termination arrangements
Brian Bickell	1.10.2011	6.6.2011	One year's notice	One year's salary and benefits payable in event of termination without notice. Director's duty to mitigate loss
Simon Quayle	1.10.1997	8.10.1997	One year's notice	Termination by payment of annual salary
Tom Welton	1.10.1997	8.10.1997	One year's notice	Termination by payment of annual salary
Chris Ward	9.1.2012	3.10.2011	One year's notice	One year's salary and benefits payable in event of termination without notice. Director's duty to mitigate loss

Any new executive director would be appointed on the same loss of office terms as Brian Bickell and Chris Ward, namely twelve months' salary and benefits, with a duty to mitigate loss on termination.

The terms of appointment of non-executive directors are documented in letters of appointment. Non-executive directors have a one-month notice period and their appointment would terminate without compensation if not re-elected at an AGM.

All contracts are available for inspection at the Company's registered office.

Approach to other remuneration payments on termination of employment and change of control

In addition to the contractual provisions regarding payment on termination set out above, the Group's incentive plans and share schemes contain provisions for termination of employment:

Component	Good leaver*	Bad leaver*	Change of control**
Annual bonus	May be eligible, at the discretion of the Committee, to receive an award based on the achievement of the performance targets and reduced pro-rata for time served in the year. Paid in cash with no uplift.	Outstanding award forfeited	At the discretion of the Committee
Deferred Annual Share Bonus Scheme	Awards vest on the normal vesting date unless the Committee determines the award should vest following cessation of employment.	Will receive the lower of the value of the original cash bonus (before any uplift for deferral) or the value of any deferred shares on the date of cessation	Awards vest at date of change of control
LTIP	Unvested awards will vest at the same time as if the individual had not left the Group, unless the Committee determines the award should vest following the cessation of employment. Vested awards remain subject to the two-year post-vesting holding period***. The extent to which an unvested award vests will be determined by the Committee, taking into account normal performance conditions, and, unless the Committee determines otherwise, the proportion of the vesting period the participant has served.	Outstanding unvested awards are forfeited Vested awards remain subject to the two-year post-vesting holding period	Awards vest (and are released) taking into account, in the case of unvested awards, the performance conditions and, unless the Committee determines otherwise, the proportion of the vesting period that has elapsed
All employee plans	In line with HMRC rules	In line with HMRC rules	In line with HMRC rules

* Good leaver provisions relate to termination of office or employment by reason of death, disability, injury, retirement with the agreement of the Company, the participant's office or employment being with a company or business which ceases to be a member of the Group or, in other exceptional circumstances, at the discretion of the Committee (including redundancy). Bad leaver provisions apply under all other circumstances.

** Alternatively, on a change of control, awards may be exchanged for equivalent awards of shares in a different company. In the event of a demerger, delisting, special dividend or other event which, in the Committee's opinion, would materially affect the current or future value of the Company's shares, the Committee may allow awards to vest and be released early on the same basis as for a change of control. Alternatively, in these circumstances or in the event of a variation of the Company's share capital, the Committee may adjust the number of shares subject to an award.

*** If a participant leaves during a holding period for any reason, his award will normally be released at the same time as if he had not left the Group, unless the Committee determines it should be released following his cessation of employment. However, if a participant is summarily dismissed, his award will immediately lapse.

The use of any discretion described above would be disclosed in the Annual Report for the relevant year.

Remuneration

Consideration of shareholder views

Shareholders, representing almost 70% of the Company's issued share capital, have been given the opportunity to comment and question the Committee on the remuneration policy and the proposed change. The Chairman of the Committee was available to discuss the policy with shareholders and governance bodies. Shareholder responses were reported to, and considered by, the Committee. Of those that responded, all were supportive of the proposals.

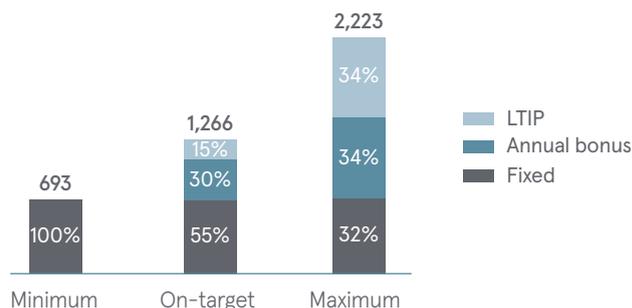
External appointments

Executive directors are permitted to accept external appointments, with the prior approval of the Board, where there is no adverse impact on their role. Any fees arising from such appointments may be retained by the executive director where the appointment is unrelated to our business.

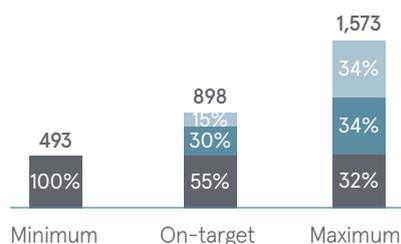
Potential remuneration for directors

The charts below set out the potential remuneration receivable by directors for below threshold, on-target and maximum performance. Potential reward opportunities are based on this policy and applied to salaries as at 1 December 2018. Note that the projected values exclude the impact of any share price movement or dividend accrual.

Brian Bickell (£'000)



Simon Quayle, Tom Welton and Chris Ward (£'000)



The minimum scenario reflects salary, pension and benefits (ie fixed remuneration) which are the only elements of the executive directors' remuneration packages not linked to future performance. The on-target scenario reflects fixed remuneration as above, plus bonus payout of 75% of salary and LTIP threshold vesting at 25% of maximum award. The maximum scenario reflects fixed remuneration, plus full payout of all incentives. It assumes a maximum bonus of 150% of salary which would be receivable fully in shares.

Annual remuneration report

Set out below is the annual remuneration report on directors' pay for the year ended 30 September 2018. The report details how we intend to apply 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 2019

Executive directors' salaries from 1 December 2018

	1.12.2018 £'000	1.12.2017 £'000	Increase
Brian Bickell	510	500	2%
Simon Quayle	360	353	2%
Tom Welton	360	353	2%
Chris Ward	360	349	3%

This compares to an average increase across the employee population of 3.6% and inflation (CPIH) of 2.7%.

Annual bonus targets

Maximum bonus of up to 150% of salary (if taken in shares) and 100% of salary (if taken in cash).

Disclosure of annual bonus targets for the year ending 30 September 2019 is deemed to be commercially sensitive and therefore the actual targets are not set out in this report.

A range was introduced last year for the rental growth target with a threshold level for achievement. This year, ranges for other measures are being introduced where appropriate. The targets will be disclosed retrospectively next year, provided they are no longer commercially sensitive.

Measure	Weighting	Target or reason for non-disclosure
Rental growth (KPI)		
Deliver growth in ERVs	17.5%	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.
Convert ERVs to contractual income (KPI)		
Commercial lettings/reviews/renewals at or above valuers' ERVs twelve months earlier	17.5%	
Growing net property income (KPI)		To match baseline year corporate responsibility scores in GRESB and EPRA reporting benchmarks.
Net property income growth to at least track growth in rents receivable	5%	
CSR performance (KPI)		
Corporate responsibility performance	10%	Specific operational objectives to be met during the year critical to progressing long-term property projects and financing.
Occupancy		
Maximise portfolio occupancy	10%	
Specific projects		
Various	40%	

¹ Global Real Estate Sustainability Benchmark

LTIP

LTIP awards of 125% of salary will be granted in December 2018. Performance will be measured over a three-year period which commenced on 1 October 2018. A two-year post-vesting holding period will apply to these awards.

The vesting of this award will be subject to three performance measures, equally weighted, as shown in the following tables:

Annualised TSR of the company's shares less annualised TSR of the FTSE 350 REIT index	Vesting schedule (for this component)
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 net asset value growth less annualised RPI growth	Vesting schedule (for this component)
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%

TAR against peer group of FTSE 350 REIT companies ¹	Vesting schedule (for this component)
Below median	0%
Median	25%
Median to upper quartile	Pro-rata on a straight line basis between 25% and 100%
Upper quartile	100%

¹ TAR measures growth in EPRA defined NAV plus any ordinary dividends paid during the period expressed as a percentage of NAV.

Non-executive directors' fees from 1 December 2018

Non-executive director fees are reviewed every two years and were reviewed in 2017 with changes taking effect from 1 December 2017. There are no changes to fees for the year ending 30 September 2019.

Fees for the Chairman remain at £225,000 per annum and for non-executive directors at £57,000. 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.

Remuneration for year ending 30 September 2018

Single total figure of remuneration for executive directors (audited)

	Salary		Benefits ¹		Pension benefit ²		Annual bonus ³		LTIP ⁴		Total	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Brian Bickell	498	489	55	52	109	107	394	404	167	778	1,223	1,830
Simon Quayle	352	345	49	48	77	76	278	285	118	549	874	1,303
Tom Welton	352	345	40	39	77	76	278	285	118	549	865	1,294
Chris Ward	348	341	40	34	78	76	275	282	115	535	856	1,268

1 Benefits comprise car allowance, permanent health insurance, life insurance, health insurance and Sharesave options which have been valued based on the monthly savings amount and the discount on the option price of 20%

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 2018, each executive directors could have received bonuses of 78.75% of salary in shares or 52.5% of salary in cash. Each director has elected to take their 2018 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. The TSR and NAV performance conditions for the three-year performance period to 30.9.2018 were met in part and 22.5 % of the awards vested. 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 30.9.2018 of £9.19. The 2017 estimated figure has been restated to reflect actual share price at the date of vesting. The value of dividends paid during the year on vested shares is also included

Single total figure of remuneration for non-executive directors (audited)

	Fee		Committee chair/ senior independent director ¹ fees		Benefits		Total	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Jonathan Nicholls	213	150	-	-	-	3	213	153
Richard Akers ²	48	-	-	-	-	-	48	-
Jill Little	57	55	10	10	-	-	67	65
Hilary Riva	57	55	-	-	-	-	57	55
Dermot Mathias	57	55	10	10	-	-	67	65
Sally Walden	57	55	10	10	-	-	67	55

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

2 Joined Board on 28.11.2017

Annual bonus outcome for year ended 30 September 2018

Full retrospective disclosure of the targets for the 2018 annual bonus scorecard is provided below. Each executive director has elected to receive his award solely in deferred shares under the Deferred Annual Share Bonus Scheme, which will vest in December 2021.

Measure	Weighting	Target	Achievement	Percentage awarded
Rental growth				
Deliver growth in ERVs ^{1,2}	35%	Extent by which commercial leasing transactions exceed valuers' ERV in the range of 3 - 7%	Commercial leasing transactions exceeded previous year ERV on average by 5.1%	
		Annual like-for-like growth in Group total ERV in range of 3-7%	Annual growth in Group total ERV: 2.4%	17.5%
Occupancy				
Maximise portfolio occupancy ^{1,2}	10%	ERV of space available to let not to exceed 3% of Group ERV (measured quarterly; excludes larger schemes ³)	Target met. Quarterly average EPRA vacancy rate: 2.85%	
Let vacant property quickly ²		Complete lettings within target periods (measured from date space became available to let; range 1 - 3 months; excludes larger schemes ³)	Targets met for residential lettings. Not met for other uses	5%
Other				
Ratio of property outgoings to gross rents receivable ²	5%	Ratio of property outgoings to gross rents receivable not to exceed three year rolling average	Not met	0%
Corporate responsibility performance	10%	Maintain relative rankings in key indices: · EPRA · GRESB ⁴	EPRA Gold award GRESB ⁴ "green star" rating	10%
Deliver projects and transactions successfully	40%	Specific operational objectives to be met during the year critical to: Progressing key long-term projects and larger schemes ³	Project and financing targets were largely met. Performance against larger scheme letting targets was assessed in the context of a market-wide slowdown in transaction activity for larger space as a consequence of macro economic uncertainties	20%
Total	100%			52.5%

¹ Group KPIs

² Wholly-owned portfolio

³ Larger schemes: Thomas Neal's Warehouse, Central Cross and 57 Broadwick Street

⁴ Global Real Estate Sustainability Benchmark

Last year we reported that we were looking at our annual bonus targets to introduce ranges for individual targets. This was to avoid a binary approach to awards under the targets. The Committee believes this approach provides a better incentive for employees. For 2018, a range was set for rental growth, with a threshold level for achievement. As noted on page 97, ranges have been introduced this year for certain operational measures.

The Committee is focused on ensuring that setting annual bonus targets should not be at the expense of our long-term strategy. The measures in the "Deliver projects and transactions successfully" section above, include targets with a duration of more than one year that are important to the long-term success of the business. It is difficult to give more detailed disclosure than that set out above as the identification and achievement of these targets is commercially sensitive. Full disclosure will be made once the projects have been completed.

Committee's exercise of discretion

The Committee is mindful that annual bonus awards should fairly reflect performance in the round, exercising its discretion, where appropriate, to take account of overall financial performance and future prospects of the Company. The Committee has not exercised discretion in the award of bonuses for the year ended 30 September 2018. The table below shows historic exercise of discretion by the Committee.

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%
2017	55%	No change at 55%
2018	52.5%	No change at 52.5%

LTIP vesting for the performance period to 30 September 2018

The detailed performance against targets which resulted in 22.5 % vesting of the LTIP in 2018 is as follows:

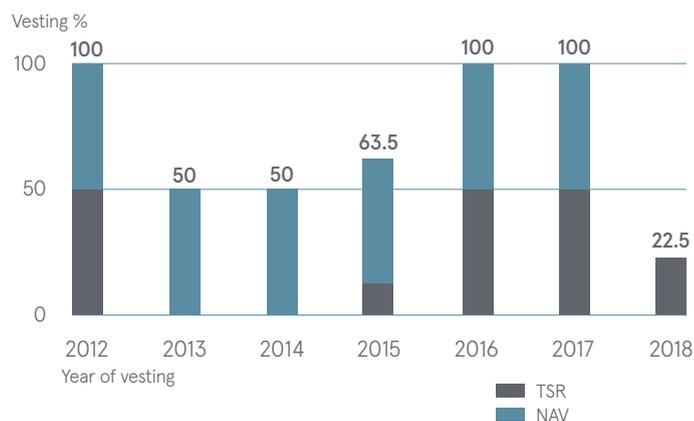
Annualised TSR of the company's shares less annualised TSR of the FTSE 350 REIT index	Award vesting criteria	Performance ¹
Less than 0% pa	0%	Performance in three-year period to 30 September 2018: 1.9% pa and outperformed the benchmark by 1.5% pa
0% pa	25%	
Between 0% pa and 5.5% pa	Pro-rata on a straight line basis between 25% and 100%	Vesting outcome (for this half of the award) 45% of maximum
5.5% pa or more	100%	

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

Annualised NAV growth less annualised RPI growth	Award vesting criteria	Performance
Less than 3% pa	0%	Performance in three year period to 30 September 2018: 4.5% pa versus RPI growth of 3.1%. Outperformance of 1.4%.
3% pa	25%	
Between 3% pa and 7% pa	Pro-rata on a straight line basis between 25% and 100%	Vesting outcome (for this half of the award) is zero
7% pa or more	100%	

Vesting in December 2018 is the first vesting of options under the 2016 scheme rules. Shares vesting are subject to a two-year post-vesting holding period.

Historic LTIP vesting performance



Share scheme interests awarded during the year (audited)

	Scheme	Face value at date of award £'000
Brian Bickell	Deferred Annual Share Bonus Scheme ¹	404
	LTIP ²	625
Simon Quayle	Deferred Annual Share Bonus Scheme ¹	285
	LTIP ²	441
Tom Welton	Deferred Annual Share Bonus Scheme ¹	285
	LTIP ²	441
Chris Ward	Deferred Annual Share Bonus Scheme ¹	282
	LTIP ²	436

1 Deferred Annual Share Bonus Scheme: Directors elected to take their annual bonus for the year ended 30.9.2017 in shares which were purchased in the market. The face value is calculated using the price paid to acquire the shares, being £9.996279. No further performance criteria are applied to share awards under this scheme.

2 LTIP: Awards of nil cost options are made by the Committee at 125% of salary divided by the average share price over five days prior to the date of grant. The face value is calculated using the average share price used to determine the number of shares awarded, being £9.902 (the average share price over the five days prior, up to and including 4.12.2017). There is a three year performance period (targets below) with a two-year post-vesting holding period.

Performance targets for the LTIP awards granted during the year are the same as those set out on page 101 (with 50% of the award assessed on each metric).

Directors' shareholdings and share scheme interests at 30 September 2018 (audited)

	Shares owned outright	Deferred shares ¹	Shares under option not vested and subject to performance criteria ¹	Sharesave	Shareholding requirement met ²
Executive director					
Brian Bickell	1,240,592	131,864	196,373	4,812	Yes
Simon Quayle	1,083,452	93,028	138,576	4,812	Yes
Tom Welton	877,570	93,028	138,576	4,812	Yes
Chris Ward	151,827	90,871	136,510	3,950	Yes
Non-executive director					
Jonathan Nicholls	30,000				
Richard Akers	7,000				
Jill Little	8,364				
Hilary Riva	20,068				
Dermot Mathias	16,208				
Sally Walden	60,000				

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 Under the remuneration policy, executive directors are expected to build up a shareholding of 200% of salary (as at the date of appointment to the Board), to be accumulated over five years from appointment.

There have been no changes in directors' shareholdings between 30 September 2018 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.

Remuneration

1. Deferred Annual Share Bonus Scheme

	Date of grant	Market price on date of grant £	Entitlement to ordinary shares			
			At 1.10.2017	Awarded in year	Delivered in year	At 30.9.2018
Brian Bickell	22.12.2014	7.80	55,304	-	55,304	-
	8.2.2016	8.30	42,436	-	-	42,436
	12.12.2016	8.95	48,988	-	-	48,988
	12.12.2017	9.996	-	40,440	-	40,440
			146,728	40,440	55,304	131,864
Simon Quayle	22.12.2014	7.80	39,075	-	39,075	-
	8.2.2016	8.30	29,928	-	-	29,928
	12.12.2016	8.95	34,544	-	-	34,544
	12.12.2017	9.996	-	28,556	-	28,556
			103,547	28,556	39,075	93,028
Tom Welton	22.12.2014	7.80	39,075	-	39,075	-
	8.2.2016	8.30	29,928	-	-	29,928
	12.12.2016	8.95	34,544	-	-	34,544
	12.12.2017	9.996	-	28,556	-	28,566
			103,547	28,556	39,075	93,028
Chris Ward	22.12.2014	7.80	36,068	-	36,068	-
	8.2.2016	8.30	29,258	-	-	29,258
	12.12.2016	8.95	33,387	-	-	33,387
	12.12.2017	9.996	-	28,226	-	28,226
			98,713	28,226	36,068	90,871

There are 598,868 shares held in an employee benefit trust at 30 September 2018.

Remuneration

2. LTIP

Number of ordinary shares under option										
	Date of grant	Market price of share on grant £	At 1.10.2017	Granted during year	Vested and exercised during year	Lapsed during year	At 30.9.2018	Market price of share on date of exercise £	Performance period	Exercise period
Brian Bickell	8.12.2014	7.78	74,220	-	74,220	-	-	10.00	1.10.2014-30.9.2017	12.2017-6.2018
	8.2.2016 ^{1,2}	8.30	65,413	-	-	-	65,413	-	1.10.2015-30.9.2018	12.2020-6.2021
	12.12.2016 ²	8.95	67,850	-	-	-	67,850	-	1.10.2016-30.9.2019	12.2021-6.2022
	12.12.2017 ²	9.97	-	63,110	-	-	63,110	-	1.10.2017-30.9.2020	12.2022-6.2023
			207,483	63,110	74,220	-	196,373			
Simon Quayle	8.12.2014	7.78	52,345	-	52,345	-	-	10.00	1.10.2014-30.9.2017	12.2017-6.2018
	8.2.2016 ^{1,2}	8.30	46,126	-	-	-	46,126	-	1.10.2015-30.9.2018	12.2020-6.2021
	12.12.2016 ²	8.95	47,900	-	-	-	47,900	-	1.10.2016-30.9.2019	12.2021-6.2022
	12.12.2017 ²	9.97	-	44,550	-	-	44,550	-	1.10.2017-30.9.2020	12.2022-6.2023
			146,371	44,550	52,345	-	138,576			
Tom Welton	8.12.2014	7.78	52,345	-	52,345	-	-	10.00	1.10.2014-30.9.2017	12.2017-6.2018
	8.2.2016 ^{1,2}	8.30	46,126	-	-	-	46,126	-	1.10.2015-30.9.2018	12.2020-6.2021
	12.12.2016 ²	8.95	47,900	-	-	-	47,900	-	1.10.2016-30.9.2019	12.2021-6.2022
	12.12.2017 ²	9.97	-	44,550	-	-	44,550	-	1.10.2017-30.9.2020	12.2022-6.2023
			146,371	44,550	52,345	-	138,576			
Chris Ward	8.12.2014	7.78	51,175	-	51,175	-	-	10.00	1.10.2014-30.9.2017	12.2017-6.2018
	8.2.2016 ^{1,2}	8.30	45,115	-	-	-	45,115	-	1.10.2015-30.9.2018	12.2020-6.2021
	12.12.2016 ²	8.95	47,350	-	-	-	47,350	-	1.10.2016-30.9.2019	12.2021-6.2022
	12.12.2017 ²	9.97	-	44,045	-	-	44,045	-	1.10.2017-30.9.2020	12.2022-6.2023
			143,640	44,045	51,175	-	136,510			

1 The TSR and NAV performance conditions over the three years ended 30.9.2018 have been met in part and 22.5% of the nil cost options granted on 8.2.2016 will vest in December 2018.

2 Options granted from 2016 onward are subject to a two-year post-vesting holding period.

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.

	Date of grant	At 1.10.2017	Granted during year	Lapsed during year	Exercised during year	At 30.9.2018	Option price £	Market value of share on date of exercise £	Exercise period
Brian Bickell	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
		4,812	-	-	-	4,812			
Simon Quayle	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
		4,812	-	-	-	4,812			
Tom Welton	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
		4,812	-	-	-	4,812			
Chris Ward	2.7.2014	2,788	-	-	-	2,788	5.38	-	8.2019-1.2020
	30.6.2017	1,162	-	-	-	1,162	7.74	-	8.2020-1.2021
		3,950	-	-	-	3,950			

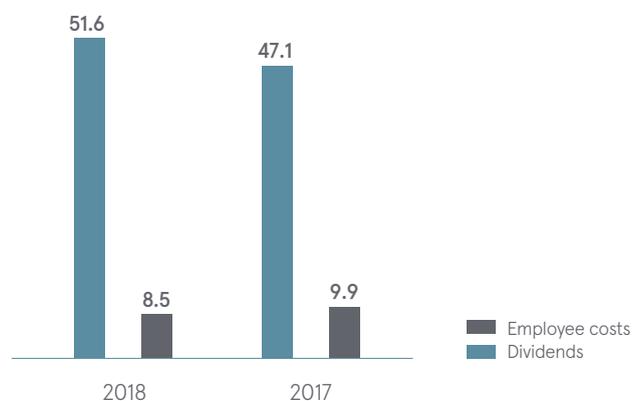
Percentage change in Chief Executive remuneration compared to average percentage change in remuneration for all other employees

	Chief Executive change	Other employees change
Base salary	1.9%	3.4%
Taxable benefits	5.9%	19.0%
Annual bonus	(2.6)%	(6.5)%
Total	(0.1)%	(0.2)%

The analysis for other employees is based on a like-for-like group of employees, i.e. the same individuals appear in the 2017 and 2018 figures and the 2017 comparatives have been restated on that basis.

Annual bonus figures reflect the extent to which individuals choose to take annual bonuses as deferred shares in the Deferred Annual Share Bonus Scheme, which attract a 50% uplift in value.

Relative importance of spend on pay (£m)

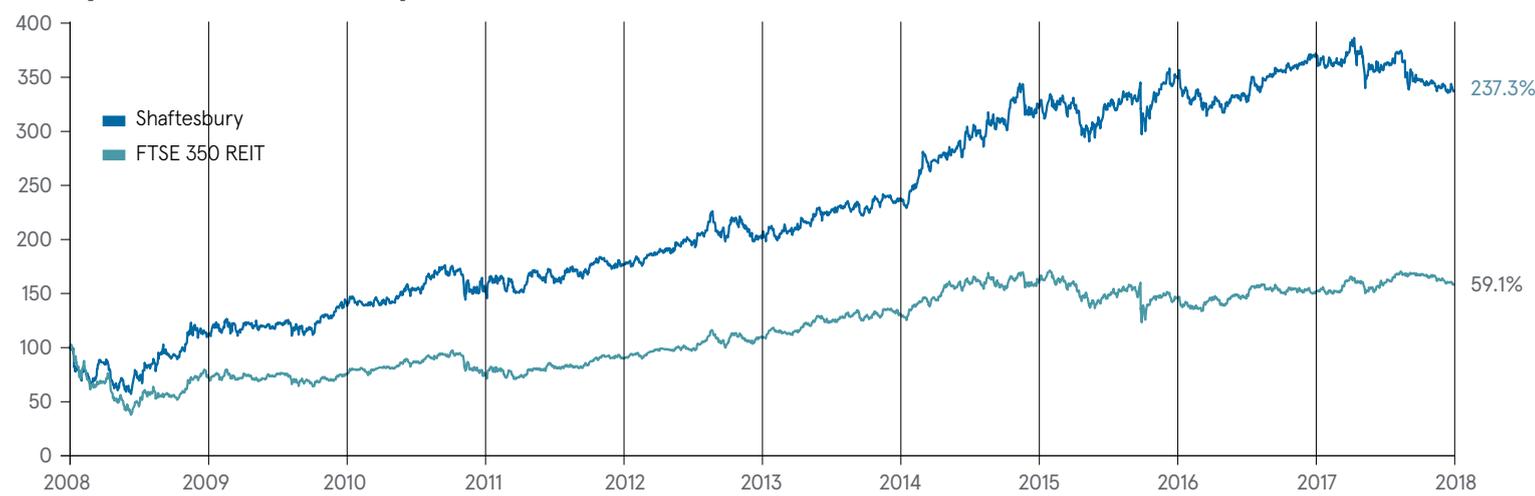


Remuneration

Review of past performance

The chart below shows the TSR for the Company compared with the FTSE 350 REIT Index, of which the Company is a constituent, over ten 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.

Ten-year TSR chart to September 2018



Source: Datastream as at 28 September 2018

Ten-year chief executive single total figure of remuneration¹

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Chief Executive single total figure of remuneration (£'000)	850	1,013	1,650	1,198	1,075	1,455	1,523	1,954	1,830	1,223
Annual bonus payout ² (% maximum)	50%	50%	90%	40%	40%	75%	60%	60%	55%	52.5%
Long-term incentive award vesting (% maximum)	50%	50%	76.7%	100%	50%	50%	63.5%	100%	100%	22.5%

¹ 2009-2011: Jonathan Lane, 2012-2018: Brian Bickell

² Based on award in cash. See page 99 for details of award taken in shares

Shareholder voting

At the 2018 AGM, there was an advisory shareholder vote on the Annual Remuneration Report. Voting by shareholders representing 66.9% of the issued share capital on the resolution was as follows:

	For	% For	Against	% Against	Withheld	Total votes
Annual Remuneration Report	195,395,694	95.5	9,126,268	4.5	1,079,168	204,521,962

On behalf of the Board

Sally Walden

Chairman - Remuneration Committee

26 November 2018

Directors' report

The directors present their report and the audited consolidated financial statements for the year ended 30 September 2018.

Strategic report

For the review of the business and its likely future developments, see the Strategic Report on pages 1 to 61.

Corporate governance statement

For the corporate governance statement, see pages 74 to 107, which are incorporated by reference into this report.

Results and dividends

The results for the year ended 30 September 2018 are set out in the Group Statement of Comprehensive Income on page 118.

An interim dividend of 8.3p per ordinary share was paid on 6 July 2018 (2017: 7.9p).

The directors recommend a final dividend in respect of the year ended 30 September 2018 of 8.5p per ordinary share (2017: 8.1p), making a total dividend for the year of 16.8p per ordinary share (2017: 16.0p). If authorised at the 2019 AGM, the dividend will be paid on 15 February 2019 to members on the register at the close of business on 18 January 2019. The dividend will be paid as an ordinary dividend.

Share capital

During the year, 27,855,508 ordinary shares were issued at £9.52 per share as a result of a placing on 6 December 2017. A further 414,350 ordinary shares were issued at either nil cost on the exercise of LTIP options, or £6.94 on the exercise of Sharesave options. At 30 September 2018, the Company's issued share capital comprised 307,302,187 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

Rules governing the appointment and replacement of directors are contained in the 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 who served during the year ended 30 September 2018 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 on pages 64 to 65 and in the Annual Remuneration Report on pages 97 to 107.

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.

The Board manages the business of the Company under the powers set out in the Articles of Association. These powers include the directors' ability to issue or buy back shares.

Going concern

The directors confirm they have a reasonable expectation that the Company has adequate resources to continue in operation for at least 12 months from the date of signing these financial statements.

Purchase of own shares

The Company was granted authority at the 2018 AGM to make market purchases of its own ordinary shares. This authority will expire at the conclusion of the 2019 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 2018 to 26 November 2018.

Major shareholders

Information provided to the Company pursuant to the Financial Conduct Authority's Disclosure and Transparency Rules ("DTR") is published on a Regulatory Information Service and on the Company's website. As at 26 November 2018, the following information has been received in accordance with DTR 5, from holders of notifiable interests in the Company's issued share capital.

Notifiable interests	Ordinary shares	% of capital disclosed ¹	Nature of holding
PEL (UK) Limited,	26,798,820	8.72	Direct
Orosi (UK) Limited,	30,131,276	9.80	Direct
Orosi (UK) 2 Limited	23,442,540	7.63	Direct
	80,372,636	26.15	
Norges Bank	71,135,465	23.15	Direct
BlackRock Inc	15,201,236	4.94	Indirect
	1,146,033	0.37	Financial instruments (securities lending)
	16,347,269	5.31	

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 132 to 134.

Change of control

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

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 during the year and, accordingly, the Board has not authorised any conflicts of interest as permitted by the Articles of Association.

Employment, human rights and environmental matters

See sustainability and stakeholders on pages 34 to 39 and the Nomination Committee report on pages 80 to 81.

Independent auditors

A resolution for the re-appointment of Ernst & Young LLP as auditors to the Company will be proposed at the 2019 AGM. The Board, on the advice of the Audit Committee, recommends their re-appointment.

2019 annual general meeting

The 2019 AGM will include resolutions dealing with the remuneration policy, authority to issue shares, disapplication of pre-emption rights, authority to purchase the Company's own shares, authority to call a general meeting on not less than 14 days' notice and an increase in authority for non-executive directors' maximum pay level. 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:

- so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware; and
- 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.

Greenhouse gas reporting

We report our greenhouse gas emissions (GHG) in accordance with UK legislation. The figures relate to landlord controlled common parts such as staircases. The numbers are therefore minimal.

Overall, energy consumption has remained consistent year on year reflecting fluctuations in tenant numbers and occupancy. Due to the increased use of renewable energy in the national grid, GHG in the portfolio decreased by over 16% from 1,316 tonnes to 1,099 tonnes.

Absolute Scope 1 and 2 GHG emissions¹

Scope 1	2018	2017	Change
Total tCO ₂ e	223	207	8%
Scope 2	2018	2017	Change
Total tCO ₂ e	876	1,109	(21)%

We are reporting on two emission intensities this year: performance against turnover and common parts floor areas. For common parts floor areas this has been measured in 66 of the 122 reported properties. The emissions intensity figure was 56 kgCO₂e/m² (0.06 tonnes CO₂e/m²), a small decrease from last year's 64 kgCO₂e/m² (0.06 tonnes CO₂e/m²). Against turnover, the intensity has decreased from 12 tonnes per £million of total revenue to 9 tonnes per £million of total revenue.

The scope 2 total above differs from 906 tCO₂e reported last year, due to restatements within the portfolio.

Carbon Smart have conducted the verification of our GHG emissions for the period. They have confirmed that the reported emissions for scope 1, 2 and 3 have received limited verification in accordance with the requirements of the ISO 14064 – part 3 standard. The boundary of the verification included the landlord areas from the properties where the Group has sole ownership and operational control. The verification is limited to 2018 and no prior restatements or changes to portfolio data were included.

Based on the verification procedures detailed in the full statement on our website, Carbon Smart found no evidence to suggest that our GHG inventory is not materially correct and prepared in accordance with the internal reporting methodologies and WBCSD & WRI GHG corporate and scope 3 standards.

By Order of the Board

Penny Thomas
 Company Secretary

Shaftesbury PLC
Incorporated, registered and domiciled in England and Wales number 1999238
 22 Ganton Street
 Carnaby
 London W1F 7FD
 26 November 2018

¹ For the reporting year we have again followed the UK Government environmental reporting guidance and used the 2017 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.

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 are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and Article 4 of the IAS Regulation and have also elected to prepare the Parent Company financial statements in accordance with IFRSs as adopted by the EU.

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;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of IFRSs as adopted by the EU 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;
- state that the Group and Company has complied with IFRSs as adopted by the EU, 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.

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.

A copy of the financial statements of the Group is placed on the Company's website. The directors are responsible for the maintenance and integrity of the Company's website.

Information published on the internet is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement under the Disclosure and Transparency Rules

Each of the directors, whose names and functions are listed on pages 64 to 65 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 1 to 61 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 they face.

Directors' statement under the UK Corporate Governance Code

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

This directors' responsibilities statement was approved by the Board and signed on its behalf by:

Brian Bickell
Chief Executive
26 November 2018

Chris Ward
Finance Director
26 November 2018

Independent auditor's report

To the members of Shaftesbury PLC

Our opinion on the financial statements

In our opinion:

- Shaftesbury PLC's Group financial statements and Parent company ('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 2018 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 at 30 September 2018 comprise:

	Group	Company
Balance sheet	✓	✓
Statement of comprehensive income	✓	
Cash flow statement	✓	✓
Statement of changes in equity	✓	✓
Related notes 1 to 24, including a summary of significant accounting policies	✓	✓

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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 59 to 60 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 59 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 directors' statement set out on page 122 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;
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 61 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.

Overview of our audit approach

Key Audit Matters	<ul style="list-style-type: none"> 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 across eleven 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
Materiality	<ul style="list-style-type: none"> Overall Group materiality: £40m which represents 1% of total assets. Specific Group materiality: £4.0m which represents 5% of operating profit before investment property valuation movements and net finance costs.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk: The valuation of investment property

£3,714.8m (plus £228.7m being the Group's share in the Longmartin joint venture).

Refer to the Audit Committee Report (page 84); Accounting policies (pages 122 to 124); and Note 8 of the Consolidated Financial Statements (pages 126 to 127).

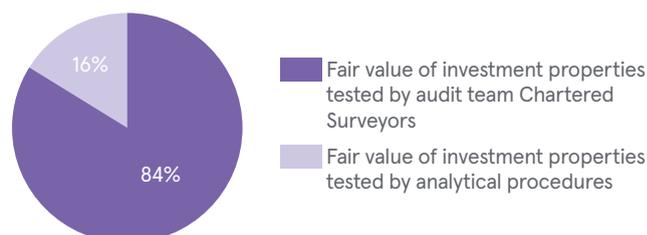
The valuation of investment property (including properties held in the joint venture) requires significant judgement and estimates by management and the external valuers. Any input inaccuracies or unreasonable bases used in these judgements (such as in respect of estimated rental value and yield profile 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 response to the risk

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.



- 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 looked for contra indicators for the estimated rental values and yields adopted.
- We searched the tenant base to confirm there was no concentration of higher risk of failure tenants.

- 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 the valuations of those properties which were not in line with our initial expectations. This included further discussions with management and the external valuers and, where appropriate, the involvement of our Chartered Surveyors.
- We made enquiries of the external valuers and inspected their terms of reference to confirm that they had not been subject to undue influence or direction from management.
- We utilised our detailed analytical procedures and work of our 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 the surveyors to discuss the project costs and risks associated with the project.
- 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.

Key observations communicated to the Audit Committee

We have audited the inputs, assumptions and reviewed the 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 2018.

We did not identify any exceptions or material errors in the input testing for the sample we tested.

We conclude that the valuation of each of the assets in the sample tested by our Chartered Surveyors 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.

Risk: Revenue recognition, including the timing of revenue recognition, and the treatment of rents and incentives

£112.8m of rents receivable (FY17: £103.4m).

Refer to the Accounting policies (page 123); and Note 2 of the Consolidated Financial Statements (page 125).

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 IFRS rent adjustment for lease incentives.

Our response to the risk

- We performed detailed testing for a sample of leases by agreeing the annual rent back to the terms of the 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 verified the completeness of the lease incentives recorded. For a sample of leases, we read the terms to identify rent free periods and other incentives. We verified that these incentives in our sample were correctly recorded in the rent free asset and that income was correctly straight-lined.
- 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 performed analytical procedures to confirm the deferred income balance is materially within expectations. We substantively tested a sample of balances by agreeing the timing of rent recognised to invoices or rent agreements.
- We considered the decline in the UK retail and restaurant sector and assessed the impact on the Group's financial statements. We obtained a list of known Creditors Voluntary Arrangements and looked at Shaftesbury's tenant list to identify tenants at risk of non-payment of rental amounts. We obtained the aged debtors listing for the Group and the Longmartin Joint Venture to identify aged debtors. We tested recoverability of the aged debtors by agreeing to subsequent cash receipts. We enquired with and challenged management regarding the appropriateness of the provision for doubtful debts. We also considered the recoverability of other tenant-related balances including lease incentive assets and prepaid letting costs.
- 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 to confirm the processing and timing of journals to record revenue is consistent with our expectations.

Key observations communicated to the Audit Committee

We audited the timing of revenue recognition, treatment of rents and incentives, and assessed the risk of management override.

We have assessed the recoverability of the aged debtors and tenant-related balances, including lease incentive assets and prepaid letting costs, and concluded that the provision is reasonable.

Based upon the audit procedures performed, we conclude that revenue has been recognised on an appropriate basis in the year.

The procedures we carried out over revenue recognition apply to all the Group's revenue and the revenue in the Longmartin Joint Venture.

An overview of the scope of our audit

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group, effectiveness of group-wide controls and changes in the business environment when assessing the level of work to be performed at each entity.

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	£40.0m	£30.0m	£2.0m
Specific <i>Applicable for account balances not related to investment properties, loans and borrowings</i>	5% of operating profit before investment property valuation movements and net finance costs	£4.0m	£3.0m	£0.2m

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 31 March 2018.

We assessed that for account balances not related to investment properties (either wholly owned or within the Joint Venture), loans and borrowings, a misstatement of less than overall materiality for the financial statements could influence the economic decisions of users. We have determined that specific 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 for specific materiality as profit is also a focus of users of the financial statements.

During the course of our audit, we reassessed initial materiality. There has been no change in our overall materiality or in our materiality threshold as at 30 September 2018.

In the prior year audit we adopted an overall materiality of £36m based on 1% of total assets. We also applied a specific materiality of £3.7m based on 5% of operating profit investment property valuation movements and net finance costs.

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.

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 75% (2017: 75%) of the respective materiality. 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 any uncorrected audit differences on investment property valuations in excess of £2m, 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 and borrowings. 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.

Other information

The other information comprises the information included in the annual report including the Strategic report Overview, Strategic report Annual Review, Governance and Other information (including Shareholder information, Portfolio analysis, Basis of valuation, Summary report by the valuers, Sustainability and the Glossary of terms) set out on pages 1 to 107 and 142 to 148, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable set out on page 84 – the statement given by the directors that they consider the annual report and financial statements 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, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting set out on pages 82 to 85 – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee is materially inconsistent with our knowledge obtained in the audit; or
- Directors' statement of compliance with the UK Corporate Governance Code set out on page 74 – the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R (2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

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.

In our opinion, based on the work undertaken in the course of the audit:

- 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 those reports have been prepared in accordance with applicable legal requirements;
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- information about the Company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Company and its environment obtained in the course of the audit, we have not identified material misstatements in:

- the strategic report or the directors' report; or
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 110 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are: to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (IFRS, the Companies Act 2006 and UK Corporate Governance Code) and the relevant tax regulations in the United Kingdom, including the UK REIT regulations.
- We understood how the Company is complying with those frameworks through enquiry with management, and by identifying the Company's policies and procedures regarding compliance with laws and regulations. We also identified those members of management who have the primary responsibility for ensuring compliance with laws and regulations, and for reporting any known instances of non-compliance to those charged with governance.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by reviewing the Companies risk register, enquiry with management and the Audit Committee during the planning and execution phases of our audit.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved the following:
 - Inquire of members of senior management, and when appropriate, those charged with governance regarding their knowledge of any non-compliance or potential non-compliance with laws and regulations that could affect the financial statements.
 - Reading minutes of meetings of those charged with governance.
 - Obtaining and reading correspondence from legal and regulatory bodies including HRMC.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the Company on 15 October 2015 to audit the financial statements for the year ended 30 September 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 3 years, covering the years ended 30 September 2016 to 30 September 2018. Our audit engagement letter was refreshed on 30 October 2017.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company and we remain independent of the Group and the Company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee.

Use of our report

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.

Eamonn McGrath (Senior statutory auditor)

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

26 November 2018

1. The maintenance and integrity of the Shaftesbury PLC website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Group statement of comprehensive income

For the year ended 30 September 2018

	Notes	2018 £m	2017 £m
Revenue	2	122.1	111.5
Property charges	3	(28.3)	(23.2)
Net property income		93.8	88.3
Administrative expenses	4	(13.7)	(14.1)
Operating profit before investment property disposals and valuation movements		80.1	74.2
Profit on disposal of investment properties	5	4.6	1.1
Net surplus on revaluation of investment properties	8	123.1	230.6
Operating profit		207.8	305.9
Finance income		0.8	0.1
Finance costs	6	(32.0)	(32.8)
Change in fair value of derivative financial instruments	16	-	22.0
Share of post-tax (loss)/profit from joint venture	10	(1.1)	6.4
Profit before tax		175.5	301.6
Tax charge for the year	7	-	-
Profit and total comprehensive income for the year		175.5	301.6
Earnings per share:	22		
Basic		58.1p	108.1p
Diluted		58.0p	107.9p
EPRA		17.1p	16.2p

See page 140 for an explanation of the EPRA measures used in these financial statements.

Balance sheets

As at 30 September 2018

	Notes	Group		Company	
		2018 £m	2017 £m	2018 £m	2017 £m
Non-current assets					
Investment properties	8	3,714.8	3,407.3	-	-
Accrued income	9	9.9	9.5	-	-
Investment in joint venture	10	143.9	148.0	59.0	59.0
Property, plant and equipment		1.3	1.2	1.3	1.2
Other receivables	13	3.7	3.7	-	-
Investment in subsidiaries	11	-	-	1,160.9	619.6
		3,873.6	3,569.7	1,221.2	679.8
Current assets					
Trade and other receivables	12	30.3	22.0	51.2	484.3
Cash and cash equivalents	13	118.5	45.6	100.6	25.8
Total assets		4,022.4	3,637.3	1,373.0	1,189.9
Current liabilities					
Trade and other payables	14	40.8	41.6	6.6	106.6
Non-current liabilities					
Borrowings	15	948.6	948.8	(1.8)	(0.8)
Total liabilities		989.4	990.4	4.8	105.8
Net assets		3,033.0	2,646.9	1,368.2	1,084.1
Equity					
Share capital	17	76.8	69.8	76.8	69.8
Share premium	18	378.4	124.9	378.4	124.9
Share-based payments reserve	18	1.2	3.0	1.2	3.0
Retained earnings	18	2,576.6	2,449.2	911.8	886.4
Total equity		3,033.0	2,646.9	1,368.2	1,084.1

The Company made a profit of £73.5 million (2017: £57.7 million) in the year.

On behalf of the Board who approved and authorised for issue the financial statements on pages 118 to 139 on 26 November 2018.

Brian Bickell
Chief Executive

Chris Ward
Finance Director

Cash flow statements

For the year ended 30 September 2018

	Notes	Group		Company	
		2018 £m	2017 £m	2018 £m	2017 £m
Cash flows from operating activities					
Cash generated from operating activities	21	76.5	76.7	(15.9)	(13.8)
Interest received		0.8	0.1	0.7	0.1
Interest paid		(31.0)	(32.8)	(1.8)	(11.1)
Net cash generated from operating activities		46.3	44.0	(17.0)	(24.8)
Cash flows from investing activities					
Investment property acquisitions		(167.8)	(40.1)	-	-
Investment property disposals	5	13.3	13.4	-	-
Capital expenditure on investment properties		(26.6)	(41.5)	-	-
Purchase of property, plant and equipment		(0.4)	(0.1)	(0.4)	(0.1)
Dividends received from the joint venture		3.0	4.8	3.0	4.8
Increase in loans to the joint venture		(3.0)	-	(3.0)	-
Amounts received from subsidiaries		-	-	73.0	575.2
Amounts provided to subsidiaries		-	-	(188.9)	(82.4)
Acquisition of subsidiary		-	-	-	(9.8)
Net cash used in investing activities		(181.5)	(63.5)	(116.3)	487.7
Cash flows from financing activities					
Proceeds from exercise of share options		0.1	0.1	0.1	0.1
Proceeds from share placing	17	265.2	-	265.2	-
Share placing costs	17	(4.8)	-	(4.8)	-
Proceeds from borrowings	15	72.0	146.5	72.0	146.5
Repayment of borrowings	15	(72.0)	(437.2)	(72.0)	(437.2)
Proceeds from issue of mortgage bonds		-	493.2	-	-
Repayment of debenture stock		-	(10.4)	-	(10.4)
Loan issue costs		(1.8)	(6.1)	(1.8)	-
Termination of derivative financial instruments		-	(92.1)	-	(92.1)
Equity dividends paid	20	(50.6)	(44.5)	(50.6)	(44.5)
Net cash from financing activities		208.1	49.5	208.1	(437.6)
Net change in cash and cash equivalents		72.9	30.0	74.8	25.3
Cash and cash equivalents at 1 October	13	45.6	15.6	25.8	0.5
Cash and cash equivalents at 30 September	13	118.5	45.6	100.6	25.8

Statements of changes in equity

For the year ended 30 September 2018

	Notes	Share capital £m	Share premium £m	Share-based payments reserve £m	Retained earnings £m	Total equity £m
Group						
At 1 October 2016		69.7	124.8	3.6	2,189.0	2,387.1
Profit and total comprehensive income for the year		-	-	-	301.6	301.6
Transactions with owners:						
Dividends paid	20	-	-	-	(43.3)	(43.3)
Exercise of share options	17	0.1	0.1	-	(0.1)	0.1
Fair value of share-based payments	4	-	-	1.4	-	1.4
Release on exercise of share options		-	-	(2.0)	2.0	-
At 30 September 2017		69.8	124.9	3.0	2,449.2	2,646.9
Profit and total comprehensive income for the year		-	-	-	175.5	175.5
Transactions with owners:						
Dividends paid	20	-	-	-	(50.6)	(50.6)
Share placing	17	6.9	253.5	-	-	260.4
Exercise of share options	17	0.1	-	-	(0.1)	-
Fair value of share-based payments	4	-	-	0.8	-	0.8
Release on exercise of share options		-	-	(2.6)	2.6	-
At 30 September 2018		76.8	378.4	1.2	2,576.6	3,033.0
Company						
At 1 October 2016		69.7	124.8	3.6	870.1	1,068.2
Profit and total comprehensive income for the year		-	-	-	57.7	57.7
Transactions with owners:						
Dividends paid	20	-	-	-	(43.3)	(43.3)
Exercise of share options	17	0.1	0.1	-	(0.1)	0.1
Fair value of share-based payments	4	-	-	1.4	-	1.4
Release on exercise of share options		-	-	(2.0)	2.0	-
At 30 September 2017		69.8	124.9	3.0	886.4	1,084.1
Profit and total comprehensive income for the year		-	-	-	73.5	73.5
Transactions with owners:						
Dividends paid	20	-	-	-	(50.6)	(50.6)
Share placing	17	6.9	253.5	-	-	260.4
Exercise of share options	17	0.1	-	-	(0.1)	-
Fair value of share-based payments	4	-	-	0.8	-	0.8
Release on exercise of share options		-	-	(2.6)	2.6	-
At 30 September 2018		76.8	378.4	1.2	911.8	1,368.2

The Company's distributable reserves are disclosed in note 18 to the financial statements.

Notes to the financial statements

For the year ended 30 September 2018

1 Accounting policies

Basis of preparation

Shaftesbury PLC (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 109. The Company is the ultimate parent company of the Shaftesbury PLC Group (the Group). 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 £73.5 million (2017: £57.7 million) in the year.

These 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.

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 1 to 61. The financial position of the Group including cash flow, liquidity, borrowings, undrawn facilities and debt maturity analysis is set out on pages 54 to 56. The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least 12 months from the date these financial statements were approved. Therefore, they continue to adopt the going concern basis in preparing the financial statements.

Significant judgements, assumptions and key estimates

The preparation of the financial statements in accordance with IFRS requires the directors to make judgements and estimates about the carrying amounts of assets and liabilities, in applying the Group's accounting policies. The judgements and estimates are based on historical experience and other relevant factors, including expectations of future events, and are reviewed on a continual basis. Although the estimates are made using the directors' best knowledge of the amount, event or actions, actual results may differ from the original estimates.

Significant area of estimation uncertainty

The investment property portfolio is valued by independent third party valuers. Cushman & Wakefield value the properties owned by the Group, and Knight Frank LLP value the properties owned by the Longmartin joint venture.

The valuation is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rental income. As a result, the valuations the Group places on its property portfolio are subject to a degree of uncertainty and are made on the basis of assumptions which may not prove to be accurate, particularly in periods of volatility or low transaction flow in the commercial property market. Cushman & Wakefield and Knight Frank LLP make a number of assumptions in forming their opinion on the valuation of our investment properties, which are detailed in the Basis of Valuation on pages 142 to 143. These assumptions are in accordance with the RICS Valuation – Global Standards. However, if any assumptions made by the external valuers prove to be incorrect, this may mean that the value of the Group's properties differs from their valuation reported in the financial statements, which could have a material effect on the Group's financial position. See note 8 for further information.

The directors did not make any significant judgements in the preparation of these financial statements.

New accounting standards and interpretations

a) The following amendment to an existing standard was relevant to the Group and mandatory for the first time for the financial year ended 30 September 2018. It did not have an impact on the amounts reported in the financial statements, however it did require additional disclosures, as set out in note 15.

- IAS 7 (amendment) – Statement of cash flows (disclosure initiative)

b) The following new standards and amendments to existing standards are relevant to the Group, are not yet effective in the year ended 30 September 2018 and are not expected to have a significant impact on the Group's financial statements:

- Annual Improvements 2014-2016
- IFRS 2 (amendment) – Classification of share-based payment transactions
- IFRS 9 – Financial instruments
- IFRS 15 – Revenue from contracts with customers
- IFRS 16 – Leases

IFRS 9 – Financial Instruments (effective from 1 January 2018)

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

IFRS 15 – Revenue from contracts with customers (effective from 1 January 2018)

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

1 Accounting policies continued

IFRS 16 – Leases (effective from 1 January 2019)

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

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

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 option schemes

The Company administers a long-term incentive plan (LTIP) and a sharesave scheme (SAYE). The cost of granting share options to employees under these schemes is recognised in the Statement of Comprehensive Income based on the fair value at the date of grant. The expense is recognised on a straight-line basis over the vesting period based on the number of options that are expected to vest.

The fair value of the long-term incentive plan is calculated using the modified binomial pricing model and the Monte Carlo simulation pricing model for the non-market based and market based conditions respectively. At each reporting period, the non-market based condition is reassessed and the impact, if any, of a revision to original estimates is recognised in the Statement of Comprehensive Income.

The fair value of the sharesave scheme is calculated using a modified binomial pricing model.

Deferred share bonus scheme

Under the Company's annual bonus scheme, employees have the option to take their annual bonus in either cash, or shares. Where employees opt to take the bonus in cash, it is expensed to the Statement of Comprehensive Income in the year in which it relates.

Where employees opt to take all, or part, of their bonus in shares, the Company offers a matching award of up to 50%, subject to continued employment throughout the performance period. The cost of the matching award is recognised on a straight-line basis over the performance period. The remaining expense is recognised in the year in which it relates. Provisions for leavers during the performance period are set out on page 95.

Pension contributions

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

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.

1 Accounting policies continued

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. The Group has one joint venture, the investment in which is accounted for using the equity method. On initial recognition the investment was recognised at cost. Subsequently, the carrying amount is increased or decreased to recognise the Group's share of the profit or loss of, and dividends from, the joint venture. The Group's investment in the joint venture 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 its joint venture 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 the 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 its joint venture is stated at cost less any provision 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.

Tenant lease incentives are included in current trade and other receivables when the amounts to be charged against rental income fall within one year of the Balance Sheet date. Amounts which will be charged against rental income in more than one year are included in non-current assets.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and on-demand bank deposits.

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

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

IFRS 8 requires operating segments to be reported in a manner consistent with the internal financial reporting reviewed by the chief operating decision maker. The chief operating decision maker of the Group is the Board. The Board is responsible for reviewing the Group's internal reporting in order to assess performance.

The information reviewed by the Board is prepared on a basis consistent with these financial statements. That is, the information is provided at a Group level and includes both the IFRS reported results and EPRA measures (see page 140 for an explanation on the EPRA measures used in these financial statements).

The Group's properties are all located in London's West End, and are all of a similar type. The properties are typically mixed-use buildings with restaurants, leisure and retail on the lower floors and small offices and apartments on the upper floors. As the properties share similar economic characteristics we consider them to be one operating segment. As such, no further segmental information is presented.

2 Revenue

	2018 £m	2017 £m
Rents receivable	112.8	103.4
Recoverable property expenses	9.3	8.1
	122.1	111.5

Rents receivable includes a credit of £0.5 million from amortisation of accrued income in respect of lease incentives (2017: charge of £0.5 million).

3 Property charges

	2018 £m	2017 £m
Property operating costs	7.6	5.7
Vacant property costs	1.4	1.1
Fees payable to managing agents	2.6	2.4
Letting, rent review, and lease renewal costs	3.6	3.3
Marketing and events expenditure	3.8	2.6
Property outgoings	19.0	15.1
Recoverable property expenses	9.3	8.1
	28.3	23.2

Following a review of the Group's property charges, the amounts included in the table above have been reclassified between the different types of property expenses, to provide a better representation of the underlying expenditure. The 2017 figures have been restated accordingly. This had no impact on the total property charges for that year.

4 Administrative expenses

Group and Company

	2018 £m	2017 £m
Employee costs	8.5	9.9
Depreciation	0.4	0.3
Other head office costs	4.9	4.0
	13.8	14.2
Less: administrative fees received from the joint venture	(0.1)	(0.1)
	13.7	14.1

Employee costs (including the directors)

	2018 £m	2017 £m
Wages and salaries	6.6	6.9
Social security costs	0.8	1.3
Other pension costs	0.3	0.3
Equity-settled remuneration	0.8	1.4
	8.5	9.9

Included within equity-settled remuneration is a charge of £0.6 million (2017: £1.4 million) for the LTIP and SAYE schemes. Note 19 includes a summary of the principal assumptions made at the last grant dates for these schemes. Details of the employee costs for the Group's key management personnel are set out in note 24.

Within the table above, amounts for social security costs were previously included within each of the respective employee costs. These have been reclassified and presented together in their entirety. The 2017 figures have been restated accordingly.

	2018 number	2017 number
Average monthly number of employees		
Executive directors	4	4
Head office and property management	25	22
Estate management	1	1
	30	27

4 Administrative expenses continued

	2018 £000	2017 £000
Auditor remuneration		
Audit of the Company	61	60
Audit of the Group	116	128
Total fees for audit services	177	188
Audit related assurance services - half year review	22	22
Other assurance services	10	27
Non-audit services	-	29
Total fees for non-audit services	32	78
Total fees	209	266

The auditor provided no taxation services to the Group in 2018 (2017: nil). Total fees for non-audit services represented 18% (2017: 41%) of the total fees for audit services. The audit fees are relatively low due primarily to the simple Group corporate structure.

5 Profit on disposal of investment properties

	2018 £m	2017 £m
Net sale proceeds	13.3	13.4
Book value at date of sale	(8.7)	(12.3)
	4.6	1.1

6 Finance costs

	2018 £m	2017 £m
Debenture stock interest and amortisation	-	0.1
Mortgage bond interest	13.9	7.4
Bank and other interest	16.5	23.8
Issue cost amortisation	1.6	1.5
	32.0	32.8

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.

8 Investment properties

	2018 £m	2017 £m
At 1 October	3,407.3	3,111.6
Acquisitions	167.8	37.1
Disposals	(8.7)	(12.3)
Refurbishment and other capital expenditure	25.3	40.3
Net surplus on revaluation of investment properties	123.1	230.6
Book value at 30 September	3,714.8	3,407.3
Fair value at 30 September:		
Core properties valued by Cushman & Wakefield	3,724.6	3,416.5
Non-core properties valued by Cushman & Wakefield	2.4	2.4
Less: unamortised lease incentives (note 9)	(12.2)	(11.6)
Book value at 30 September	3,714.8	3,407.3

The investment properties valuation comprises:

	2018 £m	2017 £m
Freehold properties	3,495.3	3,133.0
Leasehold properties	231.7	285.9
	3,727.0	3,418.9

8 Investment properties continued

Investment properties were valued at 30 September 2018 by professionally qualified external valuers. The Group's wholly-owned portfolio is valued by Cushman & Wakefield, members of the Royal Institution of Chartered Surveyors (RICS).

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

The fair value of the Group's investment properties has primarily been determined using a market approach, which provides an indication of value by comparing the subject asset with similar assets for which price information is available. The external valuer uses information provided by the Group, such as tenancy information and capital expenditure expectations. In deriving fair value, the valuer also makes a series of assumptions, using professional judgement and market observations. The key assumptions are the equivalent yields and estimated future rental income, (ERVs), as set out in the Basis of Valuation on pages 142 to 143. Equivalent yields are based on current market prices, depending on, inter alia, the location and use of the properties. ERVs are calculated using a number of factors which include current rental income, market comparatives and occupancy levels. Whilst there is market evidence for these inputs, and recent transaction prices for similar properties, there is still a significant element of estimation and judgement. As a result of adjustments made to market observable data, these significant inputs are deemed unobservable.

Since the key inputs to the valuation are unobservable, the Group considers all its investment properties fall within Level 3 of the fair value hierarchy in IFRS 13. The Group's policy is to recognise transfers between hierarchy levels as at the date of the event or change in circumstances that caused the transfer. There have been no transfers during the year (2017: none).

The major inputs to the external valuation are reviewed by the senior management team. In addition, the valuer meets with the external auditor and 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 82 to 85.

A summary of the Cushman & Wakefield report can be found on pages 144 to 145.

Fees were agreed at fixed amounts in advance of the valuations being carried out. During the year, Cushman & Wakefield acted as letting agents for Shaftesbury Carnaby PLC and Shaftesbury Chinatown PLC, rent review surveyors for Shaftesbury CL Limited, and provided other advice to Shaftesbury PLC. Non valuation fees represented 53% of total fees for the valuation of the Group's investment properties. The fees payable by the Group to Cushman & Wakefield do not constitute a significant part of their fee income.

Sensitivity analysis

As noted in the significant judgements, assumptions and key estimates section on page 122, the valuation of the Group's property portfolio is inherently subjective. As a result, the valuations the Group places on its property portfolio are subject to a degree of uncertainty and are made on the basis of assumptions which may not prove to be accurate, particularly in periods of volatility or low transaction flow in the commercial property market.

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

	Change in ERV				Change in equivalent yields			
	-5.0% £m	-2.5% £m	+2.5% £m	+5.0% £m	-0.50% £m	-0.25% £m	+0.25% £m	+0.50% £m
Increase/(decrease) in the fair value of investment properties	(172.5)	(88.7)	83.1	170.4	682.8	308.9	(270.8)	(501.1)

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 2018, the Group had capital commitments of £58.7 million (2017 as restated: £52.6 million). This included £39.0 million (2017 as restated: £39.0 million) relating to the forward purchase of a long leasehold interest and £19.7 million (2017: £13.6 million) relating to future capital expenditure for the enhancement of the Group's investment properties. The 2017 figure has been restated to include amounts relating to the forward purchase of a long leasehold interest. See pages 42 to 50 for a discussion of the Group's property activity during the year.

Details of the restrictions on the Group's investment properties are set out in note 15.

9 Accrued income

	2018 £m	2017 £m
Accrued income in respect of lease incentives	12.2	11.6
Less: included in trade and other receivables (note 12)	(2.3)	(2.1)
	9.9	9.5

10 Investment in joint venture

	2018 £m	2017 £m
Group		
At 1 October	148.0	146.4
Share of (loss)/profits	(1.1)	6.4
Dividends received	(3.0)	(4.8)
Book value at 30 September	143.9	148.0

	2018 £m	2017 £m
Company		
Shares at cost		
At 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 and registered office is the same as the Group, as set out on page 109. Control of Longmartin Properties Limited is shared equally with The Mercers' Company, which owns 50% of its issued share capital.

At 30 September 2018, the joint venture had capital commitments of £10.4 million (2017: £5.5 million) relating to future capital expenditure for the enhancement of its investment properties, of which, 50% relates to the Group.

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

	2018 £m	2017 £m
Statement of Comprehensive Income		
Rents receivable	16.1	17.7
Recoverable property expenses	1.5	1.5
Revenue from properties	17.6	19.2
Property outgoings	(1.8)	(1.7)
Recoverable property expenses	(1.5)	(1.5)
Property charges	(3.3)	(3.2)
Net property income	14.3	16.0
Administrative expenses	(0.4)	(0.2)
Operating profit before investment property valuation movements	13.9	15.8
Net (deficit)/surplus on revaluation of investment properties	(10.0)	5.3
Operating profit	3.9	21.1
Finance costs	(6.8)	(6.8)
(Loss)/profit before tax	(2.9)	14.3
Current tax	(1.5)	(1.7)
Deferred tax	2.3	0.2
Tax credit/(charge) for the year	0.8	(1.5)
(Loss)/profit and total comprehensive (loss)/income for the year	(2.1)	12.8
(Loss)/profit attributable to the Group	(1.1)	6.4

	2018 £m	2017 £m
Balance Sheet		
Non-current assets		
Investment properties at book value	457.4	462.6
Accrued income	2.1	3.1
Other receivables	1.3	1.3
	460.8	467.0
Cash and cash equivalents	2.6	1.2
Current assets	3.9	3.9
Total assets	467.3	472.1
Current liabilities	15.5	10.1
Non-current liabilities		
Secured term loan	120.0	120.0
Other non-current liabilities	43.9	46.1
Total liabilities	179.4	176.2
Net assets	287.9	295.9
Net assets attributable to the Group	143.9	148.0

11 Investment in subsidiaries

	2018 £m	2017 £m
Shares in Group undertakings		
At 1 October	619.6	754.7
Acquisition of subsidiary	-	9.8
Additional share capital issued by subsidiaries	554.7	-
Impairment of subsidiary	(13.4)	(144.9)
At 30 September	1,160.9	619.6

During the year Shaftesbury Charlotte Street Limited distributed £13.4 million to the Company following a capital reduction. Following this, the Company impaired its investment in this subsidiary. A number of subsidiaries issued share capital to the Company during the year. All transactions were settled through intercompany indebtedness.

In 2017, the Company acquired 100% of the share capital of Shaftesbury West End Limited. The Company also impaired its investment in Shaftesbury Chinatown PLC, following a capital reduction and distribution from that company.

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	Shaftesbury AV Limited ¹
Shaftesbury Covent Garden Limited	Shaftesbury CL Investment Limited
Shaftesbury Chinatown PLC	Shaftesbury CL Limited ¹
Shaftesbury Soho Limited	Helcon Limited ²
Shaftesbury AV Investment Limited	Shaftesbury West End Limited

Dormant subsidiaries:

Carnaby Estate Holdings Limited	Shaftesbury Investments 1 Limited
Carnaby Investments Limited	Shaftesbury Investments 2 Limited
Carnaby Property Investments Limited ¹	Shaftesbury Investments 4 Limited
Chinatown Estate Holdings Limited	Shaftesbury Investments 5 Limited
Chinatown Property Investments Limited ¹	Shaftesbury Investments 6 Limited
Covent Garden Estate Holdings Limited	Shaftesbury Investments 7 Limited
Shaftesbury Covent Garden Property Investments Limited ¹	Shaftesbury Investments 8 Limited
Shaftesbury Charlotte Street Limited	Shaftesbury Investments 9 Limited
Charlotte Street Estate Holdings Limited	Shaftesbury Investments 10 Limited
Chinatown London Limited	

1. 100% of the share capital of these subsidiaries is held by other Group companies.

2. This subsidiary is in the process of being voluntarily wound up in order to simplify the Group structure.

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. The registered office of the subsidiaries is the same as the Group, as set out on page 109.

12 Trade and other receivables

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Amounts due from tenants	16.2	12.0	-	-
Provision for doubtful debts	(1.2)	(0.5)	-	-
	15.0	11.5	-	-
Accrued income in respect of lease incentives (note 9)	2.3	2.1	-	-
Amounts due from subsidiaries	-	-	46.6	482.7
Amounts due from joint venture	3.9	0.9	3.9	0.9
Prepayments	9.0	7.1	0.7	0.6
Other receivables	0.1	0.4	-	0.1
	30.3	22.0	51.2	484.3

At 30 September 2018, amounts due from tenants which were more than 90 days overdue totalled £2.6 million (2017: £1.1 million). Provisions against these overdue amounts totalled £1.0 million (2017: £0.4 million). The remaining balance is not considered to be impaired.

Cash deposits totalling £20.6 million (2017: £18.5 million) were held against tenants' rent payment obligations. The deposits are held in bank accounts administered by the Group's managing agents and are not included within the Group Balance Sheet.

13 Cash and cash equivalents

Cash and cash equivalents at 30 September 2018, comprising cash at bank, were £118.5 million (2017: £45.6 million) for the Group and £100.6 million (2017: £25.8 million) for the Company.

Non-current other receivables include £3.7 million at 30 September 2018 (2017: £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.

14 Trade and other payables

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Rents and service charges invoiced in advance	25.2	22.8	-	-
Trade payables and accruals in respect of capital expenditure	2.7	4.0	-	-
Amounts due to subsidiaries	-	-	2.8	100.6
Other taxation and social security	5.1	5.2	1.3	2.0
Other payables and accruals	7.8	9.6	2.5	4.0
	40.8	41.6	6.6	106.6

15 Borrowings

Group

	2018			2017		
	Nominal value £m	Unamortised issue costs £m	Book value £m	Nominal value £m	Unamortised issue costs £m	Book value £m
Mortgage bonds	575.0	(5.3)	569.7	575.0	(5.8)	569.2
Secured bank facilities	-	(1.8)	(1.8)	-	(0.8)	(0.8)
Secured term loans	384.8	(4.1)	380.7	384.8	(4.4)	380.4
Total Group borrowings	959.8	(11.2)	948.6	959.8	(11.0)	948.8

Details of the Group's current financial position, including the refinancing activity during the year, are discussed on pages 55 to 56.

In the year ended 30 September 2017, two subsidiaries of the Company issued £575 million of Guaranteed First Mortgage Bonds. Following this, the Company redeemed its existing £61.0 million Debenture Stock.

At 30 September 2018, there were no drawings against the Group's secured bank facilities (2017: none). The Group is still able to benefit from these committed revolving facilities, and as such, unamortised issue costs of £1.8 million (2017: £0.8 million) continue to be carried in the Balance Sheet.

The Group's borrowings are secured by fixed charges over certain investment properties held by subsidiaries, with a carrying value of £3,151.4 million (2017: £3,015.4 million), and by floating charges over the assets of the Company and/or certain subsidiaries. To the extent there is a fixed charge over a property, consent is needed from the relevant lender for the fixed charge to be removed, for example, in the case of a disposal of that property. There are currently no restrictions on the remittance of income from investment properties.

Net debt reconciliation

	1.10.2017 £m	Cash flows		Non-cash items	30.9.2018 £m
		Inflows £m	Outflows £m		
Non-current borrowings					
Mortgage bonds	575.0	-	-	-	575.0
Secured bank facilities	-	72.0	(72.0)	-	-
Secured term loans	384.8	-	-	-	384.8
Loan issue costs	(11.0)	-	(1.8)	1.6	(11.2)
	948.8	72.0	(73.8)	1.6	948.6
Loan issue costs ¹	11.0	-	1.8	(1.6)	11.2
Cash & cash equivalents (note 13)	(45.6)	(358.9)	286.0	-	(118.5)
Net debt at 30 September 2018	914.2	(286.9)	214.0	-	841.3
Net debt at 30 September 2017	752.1	(95.1)	257.2	-	914.2

1. Loan issue costs are eliminated in the calculation of net debt.

The cash flows relating to secured bank facilities were drawings under revolving credit facilities and their subsequent repayments.

15 Borrowings continued

Availability and maturity of borrowings

	2018 facilities			2017 facilities		
	Committed £m	Drawn £m	Undrawn £m	Committed £m	Drawn £m	Undrawn £m
Repayable between 1 and 5 years	225.0	-	225.0	275.0	-	275.0
Repayable between 5 and 10 years	290.0	290.0	-	290.0	290.0	-
Repayable after 10 years	669.8	669.8	-	669.8	669.8	-
	1,184.8	959.8	225.0	1,234.8	959.8	275.0

Interest rate profile of interest bearing borrowings

	2018		2017	
	Debt £m	Interest rate	Debt £m	Interest rate
Fixed rate borrowings				
Secured term loans	384.8	3.85%	384.8	3.85%
Mortgage bonds 2027	290.0	2.35%	290.0	2.35%
Mortgage bonds 2031	285.0	2.49%	285.0	2.49%
Weighted average cost of drawn borrowings		2.99%		2.99%

The Group and Company also incur non-utilisation fees on undrawn facilities. At 30 September 2018, the weighted average charge on the undrawn facilities of £225.0 million (2017: £275.0 million) for the Group and Company was 0.66% (2017: 0.69%).

The weighted average credit margin on the Group and Company's secured bank facilities was:

	2018	2017
Drawn facilities	-	-
If facilities were fully drawn	1.46%	1.51%

Company

	2018			2017		
	Nominal value £m	Unamortised issue costs £m	Book value £m	Nominal value £m	Unamortised issue costs £m	Book value £m
Secured bank facilities	-	(1.8)	(1.8)	-	(0.8)	(0.8)
Total Company borrowings	-	(1.8)	(1.8)	-	(0.8)	(0.8)

At 30 September 2018, there were no drawings against the Company's secured bank facilities (2017: £Nil). The Company is still able to benefit from these committed revolving credit facilities, and as such, unamortised issue costs of £1.8 million (2017: £0.8 million) continue to be carried in the Balance Sheet.

Net debt reconciliation

	1.10.2017 £m	Cash flows		Non-cash items	30.9.2018 £m
		Inflows £m	Outflows £m		
Non-current borrowings					
Secured bank facilities	-	72.0	(72.0)	-	-
Loan issue costs	(0.8)	-	(1.8)	0.8	(1.8)
	(0.8)	72.0	(73.8)	0.8	(1.8)
Loan issue costs ¹	0.8	-	1.8	(0.8)	1.8
Cash & cash equivalents (note 13)	(25.8)	(414.0)	339.2	-	(100.6)
Net debt at 30 September 2018	(25.8)	(342.0)	267.2	-	(100.6)
Net debt at 30 September 2017	382.4	(580.2)	253.8	(81.8)	(25.8)

1. Loan issue costs are eliminated in the calculation of net debt.

Availability and maturity of borrowings

	2018 facilities			2017 facilities		
	Committed £m	Drawn £m	Undrawn £m	Committed £m	Drawn £m	Undrawn £m
Repayable between 1 and 5 years	225.0	-	225.0	275.0	-	275.0

16 Financial instruments

Fair value of derivative financial instruments (Group and Company)	2018 £m	2017 £m
Interest rate swaps		
At 1 October - deficit	-	(114.1)
Swap contracts terminated	-	92.1
Fair value movement credited to the Statement of Comprehensive Income	-	22.0
At 30 September - deficit	-	-

In 2017 the Group and Company terminated interest rate swap contracts with a notional principal of £180.0 million at a cost of £92.1 million.

Categories of financial instruments	2018 book value £m	As restated 2017 book value £m
Group		
Financial assets		
Trade and other receivables (note 12)	15.0	11.5
Amounts due from joint venture (note 12)	3.9	0.9
Other receivables (note 13)	3.7	3.7
Cash and cash equivalents (note 13)	118.5	45.6
	141.1	61.7
Financial liabilities		
Trade and other payables - due within one year (note 14)	(10.5)	(13.6)
Interest bearing borrowings (note 15)	(948.6)	(948.8)
	(959.1)	(962.4)
Net financial instruments	(818.0)	(900.7)
Company		
Financial assets		
Amounts due from subsidiaries (note 12)	46.6	482.7
Amounts due from joint venture (note 12)	3.9	0.9
Cash and cash equivalents (note 13)	100.6	25.8
	151.1	509.4
Financial liabilities		
Trade and other payables - due within one year (note 14)	(2.5)	(4.0)
Amounts due to subsidiaries (note 14)	(2.8)	(100.6)
Interest bearing borrowings (note 15)	1.8	0.8
	(3.5)	(103.8)
Net financial instruments	147.6	405.6

Other receivables relate to cash held on deposit, which have certain conditions restricting their use which are due between 2029 and 2035. The Group's trade and other payables are all due within one year (2017: all due within one year).

Net financial instruments for the Company at 30 September 2017 have been restated to include cash and cash equivalents in the above table. This has no impact on the net assets of the Company for that year.

Other financial instruments

The Group's mortgage bonds and secured term loans are held at amortised cost in the Balance Sheet. The fair value of these financial instruments is £955.2 million (2017: £975.9 million). The difference between the fair value and the book value is not recognised in the reported results for the year. The fair values have been calculated based on a discounted cash flow model using the relevant reference gilt and appropriate market spread. The valuation technique falls within Level 2 of the fair value hierarchy in IFRS 13.

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

16 Financial instruments continued

Contractual cash flows

The tables below summarise the undiscounted contractual cash flows arising on interest bearing financial liabilities based on conditions existing at the Balance Sheet date. The Group has no obligation to repay its mortgage bonds or secured term loans in advance of their maturities between 2027 and 2035.

Group

	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 2018							
Financial liabilities							
Interest bearing borrowings:							
Principal (note 15)	948.6	959.8	-	-	-	290.0	669.8
Interest	3.0	342.9	28.7	28.7	86.2	136.8	62.5
Total	951.6	1,302.7	28.7	28.7	86.2	426.8	732.3

	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 2017							
Financial liabilities							
Interest bearing borrowings:							
Principal (note 15)	948.8	959.8	-	-	-	290.0	669.8
Interest	3.6	371.6	28.7	28.7	86.2	143.6	84.4
Total	952.4	1,331.4	28.7	28.7	86.2	433.6	754.2

Company

	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 2018							
Financial liabilities							
Interest bearing borrowings:							
Principal (note 15)	(1.8)	-	-	-	-	-	-
Interest	0.1	-	-	-	-	-	-
Total	(1.7)	-	-	-	-	-	-

	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 2017							
Financial liabilities							
Interest bearing borrowings:							
Principal (note 15)	(0.8)	-	-	-	-	-	-
Interest	0.2	-	-	-	-	-	-
Total	(0.6)	-	-	-	-	-	-

Management of financial risks (Group and Company)

An overview of the Group's risk management policies and the principal risks and uncertainties is set out on pages 57 to 60. The disclosure below provides further detail regarding financial risk management.

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. The Group has a large and diverse tenant base so that tenant credit risk is widely spread. Where appropriate, tenants are required to provide cash deposits to mitigate the potential loss in the event of default. Tenant deposits are referred to in note 12.

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.

Where cash is deposited with banks or financial institutions, the Group considers the counterparty credit rating and places amounts with different banks or financial institutions to spread counterparty credit risk. Deposits and liquidity requirements are reviewed on a weekly basis.

16 Financial instruments continued

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 55 to 56.

Market risk

Interest rate 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 interest rate risk through long-term fixed rate debt. At 30 September 2018, the Group's drawn borrowings consisted entirely of fixed rate debt. Given this, the Group's exposure to changes in long-term interest rates and the potential impact on the Group's results and financial position is considered to be insignificant. The Board keeps under review the Group's interest rate risk, particularly in light of expectations of future interest rate movements.

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 15 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 ratio are discussed in the Strategic Report on pages 55 to 56.

17 Share capital

	2018 number million	2017 number million	2018 £m	2017 £m
Allotted and fully paid (ordinary 25p shares)				
At 1 October	279.0	278.6	69.8	69.7
Exercise of share options	0.4	0.4	0.1	0.1
Share placing	27.9	-	6.9	-
At 30 September	307.3	279.0	76.8	69.8

During the year, 27,855,508 ordinary 25p shares were issued at £9.52 per share, raising £265.2 million. Transaction costs in connection with the issue, which amounted to £4.8 million, have been charged against share premium in accordance with the Companies Act 2006.

In respect of the equity issue, Invesco Asset Management Limited and Orosi (UK) Limited were related parties of Shaftesbury PLC for the purposes of the Listing Rules and participated in the equity placing in respect of 1,050,000 and 6,864,368 placing shares respectively, for a total consideration of approximately £9.996 million and £65.349 million respectively. These transactions were disclosed via the Regulatory News Service on 6 December 2017, in accordance with LR11.1.10R, and Shaftesbury PLC received written confirmation from its sponsor that the terms of the transactions were fair and reasonable as far as Shaftesbury PLC's shareholders were concerned.

18 Reserves

The Statement of Changes in Equity is set out on page 121.

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 2018 include amounts distributable of £222.2 million (2017: £218.0 million).

19 Share-based remuneration

The Group operates a long-term incentive plan (LTIP), sharesave scheme (SAYE) and a deferred annual share bonus scheme (DASBS). A summary of the rules of the schemes is set out in the Remuneration Policy on pages 90 to 96.

LTIP and SAYE schemes

The following share options granted to executive directors and employees were outstanding at 30 September 2018:

Date of grant	At 1.10.2017	Awarded	Exercised	Lapsed	At 30.9.2018	Exercisable 30.9.2018	Option exercise price	Weighted average price at exercise	Exercise period
SAYE									
2.7.2014	23,419	-	-	-	23,419	-	£5.38	-	2019
3.7.2015	17,974	-	(11,924)	-	6,050	1,296	£6.94	£9.29	2018-2020
1.7.2016	21,368	-	-	(728)	20,640	-	£7.41	-	2019-2021
30.6.2017	16,115	-	-	(1,162)	14,953	-	£7.74	-	2020-2022
29.6.2018	-	12,831	-	-	12,831	-	£7.57	-	2021-2023
LTIP 2006 scheme									
8.12.2014	402,426	-	(402,426)	-	-	-	Nil	£9.97	2017-2018
2.12.2015*	138,800	-	-	-	138,800	-	Nil	-	2018-2019
LTIP 2016 scheme									
8.2.2016*	224,225	-	-	-	224,225	-	Nil	-	2020-2021
12.12.2016	406,621	-	-	-	406,621	-	Nil	-	2019-2022
12.12.2017	-	400,195	-	-	400,195	-	Nil	-	2020-2023
	1,250,948	413,026	(414,350)	(1,890)	1,247,734	1,296			

* Following satisfaction of performance targets in respect of the three years ended 30 September 2018, 98,707 options over ordinary shares will vest in December 2018.

	At 1.10.2017	Awarded	Exercised	Lapsed	At 30.9.2018
Weighted average exercise price	£0.43	£0.24	£0.20	£7.61	£0.43
Weighted average remaining contractual life	2.1 years				2.6 years

The fair value of option grants is measured by Lane Clark & Peacock LLP, Actuaries & Consultants. For the grants made during the year, the main inputs and assumptions, and the resulting fair values, are as follows:

	SAYE 3 Year	SAYE 5 Year	LTIP
Grant date	29.6.18	29.6.18	12.12.17
Share price at date of grant	£9.325	£9.325	£9.985
Exercise price	£7.57	£7.57	Nil
Expected life of award	3	5	3
Share return volatility (per annum)	15%	16%	16%
Risk free discount rate per annum	0.8%	1.0%	0.5%
Index return volatility*	-	-	19%
Correlation between the Company's shares and those in the index*	-	-	82%
Dividend yield	1.8%	1.8%	-

* The index is the FTSE 350 REIT Index.

Fair values:	SAYE 3 Year	SAYE 5 Year	LTIP (TSR)	LTIP (NAV)
SAYE	£1.81	£1.95	-	-
No holding period	-	-	£3.97	£9.99
Contingent holding period	-	-	£3.89	£9.79
Two year holding period	-	-	£3.77	£9.49

The assumed volatility was determined taking into account factors including the historical volatility of the Company share price. Actual future volatility may differ, potentially significantly, from historic volatility.

The vesting conditions relating to options granted under the 2016 LTIP are described in the Annual Remuneration Report on page 101.

19 Share-based remuneration continued

Deferred annual share bonus scheme

	2018 Shares	2017 Shares
At 1 October	597,351	491,804
Awarded	208,914	221,283
Exercised	(207,397)	(115,736)
At 30 September	598,868	597,351

20 Dividends

	Pence per share		2018 £m	2017 £m
	PID	Ordinary		
Final dividend for:				
Year ended 30 September 2017	-	8.1p	25.1	-
Year ended 30 September 2016	5.2p	2.35p	-	21.3
Interim dividend for:				
Year ended 30 September 2018	8.3p	-	25.5	-
Year ended 30 September 2017	-	7.9p	-	22.0
Dividends paid in the year			50.6	43.3
Timing difference on payment of withholding tax			-	1.2
Dividends cash paid			50.6	44.5

A final dividend of 8.5p per share was recommended by the Board on 26 November 2018. Subject to approval by shareholders at the 2019 AGM, the final dividend will be paid as an ordinary dividend on 15 February 2019 to shareholders on the register at 18 January 2019. The dividend totalling £26.1 million will be accounted for as an appropriation of revenue reserves in the year ending 30 September 2019. See page 53 of the Strategic Report for commentary on dividends.

The total distribution for the final dividend for the year ended 30 September 2017 of £25.1 million increased from £22.6 million, (the amount reported in the 2017 Annual Report), due to the increase in outstanding share capital as a result of the share placing in December 2017, prior to the payment of the dividend in February 2018.

The trustee of the Company's Employee Benefit Trust waived dividends in respect of 598,868 (2017: 597,351) ordinary shares during the year.

21 Cash flows from operating activities

	Group		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
Operating activities				
Profit before tax	175.5	301.6	73.5	57.7
Adjusted for:				
Lease incentives recognised (note 2)	(0.5)	0.5	-	-
Equity-settled remuneration (note 4)	0.8	1.4	0.8	1.4
Depreciation (note 4)	0.4	0.3	0.4	0.3
Investment property valuation surplus (note 8)	(123.1)	(230.6)	-	-
Profit on disposal of investment properties (note 5)	(4.6)	(1.1)	-	-
Net finance costs	31.2	10.7	1.7	(12.0)
Administrative charges, finance charges, and dividends received from subsidiaries settled through intercompany indebtedness	-	-	(100.0)	(200.1)
Impairment of subsidiary (note 11)	-	-	13.4	144.9
Dividends received from the joint venture (note 10)	-	-	(3.0)	(4.8)
Share of (loss)/profit from the joint venture (note 10)	1.1	(6.4)	-	-
Cash flows from operations before changes in working capital	80.8	76.4	(13.2)	(12.6)
Changes in working capital:				
Change in trade and other receivables	(5.1)	(0.5)	0.1	(0.1)
Change in trade and other payables	0.8	0.8	(2.8)	(1.1)
Cash generated from operating activities	76.5	76.7	(15.9)	(13.8)

See note 15 for the cash flow movement in net debt.

22 Performance measures

Earnings per share

	2018			2017		
	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	175.5	302.1	58.1	301.6	278.9	108.1
Dilutive effect of share options	-	0.3	(0.1)	-	0.7	(0.2)
Diluted	175.5	302.4	58.0	301.6	279.6	107.9

EPRA earnings per share

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

	2018			2017		
	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	175.5	302.1	58.1	301.6	278.9	108.1
EPRA adjustments:						
Investment property valuation surplus (note 8)	(123.1)		(40.7)	(230.6)		(82.7)
Profit on disposal of investment properties (note 5)	(4.6)		(1.5)	(1.1)		(0.4)
Movement in fair value of derivatives	-		-	(22.0)		(7.9)
Adjustments in respect of the joint venture:						
Investment property valuation deficit/(surplus)	5.0		1.6	(2.6)		(0.9)
Deferred tax	(1.1)		(0.4)	(0.1)		-
EPRA earnings	51.7	302.1	17.1	45.2	278.9	16.2

EPRA adjusted earnings per share

	2018			2017		
	Profit after tax £m	Number of shares million	Earnings per share pence	Profit after tax £m	Number of shares million	Earnings per share pence
EPRA earnings	51.7	302.1	17.1	45.2	278.9	16.2
Charge for share options (note 4)	0.6		0.2	1.4		0.5
EPRA adjusted earnings	52.3	302.1	17.3	46.6	278.9	16.7

Net asset value per share

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

	2018			2017		
	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	3,033.0	307.3	9.87	2,646.9	279.0	9.49
Dilutive effect of share options	0.5	0.4		0.5	0.8	
Diluted	3,033.5	307.7	9.86	2,647.4	279.8	9.46
Deferred tax*	16.7		0.05	17.9		0.06
EPRA NAV	3,050.2	307.7	9.91	2,665.3	279.8	9.52
Deferred tax*	(16.7)		(0.05)	(17.9)		(0.06)
Excess of fair value over carrying value of debt:						
Secured term loans*	(34.5)		(0.11)	(40.0)		(0.14)
Mortgage bonds	32.0		0.10	15.5		0.05
EPRA NNAV	3,031.0	307.7	9.85	2,622.9	279.8	9.37

* 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.

22 Performance measures continued

Net asset value return

	2018 pence	2017 pence
EPRA NAV at 1 October (A)	952.00	888.00
EPRA NAV at 30 September	991.00	952.00
Increase during the year	39.00	64.00
Dividends paid during the year	16.40	15.45
NAV return (B)	55.40	79.45
NAV return % (B/A)	5.8%	8.9%

Total investment property revaluation surpluses

	2018 £m	2017 £m
Wholly-owned portfolio revaluation surplus (note 8)	123.1	230.6
Longmartin joint venture revaluation (deficit)/surplus (note 10)	(5.0)	2.6
	118.1	233.2

Financing ratios

	2018			2017		
	Wholly- owned business £m	Share of joint venture £m	Total £m	Wholly- owned business £m	Share of joint venture £m	Total £m
Loan-to-value and gearing						
Nominal value of debt	959.8	60.0	1,019.8	959.8	60.0	1,019.8
Cash and cash equivalents	(118.5)	(1.3)	(119.8)	(45.6)	(0.6)	(46.2)
Net debt (A)	841.3	58.7	900.0	914.2	59.4	973.6
Fair value of investment properties (B)	3,727.0	224.6	3,951.6	3,418.9	227.8	3,646.7
Loan-to-value (A/B)	22.6%	26.1%	22.8%	26.7%	26.1%	26.7%
EPRA net assets (C)			3,050.2			2,665.3
Gearing (A/C)			29.5%			36.5%
Interest cover						
Operating profit before investment property disposals and valuation movements (A)	80.1	7.0	87.1	74.2	7.9	82.1
Finance costs	32.0	2.8	34.8	32.8	2.7	35.5
Finance income	(0.8)	-	(0.8)	(0.1)	-	(0.1)
Net finance costs (B)	31.2	2.8	34.0	32.7	2.7	35.4
Interest cover (A/B)	2.6x	2.5x	2.6x	2.3x	2.9x	2.3x

For the wholly-owned group, the blended cost of debt is 3.15% (2017: 3.19%). This is calculated using the cost of drawn borrowings of 2.99% (2017: 2.99%) plus the cost of commitment fees on undrawn bank facilities of 0.66% (2017: 0.69%). At 30 September 2018, the undrawn bank facilities totalled £225.0 million (2017: £275.0 million).

For total debt, the blended cost of debt is 3.22% (2017: 3.26%) and includes the impact of our share of debt in our joint venture of £60 million (2017: £60 million), upon which interest is charged at 4.43% (2017: 4.43%).

See page 51 in the Strategic Report for explanations of why we use these performance measures.

23 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:

	2018 £m	2017 £m
Not later than one year	104.8	96.1
Later than one year but not later than five years	262.7	241.5
Later than five years but not later than ten years	155.9	144.5
Later than ten years	145.1	107.8
	668.5	589.9

The Group has over 1,250 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.

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:

	2018 £m	2017 £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	0.2	0.6
	4.2	4.6

The Company leases its head office accommodation from a wholly-owned subsidiary.

24 Related party transactions

During the year, the Company received administrative fees, dividends and interest from its subsidiaries. The Company leases its office accommodation from a subsidiary and paid interest on amounts due to subsidiaries. The Company also received interest on a loan and administrative fees from the joint venture. These transactions are summarised below:

	2018 £m	2017 £m
Transactions with subsidiaries:		
Administrative fees receivable	10.5	11.4
Dividends receivable	83.8	177.3
Interest receivable	6.3	12.8
Interest payable	0.6	1.4
Rents payable	0.4	0.4
Amounts due from subsidiaries	46.6	482.7
Amounts due to subsidiaries	(2.8)	(100.6)
Transactions with the joint venture:		
Administrative fees receivable	0.1	0.1
Dividends receivable	3.0	4.8
Interest receivable	0.1	-
Amount due from the joint venture	3.9	0.9

All amounts are unsecured, repayable on demand and bear a market rate of interest. Directors are considered the only key management personnel. Apart from the directors' remuneration set out in the Annual Remuneration Report on pages 97 to 107, and below, there were no other transactions with directors.

See note 17 for disclosure of related party transactions regarding the share placing during the year.

Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the Group, is set out below. Further information regarding the remuneration of individual directors is given in the Annual Remuneration Report on pages 97 to 107.

Directors' emoluments	2018 £m	2017 £m
Short-term employee benefits	2.9	2.8
Other long-term benefits	0.8	0.8
Share-based payments	0.4	1.2
	4.1	4.8

Alternative Performance Measures (APMs)

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

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

APM	Nearest IFRS measure	Explanation and reconciliation
EPRA earnings and earnings per share	Profit and total comprehensive income for the year Basic earnings per share	Note 22 and Strategic Report (pages 51 and 52)
Adjusted earnings per share	Basic earnings per share	Note 22 and Strategic Report (page 53)
Net asset value per share	Net assets attributable to shareholders	Note 22 and Strategic Report (page 54)
Diluted net asset value per share	Net assets attributable to shareholders	Note 22
EPRA net assets and NAV	Net assets	Note 22 and Strategic Report (pages 51 and 54)
Net asset value return	N/A	Note 22 and Strategic Report (pages 51 and 54)
Total portfolio	Investment properties	Strategic Report (pages 42 to 43 and 51)
Revaluation surplus	Net surplus on revaluation of investment properties	Note 22 and Strategic Report (pages 42 and 54)
Valuation growth	Net surplus on revaluation of investment properties	Strategic Report (pages 42 to 43)
Net debt	Borrowings less cash and cash equivalents	Note 22 and Strategic Report (pages 51 and 56)
Group LTV	N/A	Note 22 and Strategic Report (pages 51 and 55 to 56)
Gearing	N/A	Note 22 and Strategic Report (pages 51 and 56)
Blended cost of debt	N/A	Note 22 and Strategic Report (pages 51 and 55 to 56)
Interest cover	N/A	Note 22 and Strategic Report (pages 51 and 55 to 56)

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

EPRA Measures

The following is a summary of the EPRA performance measures included in this Annual Report. The measures are defined in the Glossary.

Measure	Definition	Page	2018	2017
Earnings	Earnings from operational activities, excluding fair value movements in respect of properties and interest rate swaps (in 2017), profits on disposal of investment properties and deferred tax arising in our joint venture	137	£51.7m	£45.2m
Earnings per share	EPRA earnings per weighted average number of ordinary shares	137	17.1p	16.2p
Net assets	Net assets adjusted to remove deferred tax arising in our joint venture	137	£3,050.2m	£2,665.3m
NAV per share	Diluted EPRA net assets per share	137	£9.91	£9.52
Triple net assets	EPRA net assets adjusted to include the fair value of debt	137	£3,031.0m	£2,622.9m
Triple NAV (NNNAV)	Diluted triple net assets per share	137	£9.85	£9.37
Net Initial Yield (NIY)	Current annualised rental income less non-recoverable property costs as a % of property valuation plus assumed purchasers' costs	143	2.68%	2.77%
Topped-up NIY	NIY adjusted to reflect expiry of rent-free periods and stepped rents	143	2.84%	2.89%
Vacancy	ERV of vacant space as a % of ERV of all properties	46	4.6%	6.0%
Cost ratio	Total costs as a % of gross rental income - including direct vacancy cost	141	28.0%	26.9%
	Total costs as a % of gross rental income - excluding direct vacancy cost	141	26.6%	25.6%

As disclosed in note 1 to the financial statements, the Group's properties are all located in London's West End, and are all of a similar type. The properties are typically mixed-use buildings with restaurants, leisure and retail on the lower floors and small offices and apartments on the upper floors. As the properties share similar economic characteristics we consider them to be one operating segment. Like-for-like calculations of growth in values and rents are therefore stated on an aggregated basis.

EPRA cost ratio

	Note	2018 £m	2017 £m
Gross rental income			
Revenue	2	122.1	111.5
Less: recoverable property expenses	2	(9.3)	(8.1)
Share of joint venture rents receivable	10	8.1	8.9
		120.9	112.3
Cost			
Property charges	3	28.3	23.2
Less: recoverable property expenses	3	(9.3)	(8.1)
Share of joint venture property expenses	10	0.9	0.9
Administrative expenses		13.7	14.1
Share of joint venture administrative expenses	10	0.2	0.1
Total costs		33.8	30.2
Vacant property costs	3	(1.4)	(1.1)
Share of joint venture vacant property costs		(0.3)	(0.3)
Total costs excluding vacant property costs		32.1	28.8
EPRA cost ratio (including vacant property costs)		28.0%	26.9%
EPRA cost ratio (excluding vacant property costs)		26.6%	25.6%

Note: We do not capitalise property nor administrative expenses.

Investment properties

Whilst our portfolio is geographically concentrated in London's West End, it is granular in nature, with almost 600, generally small, buildings, often clustered in contiguous blocks. It is not practical to provide detailed property-by-property information recommended by EPRA's BPR. However, an analysis of our portfolio, split by destination and occupier use, is set out on pages 142 to 143.

We own 100% of our properties, except for property held by our Longmartin joint venture, in which we have a 50% interest. The breakdown of our wholly-owned portfolio between freehold and long leasehold ownership is set out on page 126.

At 30 September 2018, we had 802 commercial and 545 residential tenants, with no individual tenant representing a material amount of our current annualised income. The ten largest commercial tenants represented just 10.7% of current annualised income. As our tenant base is so granular, we do not believe listing the top ten tenants, nor a detailed analysis of tenant business sector is useful. However, the analysis on pages 142 to 143 sets out details of income and rental values by destination and occupier use.

EPRA vacancy by occupier use is set out on page 46.

Like-for-like growth in annualised current income and ERV is set out on page 44. Like-for-like growth in rental income is set out on page 52.

Development disclosures

Our wholly-owned portfolio is all within Conservation Areas and around 20% of our buildings are listed. We do not carry out material speculative developments. Our capital expenditure commitments are low, representing an average of 1.0% of portfolio value over the past five years. Included in this are numerous small schemes, and no one scheme is material.

At 30 September 2018, we had one larger scheme, details of which are set out on page 50. An overview of assets held for, or undergoing, refurbishment is set out on pages 46 to 47.

EPRA capital expenditure

	2018 £m	2017 £m
Group		
Acquisitions	167.8	37.1
Investment property capital expenditure		
- On acquisitions during the year	1.3	0.5
- On like-for-like portfolio	24.0	39.8
Joint venture (our 50% share)		
Investment property capital expenditure	2.4	1.2
	195.5	78.6

Details of acquisitions and capital expenditure in the year are set out on pages 46 to 50.

Portfolio analysis

At 30 September 2018		Note	Carnaby	Covent Garden	Chinatown	Soho
Portfolio	Fair value (£m)	1,14	1,424.7	1,013.7	837.2	300.8
	% of total fair value		36%	26%	21%	7%
	Current income (£m)	2,14	44.8	30.2	24.1	9.4
	ERV (£m)	3,14	57.2	37.6	31.6	11.6
Restaurants, cafés and leisure	Number		61	95	86	32
	Area – sq. ft.		114,000	178,000	221,000	62,000
	% of current income	4	21%	39%	62%	42%
	% of ERV	4	17%	36%	62%	39%
	Average unexpired lease length – years	5	10	9	11	9
Shops	Number		97	97	57	37
	Area – sq. ft.		180,000	147,000	83,000	44,000
	% of current income	4	46%	28%	20%	22%
	% of ERV	4	42%	32%	21%	28%
	Average unexpired lease length – years	5	4	4	4	3
Offices	Area – sq. ft.		304,000	88,000	25,000	39,000
	% of current income	4	27%	12%	4%	17%
	% of ERV	4	35%	14%	4%	18%
	Average unexpired lease length – years	5	4	4	3	2
Residential	Number		109	214	149	68
	Area – sq. ft.		67,000	133,000	97,000	37,000
	% of current passing rent	4	6%	21%	14%	19%
	% of ERV	4	6%	18%	13%	15%

1 Shaftesbury Group's 50% share

Basis of valuation

At 30 September 2018		Note	Carnaby	Covent Garden	Chinatown	Soho
Overall initial yield	7	2.81%	2.64%	2.47%	2.77%	
Topped-up initial yield	8	2.96%	2.78%	2.67%	2.90%	
Overall equivalent yield	9	3.56%	3.26%	3.34%	3.44%	
Tone of restaurant equivalent yields	10	3.40%–3.85%	3.35%–3.90%	3.40%–3.75%	3.40%–3.75%	
Tone of restaurant ERVs – £ per sq. ft.	10	£120–£153	£55–£178	£270–£420 (ZA)	£110–£145	
Tone of retail equivalent yields	10	3.30%–3.75%	3.00%–3.90%	3.40%–4.25%	3.40%–4.25%	
Tone of retail ERVs – ITZA £ per sq. ft.	10	£125–£535	£110–£480	£150–£365	£150–£305	
Tone of office equivalent yields	10	3.85%–4.50%	4.00%–4.25%	4.25%	4.25%–4.50%	
Tone of office ERVs – £ per sq. ft.	10	£58–£85	£50–£75	£43–£65	£53–£73	
Average residential ERVs – £ per sq. ft. per annum	10	£53	£52	£44	£51	

Fitzrovia	Wholly-owned portfolio	Longmartin ¹	Total portfolio
148.2	3,724.6	224.6	3,949.2
4%	94%	6%	100%
4.9	113.4	8.1	121.5
5.7	143.7	10.3	154.0
23	297	9	
48,000	623,000	39,000	
51%	37%	14%	
49%	35%	13%	
8	9	13	
10	298	22	
16,000	470,000	73,000	
16%	32%	34%	
17%	33%	39%	
5	4	3	
10,000	466,000	102,000	
7%	17%	36%	
8%	20%	35%	
2	4	5	
53	593	75	
25,000	359,000	55,000	
26%	14%	16%	
26%	12%	13%	

Fitzrovia	Wholly-owned portfolio	Longmartin
2.82%	2.68%	2.99%
2.83%	2.84%	3.16%
3.31%	3.41%	3.82%
3.25%-3.65%		3.75%-4.00%
£93-£120		£90-£138
3.30%-4.35%		3.40%-4.15%
£100-£215		£94-£650
4.00%-4.35%		3.75%-4.00%
£48-£60		£63-£79
£58		£52

Notes

- The fair values at 30 September 2018 (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 topped-up initial yield, ignoring contractual rent-free periods, has been calculated as if the contracted rent is payable from the valuation date and as if any future stepped rental uplifts under leases had occurred.
- Equivalent yield is the internal rate of return, being the discount rate which needs to be applied to the expected flow of income so that the total amount of income so discounted at this rate equals the capital outlay at values current as of the valuation date. The equivalent yield shown for each village has been calculated by merging together the cash flows and fair values of each of the different interests within each village and represents the average equivalent yield attributable to each village from this approach.
- 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.
- The analysis excludes a non-core asset, acquired as part of a portfolio.

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 2018 (the "Valuation Date") held by Shaftesbury Carnaby PLC, Shaftesbury Covent Garden Limited, Shaftesbury Chinatown PLC, Shaftesbury Soho Limited, Shaftesbury AV Limited, Shaftesbury CL Limited and Shaftesbury West End 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 9 November 2018 ("our Reports"). Our Reports were prepared for accounts purposes.

All properties have been subject to external inspections between January and October 2018 and a number were subject to internal inspections.

We confirm that the valuations and Reports have been prepared in accordance with the RICS Valuation – Global Standards which incorporate the International Valuation Standards ("IVS") and the RICS UK Valuation Standards (the "RICS Red Book") edition current at the Valuation Date. It follows that the valuations are compliant with IVS. We confirm that all valuers who have contributed to the valuations have complied with the requirements of PS 1 of the RICS Red Book. We confirm that we have sufficient current knowledge of the relevant markets, and the skills and understanding to undertake the valuations competently. We confirm that Charles Smith has overall responsibility for the valuations and is in a position to provide an objective and unbiased valuation and is competent to undertake the valuations. Finally, we confirm that we have undertaken the valuations acting as an External Valuer as defined in the RICS Red Book.

In accordance with PS 2.5 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 has been the signatory of valuation reports addressed to the Company and the Subsidiary Companies since 2013. Cushman & Wakefield Debenham Tie Leung Limited ("C&W") 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 1st September 2015, DTZ acquired Cushman & Wakefield and the combined group now trades under the Cushman & Wakefield brand. Cushman & Wakefield's financial year end is 31st December. The proportion of fees payable by the Company to the Cushman & Wakefield group in the financial year to 31st December 2017 was less than 5%. We anticipate that the proportion of fees payable by the Company to the Cushman & Wakefield group in the financial year to 31st December 2018 will remain at less than 5%.

Prior to 1st 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 four years. Prior to 1st September 2015, Cushman & Wakefield were appointed as retail agents by Shaftesbury Soho Limited and Shaftesbury Carnaby PLC; this instruction ceased in 2017. C&W acted as rent review surveyors on behalf of Shaftesbury CL Limited during 2018 and are currently appointed as letting agents on behalf of Shaftesbury Chinatown PLC in respect of restaurant accommodation in the property known as Central Cross.

In accordance with the provisions of VPS3 of the RICS Red Book edition current at the Valuation Date, in undertaking our valuations we have lotted together certain individual properties to form a separate property (each referred to as a "Property", collectively as the "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 RICS 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 VPS4 item 7 of the RICS Red Book. Under these provisions, the term "Fair Value" means the definition adopted by the International Accounting Standards Board ("IASB") in IFRS 13, namely "The price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date".

Under IFRS 13, The Fair Value Hierarchy, the properties we have valued are designated as Level 3 inputs. Level 3 inputs have been designated as unobservable inputs. Unobservable inputs are used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. An entity develops unobservable inputs using the best information available in the circumstances, which might include the entity's own data, taking into account all information about market participant assumptions that is reasonably available. [IFRS 13:87-89].

Our opinion of the Fair Value of each of the properties and 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.

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.

Certain properties were subject to works of repair or refurbishment at 30th September 2018, 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 £17,461,800 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 2018, 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 9 November 2018, were as follows:

Freehold Properties	£3,495,245,000 (Three billion, four hundred and ninety-five million, two hundred and forty-five thousand pounds)
Long leasehold Properties	£231,740,000 (Two hundred and thirty-one million, seven hundred and forty thousand pounds)
Total	£3,726,985,000 (Three billion, seven hundred and twenty-six million, nine hundred and eighty-five thousand pounds)

A long lease is one with an unexpired term in excess of 50 years.

The contents of our Reports including this summary report are confidential to Shaftesbury PLC, Shaftesbury Covent Garden Limited, Shaftesbury Carnaby PLC, Shaftesbury Chinatown PLC, Shaftesbury Soho Limited, Shaftesbury AV Limited, Shaftesbury CL Limited and Shaftesbury West End 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 Cushman & Wakefield Debenham Tie Leung Limited 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
Cushman & Wakefield Debenham Tie Leung Limited

Non-financial information statement

We are not required to comply with the new non-financial reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006. However the table below, and information it refers to, is intended to help stakeholders understand our position on key non-financial matters. This builds on existing reporting that we already do under the following frameworks: CDP, Disclosure and Transparency Rules, Guidance on the Strategic Report (UK Financial Reporting Council), UN Global Compact, UN Sustainable Development Goals and UN Guiding Principles.

Reporting requirement	Related CSR goal	Policies and standards which govern our approach ^{1,2}	Further information
Environmental matters	The environmentally sustainable re-use and management of existing buildings, page 34	Sustainability policy	Environment, pages 36 to 37 Greenhouse gas reporting, page 109 Sustainability and stakeholders, pages 34 to 35
Employees	A fair and ethical framework for employees and our supply chain, page 39	Anti-bullying and harassment policy Disability policy Equal opportunities policy Health and safety policy	Diversity and inclusion, pages 39 and 81 Employees, pages 39 and 74 to 75 Health and safety, page 35 Nomination Committee report, pages 80 to 81
Human rights	A fair and ethical framework for employees and our supply chain, page 35	Modern Slavery and Human Trafficking Statement Statement of data protection principles Sustainability policy	Modern slavery and human rights, page 35 Sustainability and stakeholders, pages 34 to 39
Social matters	Invest in our local community, page 38 A fair and ethical framework for employees and our supply chain, page 39	Community Investment Committee Terms of Reference Sustainability policy Supplier Code of Conduct	Community, page 38 Sustainability and stakeholders, pages 34 to 39
Anti-corruption and anti-bribery	A fair and ethical framework for employees and our supply chain, page 35	Bribery and anti-corruption policy Whistleblowing policy Money laundering policy	Audit Committee report, pages 82 to 85 Modern slavery and human rights, page 35

¹ Certain group policies and internal guidelines are not published externally

² Further information is available on our website, including our Supplier Code of Conduct and our Sustainability Policy

Sustainability and stakeholders: pages 34 to 39

Business model and strategy: pages 10 to 11

Risk management: pages 57 to 58

Shareholder information

Corporate Timetable

Financial Calendar

Annual General Meeting and AGM statement	8 February 2019
2019 half year results	May 2019

Dividends and bond interest

Proposed 2018 final dividend:	
Ex-dividend	17 January 2019
Record date	18 January 2019
Payment date	15 February 2019
2019 interim dividend to be paid	July 2019
Bond interest	31 March and 30 September 2019

Effect of REIT status on payment of dividends

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

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

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

Where we pay an ordinary dividend this will be treated in the same way as dividends from non-REIT companies. The 2018 final dividend between will be paid as an ordinary dividend.

Registrar

Equiniti Limited

Aspect House
Spencer Road
Lancing
West Sussex, BN99 6DA

Telephone 0371 384 2294 (International +44 121 415 7047). Lines open 8.30am to 5.30pm, Monday to Friday (excluding public holidays in England and Wales).

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 Company.

Secretary and registered office

Penny Thomas LLB (Hons), FCIS

22 Ganton Street
Carnaby
London W1F 7FD

Glossary of terms

Annualised current income

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

Alternative Performance Measure (APM)

A financial measure of historical or future financial performance, position or cash flows of the Group which is not a measure defined or specified in IFRS.

Best Practices

Recommendations (BPR)

Standards set out by EPRA to provide comparable reporting between investment property companies.

Blended cost of debt

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

Building Research

Establishment Environmental Assessment Method (BREEAM)

An environmental impact assessment method for commercial buildings. Performance is measured across a series of ratings: Pass, Very Good, Excellent and Outstanding

Compound Annual Growth Rate (CAGR)

The year-on-year growth rate of an investment over a specified period of time.

Diluted net asset value per share

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

EPRA

European Public Real Estate Association.

EPRA adjustments

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

EPRA cost ratio

Total costs as a percentage of gross rental income.

EPRA earnings

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

EPRA EPS

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

EPRA net assets

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

EPRA NAV

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

EPRA triple net assets

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

EPRA NNAV

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

EPRA vacancy

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

Equivalent yield

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

Estimated rental value (ERV)

ERV is the market rental value of properties owned by the group, estimated by the Group's valuers.

Like-for-like ERV growth is the change in ERV during a period, adjusted to remove the impact of acquisitions and disposals, expressed as a percentage of ERV at the start of the period.

Fair value

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

Gearing

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

Interest cover

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

Like-for-like growth in rents receivable

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

Loan-to-value (LTV)

Nominal value of borrowings expressed as a percentage of the fair value of property assets.

Long Term Incentive Plan (LTIP)

An arrangement under which an employee is awarded options in the Company at nil cost, subject to a period of continued employment and the attainment of performance targets over a three-year vesting period.

Net asset value (NAV)

Equity shareholders' funds divided by the number of ordinary shares at the balance sheet date.

Net asset value return

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

Net initial yield

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

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.

Reversionary potential

The amount by which ERV exceeds annualised current income, measured at a valuation date.

Topped-up net initial yield

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

Total Shareholder Return (TSR)

The change in the market price of an ordinary share plus dividends reinvested expressed as a percentage of the share price at the beginning of the period.

Valuation growth

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

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Shaftesbury

Shaftesbury PLC

22 Ganton Street
Carnaby
London W1F 7FD
T: 020 7333 8118

shaftesbury.co.uk